Kentucky Employers' Mutual Insurance Authority
dba Kentucky Employers' Mutual Insurance

Statutory Basis Financial Statements

Years Ended December 31, 2022 and 2021

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Independent Auditor's Report on Statutory Basis Financial Statements

Board of Directors
Kentucky Employers' Mutual Insurance Authority
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Report on the Audit of the Statutory Basis Financial Statements

Opinions

We have audited the financial statements of Kentucky Employers' Mutual Insurance Authority, dba Kentucky Employers' Mutual Insurance ("KEMI"), which comprise the statements of admitted assets, liabilities and policyholder surplus - statutory basis as of December 31, 2022 and 2021, and the related statements of income - statutory basis, changes in policyholder surplus - statutory basis, and cash flows - statutory basis for the years then ended, and the related notes to the statutory basis financial statements ("statutory financial statements").

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompany statutory basis financial statements present fairly, in all material respects, the statutory basis financial position of KEMI as of December 31, 2022, and the statutory basis revenues, expenses and changes in policyholder surplus and statutory basis cash flows thereof for the years then ended in accordance with the financial reporting provisions prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky as described in Note B.

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, the statutory financial statements referred to above 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, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statutory 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note B of the statutory financial statements, the statutory financial statements are prepared by KEMI on the statutory basis of accounting 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. The effects on the statutory financial statements of the variances between these statutory basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of the statutory financial statements in accordance with the statutory basis accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky. Management is also responsible 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 for one year after the date that the statutory financial statements are 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("auditing standards"). Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory financial statements are free from material misstatement. In performing an audit in accordance with 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.

Independent Auditor's Report on Statutory Basis Financial Statements (Continued)

Uncertainties Regarding the Reserve for Losses and Loss Adjustment Expenses

As discussed in Note B 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, 2022, Supplemental Investment Risks Interrogatories as of and for the year then ended December 31, 2022, and Reinsurance Interrogatories as of December 31, 2022 ("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, 2022. 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.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2023 on our consideration of KEMI's internal control over statutory financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over statutory financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KEMI's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEMI's internal control over statutory financial reporting and compliance.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 6, 2023

Kentucky Employers' Mutual Insurance Authority
dba Kentucky Employers' Mutual Insurance
Statements of Admitted Assets, Liabilities and Policyholder Surplus - Statutory Basis
December 31, 2022 and 2021

	2022	2021
Assets		
Long-term bonds	$ 976,371,857	$ 956,675,348
Common stocks	64,492,962	61,195,858
Preferred stocks	1,751,725	-
Cash, cash equivalents, and short-term investments	18,973,642	24,680,831
Real estate	4,025,000	4,025,000
Other invested assets	12,809,215	5,601,153
Investment income due and accrued	7,428,816	6,257,069
Premiums in course of collection	11,211,644	7,513,894
Premiums booked but deferred and not yet due	35,145,692	33,679,868
Funds on deposit with reinsurers	1,150,000	750,000
Reinsurance receivable on losses and loss adjustment expenses	76,154	62,355
Electronic data processing equipment at cost, less accumulated depreciation of $503,353 and $703,952 in 2022 and 2021, respectively	66,124	58,036
Receivable for securities	500,000	641,066
Deductibles receivable	1,249	-
Total admitted assets	$ 1,134,004,080	$ 1,101,140,478
Liabilities and policyholder surplus		
Unpaid losses, net	$ 604,836,168	$ 603,443,536
Unpaid loss adjustment expenses, net	52,567,958	53,129,762
Commissions payable	12,030,188	11,545,625
Unearned premiums, net	62,865,476	59,450,931
Amounts withheld or retained for others	11,290,374	9,856,337
Reinsurance premiums payable, net	513,156	963,598
Funds withheld under reinsurance treaties	1,684,846	1,418,805
Remittances and items not allocated	1,115,361	801,813
Retroactive reinsurance reserves assumed	35,888,900	22,177,250
Excess loss portfolio funds to be returned	-	2,611,093
Retroactive reinsurance reserve ceded	-	(17,062,629)
Funds withheld on retroactive reinsurance ceded	1,472,783	26,190,953
Minimum pension and postretirement benefits	6,813,141	10,277,378
Other liabilities	6,033,825	5,565,186
Total liabilities	797,112,176	790,369,638
Policyholder surplus	336,891,904	310,770,840
Total liabilities and policyholder surplus	$ 1,134,004,080	$ 1,101,140,478

See accompanying notes.

Kentucky Employers' Mutual Insurance Authority
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Statements of Income - Statutory Basis
Years Ended December 31, 2022 and 2021

	2022	2021
Premiums earned		
Direct	$141,242,108	$129,240,426
Assumed	5,126,094	4,641,044
Ceded	(6,683,340)	(6,034,790)
	139,684,862	127,846,680
Losses and loss adjustment expenses incurred		
Direct	76,109,995	75,472,780
Assumed	3,193,940	5,496,503
Ceded	(2,043,705)	(4,953,184)
Loss adjustment expenses, net of ceded	25,499,737	24,263,071
	102,759,967	100,279,170
Commissions and brokerage fees	16,171,723	15,212,600
Other underwriting expenses	17,560,719	16,644,181
Total underwriting expenses	136,492,409	132,135,951
Net underwriting income (loss)	3,192,453	(4,289,271)
Other income (expense)		
Investment income, net of investment expenses of $1,873,822 and $2,378,664 in 2022 and 2021, respectively	30,122,140	25,308,711
Net realized capital gains	289,694	9,280,654
Pension and postretirement benefits expense	(1,956,625)	(2,562,437)
Dividends to policyholders	(7,784,954)	(8,390,828)
Retroactive reinsurance gain	9,414,248	-
Bad debt and other expenses	(1,960,872)	(1,109,470)
Total other income (expense)	28,123,631	22,526,630
Net income	$ 31,316,084	$ 18,237,359

See accompanying notes.

Kentucky Employers' Mutual Insurance Authority
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Statements of Changes in Policyholder Surplus - Statutory Basis
Years Ended December 31, 2022 and 2021

	2022	**2021**
Policyholder surplus, beginning of year	$310,770,840	$283,404,169
Net income	31,316,084	18,237,359
Changes in net unrealized (losses) gains on investments	(7,543,971)	3,523,290
Change in non-admitted assets	(1,115,286)	443,269
Change in projected pension and postretirement benefits	3,464,237	5,162,753
Policyholder surplus, end of year	$336,891,904	$310,770,840

See accompanying notes.

Kentucky Employers' Mutual Insurance Authority
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Statements of Cash Flows - Statutory Basis
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Premiums collected, net of reinsurance	$137,823,801	$130,897,449
Investment income, net of investment expenses	30,941,918	30,387,977
Miscellaneous income (expenses)	5,496,751	(3,671,906)
Benefit and loss related payments, net	(75,881,397)	(72,606,989)
Commissions, expenses paid and aggregate write-ins	(58,659,601)	(54,054,551)
Dividends paid to policyholders	(7,784,954)	(8,390,828)
Net cash provided by operating activities	31,936,518	22,561,152
Cash flows from investing activities		
Proceeds from investments sold or matured	141,253,623	246,655,024
Cost of investments acquired	(180,525,943)	(242,390,548)
Net cash (used in) provided by investing activities	(39,272,320)	4,264,476
Cash flows from financing and miscellaneous activities		
Other cash received (applied)	1,628,613	(21,682,075)
Net cash provided by (used in) financing activities	1,628,613	(21,682,075)
Net change in cash, cash equivalents, and short-term investments	(5,707,189)	5,143,553
Cash, cash equivalents, and short-term investments, beginning of year	24,680,831	19,537,278
Cash, cash equivalents, and short-term investments, end of year	$ 18,973,642	$ 24,680,831

See accompanying notes.

Note A - 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 B - Summary of Significant Accounting Policies

1. 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 ("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 2022) 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 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 ration 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 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 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.

Note B - Summary of Significant Accounting Policies (Continued)

1. Basis of Presentation (Continued):

- Also, for 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 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 "nonadmitted assets" and are not permitted to be included in the statutory basis financial statements of admitted assets, liabilities, and policyholder surplus, whereas, for GAAP, these assets are recognized in the balance sheet. Included with nonadmitted assets are furniture, equipment and supplies, prepaid expenses, certain receivables 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 GAAP, the company assesses the collectability of premiums receivable and any charge is to the income statement.

- The statutory basis financial statements are presented net of the effects of reinsurance, whereas, for 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 GAAP.

- Comprehensive income is not determined for statutory reporting purposes, whereas, for 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 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 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 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 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.

Note B - Summary of Significant Accounting Policies (Continued)

1. Basis of Presentation (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 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.

2. 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 Note B. 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.

Note B - Summary of Significant Accounting Policies (Continued)

2. Risks and Uncertainties (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.

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.

Note B - Summary of Significant Accounting Policies (Continued)

3. 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.

   - 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 break 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 break 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 applying 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.

Note B - Summary of Significant Accounting Policies (Continued)

3. Investments (Continued):

- For loan-backed or structured securities, factors considered by management in determining whether an other-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.

- 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, 2022, 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.

- 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 GAAP earnings or losses and other equity changes.

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

Note B - Summary of Significant Accounting Policies (Continued)

4. 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.

5. 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.

   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 - 2019 Social Security Administration Table Adjusted for Black Lung Mortality for Males, and Female - 2016 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 E.

   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.

6. 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, 2022 and 2021 are recoverable.

Note B - Summary of Significant Accounting Policies (Continued)

7. Cash, Cash Equivalents, and Short-term Investments: The Company considers all highly liquid instruments purchased with a maturity of three months 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.

   The Company considers all instruments purchased with a maturity of one year or less, excluding those investments classified as cash equivalents, to be short-term investments. Short-term investments can include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements and collateral and mortgage loans.

8. Concentrations of Geographic and Credit Risk: All of KEMI's total direct gross written premiums of \$142,864,950 and \$131,859,006 for the years ended December 31, 2022 and 2021, 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 F.

   The credit quality of the long-term bond portfolio at December 31, 2022 is presented as follows:

	Carrying value	Percentage
Class 1 - highest quality	$ 680,991,624	69.7%
Class 2 - high quality	265,699,922	27.2%
Class 3 - medium quality	26,548,600	2.7%
Class 4 - low quality	1,578,711	0.2%
Class 6 - in or near default	1,553,000	0.2%
	$ 976,371,857	100.0%

   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).

Note B - Summary of Significant Accounting Policies (Continued)

9. Property and Equipment: Electronic data processing equipment, including operating software, is stated at cost less accumulated depreciation. Depreciation expense on such property was $63,028 and $105,049 in 2022 and 2021, respectively. Furniture, office equipment, and application software are non-admitted assets under statutory accounting practices. Depreciation expense on such property was $98,995 and $138,203 in 2022 and 2021, 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.

10. Advertising: KEMI expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2022 and 2021, was $622,245 and $417,609 respectively.

11. 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 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.

Note C - 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:

	Statement value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
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
	$ 976,371,857	$ 416,736	$ (109,425,877)	$ 867,362,716

	Statement value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
As of December 31, 2021				
U.S. government securities	$ 30,323,782	$ 1,543,255	$ -	$ 31,867,037
U.S. agency residential mortgage-backed securities	107,633	12,927	-	120,560
U.S. special revenue bonds	147,842,329	4,234,252	(1,288,071)	150,788,510
Commercial mortgage-backed securities	53,254,904	899,776	(348,501)	53,806,179
Commercial asset-backed securities	134,419,285	506,299	(1,073,434)	133,852,150
Corporate bonds ($6,026,549 carried at fair value)	575,284,957	25,045,262	(2,416,195)	597,914,024
All other bonds	15,442,458	602,762	(150,322)	15,894,898
	$ 956,675,348	$ 32,844,533	$ (5,276,523)	$ 984,243,358

Note C - Investments (Continued)

Long-term Bonds (Continued)

The carrying value and estimated fair value of long-term bonds at December 31, 2022, 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	$ 38,987,619	$ 38,534,011
One year through five years	269,525,607	254,199,787
Six years through ten years	303,499,246	266,302,933
After ten years	364,359,385	308,325,986
	$ 976,371,857	$ 867,362,716

Proceeds from sales of bonds during 2022 and 2021 were $127,967,229 and $40,207,654, respectively. Gross gains of $480,210 and $1,541,117, and gross losses of $1,286,156 and $442,219 were realized on those sales in 2022 and 2021, respectively.

During 2022 and 2021, 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 $3,046,005 and $70,157 as of December 31, 2022 and 2021, respectively.

Preferred Stock

Gross unrealized capital gains on preferred stock during 2022 and 2021 were $11,269 and $0, respectively. Gross unrealized capital losses on preferred stock during 2022 and 2021 were $75,866 and $0, respectively.

Note C - Investments (Continued)

Common Stock

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

	2022	2021
Cost	$ 56,965,170	$ 49,099,944
Gross unrealized capital gains	10,446,964	12,777,759
Gross unrealized capital losses	(2,919,172)	(681,845)
Net unrealized capital gains	7,527,792	12,095,914
Fair value	$ 64,492,962	$ 61,195,858

Proceeds from sales of common stocks during 2022 and 2021 were $13,320,353 and $37,998,686, respectively. Gross gains of $2,470,055 and $8,990,191 and gross losses of $1,016,188 and $582,034 were realized on those sales in 2022 and 2021, 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 commercial real estate developments. As of December 31, 2022, KEMI had made capital contributions totaling $13,484,215, leaving a remaining commitment of $6,515,785. As of December 31, 2022 and 2021, KEMI's book adjusted carrying value for ElmTree IV-A was $12,809,215 and $5,601,153, respectively. KEMI reports the investment at cost less quarterly management fees. KEMI earns an annual return of 7% on this investment, which is paid quarterly.

Note C - Investments (Continued)

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, 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)
Commercial 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	$ 673,606,521	$ (63,772,489)	$ 272,645,242	$ (48,648,426)	$ 945,233,871	$ (112,420,915)

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, 2021:

	December 31, 2021					
	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. special revenue	$ 55,744,357	$ (1,123,733)	$ 2,936,861	$ (164,338)	$ 58,681,218	$ (1,288,071)
Commercial mortgage-backed	20,382,657	(348,501)	-	-	20,382,657	(348,501)
Commercial asset-backed	82,315,307	(1,038,449)	3,221,136	(34,985)	85,536,443	(1,073,434)
Corporate bonds	112,813,824	(2,115,869)	5,341,694	(300,326)	118,155,518	(2,416,195)
All other bonds	8,476,693	(150,322)	-	-	8,476,693	(150,322)
Common stock	7,445,309	(624,380)	813,706	(57,465)	8,259,015	(681,845)
Total	$ 287,178,147	$ (5,401,254)	$ 12,313,397	$ (557,114)	$ 299,491,544	$ (5,958,368)

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.

Note C - Investments (Continued)

Other-than-temporary Impairment (Continued)

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 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. In 2021, KEMI held one corporate bond for which it recorded an other-than-temporary impairment loss of $339,922. KEMI reduced the book adjusted carrying value of this bond from $1,507,271 to its December 31, 2021 market value of $1,167,349.

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, 2022 and 2021, KEMI has $23,804,460 and $70,789,733, respectively, of investments pledged as collateral related to funds withheld under adverse development coverage policies and line of credits.

Note D - Fair Value Measurements

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2022 and 2021. 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.

Note D - Fair Value Measurements (Continued)

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.

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.

Note D - Fair Value Measurements (Continued)

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.

	December 31, 2022			
		Fair value measurements at reporting date using		
	Fair value	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)	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	$ 948,689,893	$ 64,492,962	$ 871,387,716	$ 12,809,215

	December 31, 2021			
		Fair value measurements at reporting date using		
	Fair value	Level 1	Level 2	Level 3
Investments				
U.S. government securities	$ 31,867,037	$ -	$ 31,867,037	$ -
U.S. agency residential mortgage-backed securities	120,560	-	120,560	-
U.S. special revenue bonds	150,788,510	-	150,788,510	-
Commercial mortgage-backed securities	53,806,179	-	53,806,179	-
Commercial asset-backed securities	133,852,150	-	133,852,150	-
Corporate bonds ($6,026,549 carried at fair value)	597,914,024	-	597,914,024	-
All other bonds	15,894,898	-	15,894,898	-
Common stock	61,195,858	61,195,858	-	-
Other invested assets	5,601,153	-	-	5,601,153
Real estate	4,025,000	-	4,025,000	-
Total assets at fair value	$ 1,055,065,369	$ 61,195,858	$ 988,268,358	$ 5,601,153

Note E - Losses and Loss Adjustments Expenses

As of December 31, 2022 and 2021, the following table provides a reconciliation of the beginning and ending reserve balances for LAE:

	2022	2021
Gross reserves for losses and LAE - beginning of year	$ 686,005,980	$ 678,333,029
Less reinsurance recoverables	29,432,682	25,326,686
Net reserves for losses and LAE - beginning of year	656,573,298	653,006,343
Provision for claims, related to		
Current year	121,440,616	115,022,270
Prior years	(18,680,649)	(14,743,100)
Total incurred	102,759,967	100,279,170
Payments for claims, related to		
Current year	(37,259,222)	(31,990,020)
Prior years	(64,669,917)	(64,722,195)
Total paid	(101,929,139)	(96,712,215)
Net reserves for losses and LAE - end of year	657,404,126	656,573,298
Plus reinsurance recoverables	31,166,821	29,432,682
Gross reserves for losses and LAE - end of year	$ 688,570,947	$ 686,005,980

As a result of changes in estimates of insured events in prior years, the liability for unpaid losses and loss adjustment expenses (net of reinsurance recoverable) decreased by $18,680,649 and $14,743,100 in 2022 and 2021, respectively. Estimated subrogation recoverable on unpaid losses was approximately $3,000,000 as of both December 31, 2022 and 2021.

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 - 2019 Social Security Administration Table Adjusted for Black Lung Mortality for Males, and Female - 2016 U.S. Lives Table for Females at 50% and 2017 CSO Smokers at 50%. 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 $89,929,259 and $83,013,355 as of December 31, 2022 and 2021, respectively. KEMI recognized discount accretion of approximately $1,800,000 and $ 1,900,000 for 2022 and 2021, respectively, through direct losses incurred on the statements of income statutory basis.

Note F - 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, 2022 and 2021 included estimated reinsurance recoverables under the Excess of Loss agreements of $30,373,944 and $28,816,106, 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 $768,352 and $697,014 in 2022 and 2021, respectively. Unpaid losses and loss adjustment expenses as of December 31, 2022 and 2021 included estimated reinsurance recoverables of $792,878 and $616,576, respectively, under the agreement. The ADMIC quota share contracts are secured by funds withheld accounts and collateral deposits totaling $1,684,846 and $1,418,805 as of December 31, 2022 and 2021, 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, 2022 and 2021 includes $6,103,984 and $6,303,240 respectively, related to these agreements. The cedents require KEMI to maintain standby letters of credit totaling $13.1 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, 2022 and 2021.

Note F - Reinsurance (Continued)

The effects of KEMI's assumed and ceded reinsurance transactions for the years ended December 31, 2022 and 2021 are summarized as follows:

	2022	2021
Written premiums		
Direct	$ 142,864,950	$ 131,859,006
Assumed	6,183,282	4,863,412
Ceded	(6,613,330)	(6,018,110)
Net	$ 142,434,902	$ 130,704,308
Earned premiums		
Direct	$ 141,242,108	$ 129,240,426
Assumed	5,126,094	4,641,044
Ceded	(6,683,340)	(6,034,790)
Net	$ 139,684,862	$ 127,846,680
Incurred losses and LAE		
Direct	$ 100,799,012	$ 98,788,013
Assumed	4,087,284	6,447,124
Ceded	(2,126,329)	(4,955,967)
Net	$ 102,759,967	$ 100,279,170
Unearned premiums		
Direct	$ 60,243,710	$ 57,956,362
Assumed	3,088,064	2,030,876
Ceded	(466,298)	(536,307)
Net	62,865,476	59,450,931
Adjustment for earned but unbilled premiums	(3,627,033)	(2,962,528)
Net	$ 59,238,443	$ 56,488,403

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.

Note G - 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, 2022, KSBIT's cash balance was $8,718,575, reinsurance receivables on paid losses and loss adjustment expenses were $210,916, net reported loss and loss adjustment expense reserves were $7,378,852 and net incurred but not reported loss and loss adjustment expense reserves were $1,550,639. 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, 2022 and 2021 is as follows:

	2022	2021
Net liability for KSBIT unpaid claims - beginning of year	$ 8,721,111	$ 9,524,086
Losses and LAE paid	(681,071)	(1,625,988)
Reinsurance received	678,535	823,013
Net liability for KSBIT unpaid claims - end of year	$ 8,718,575	$ 8,721,111

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. Based on current actuarial reserve studies, claim liabilities were less than originally projected; therefore, in 2021 and 2022, KEMI distributed $22.3 million of excess reserves in a manner set forth by Kentucky Legislature. Active coal operators in good standing with the Commonwealth of Kentucky received settlement distributions totaling $10.2 million and the Kentucky Coal Employers' Self-Insurance Guarantee Fund received settlement distributions totaling $12.1 million. As of December 31, 2022, KCWPF's cash balance was $8,192,448 and net loss and loss adjustment expense reserves were $8,192,448. KCWPF reserves for unpaid losses and loss adjustment expenses are not discounted.

Note G - Loss Portfolio Transfers (Continued)

Kentucky Workers' Compensation Funding Commission Loss Portfolio Transfer (Continued)

The net liability for KCWPF unpaid claims and the receivable for retroactive reinsurance assumed activity for the years ended December 31, 2022 and 2021 is as follows:

	2022	2021
Net liability for KCWPF unpaid claims - beginning of year	$ 13,456,139	$ 19,751,766
Losses and LAE paid, net	(4,729,794)	(5,677,667)
Adjustments to estimated losses and LAE	(33,597)	(333,777)
Net investment income earned	-	547,263
Excess funds to be returned	331,228	(847,823)
Assessment audits refunded to Kentucky WC funding commission	(831,528)	-
Other direct expenses paid	-	16,377
Net liability for KCWPF unpaid claims - end of year	$ 8,192,448	$ 13,456,139
Excess funds to be returned - beginning of year	$ 2,611,093	$ 21,763,270
Excess funds adjustments	(331,228)	847,823
Assessment audits refunded to Kentucky WC funding commission	-	-
Settlement distributions to KY Coal Employers Self-Insured Guarantee Fund	(1,078,135)	(10,979,389)
Settlement distributions to active coal operators	(1,201,730)	(9,020,611)
Excess funds to be returned - end of year	$ -	$ 2,611,093
Receivable for retroactive reinsurance reserve assumed - beginning of year	$ -	$ 2,024,016
Assessment adjustments	-	(537,723)
Assessment installments received	-	(1,045,456)
Transition funds adjustments	-	19,183
Transition funds received	-	(460,020)
Receivable for retroactive reinsurance reserve assumed - end of year	$ -	$ -

Note G - Loss Portfolio Transfers (Continued)

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 $5,719,371 in cash. As of December 31, 2022, AIK's cash balance was $5,255,097, net reported loss and loss adjustment expense reserves were $3,313,255 and net incurred but not reported ("IBNR") loss and loss adjustment expense reserves were $1,941,842. AIK reserves for unpaid losses and loss adjustment expenses are not discounted. Inception to date activity is included in the following table as retroactive reinsurance assumed.

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

	2022	2021
Net liability for AIK unpaid claims - beginning of year	$ -	$ -
Retroactive reinsurance reserves assumed	5,719,371	-
Losses and LAE paid, net	(436,693)	-
Reinsurance received	14,928	-
Other direct expenses paid	(42,509)	-
Net liability for AIK unpaid claims - end of year	$ 5,255,097	$ -

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, 2022, KCP's cash balance was $13,681,611, TPA advances were $41,169, net reported loss and loss adjustment expense reserves were $7,684,915 and net incurred but not reported ("IBNR") loss and loss adjustment expense reserves were $6,037,865. KCP reserves for unpaid losses and loss adjustment expenses are not discounted. Inception to date activity is included in the following table as retroactive reinsurance assumed.

Note G - Loss Portfolio Transfers (Continued)

Kentucky Coal Producers' Self-Insurance Fund Loss Portfolio Transfer (Continued)

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

	2022	2021
Net liability for KCP unpaid claims - beginning of year	$ -	$ -
Retroactive reinsurance reserves assumed	14,073,195	$ -
Losses and LAE paid, net	(301,165)	-
Other direct expenses paid	(49,250)	-
Net liability for KCP unpaid claims - end of year	$ 13,722,780	$ -

Note H - 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, 2022 no reserves have been ceded under this contract.

As of December 31, 2022 and 2021, Funds Withheld under this contract consisted of the following:

	2022	2021
Funds withheld	$ 24,602,783	$ 24,002,739
Profit sharing receivable	(23,130,000)	(23,130,000)
Totals	$ 1,472,783	$ 872,739

Note H - Adverse Development Coverage (Continued)

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. In exchange for a total premium of $40 million, KEMI ceded $32 million of existing loss reserves as well as obtaining $45.25 million of additional protection against unfavorable development for those accident years. The agreement provides for a loss corridor of $20 million (for which KEMI is responsible) between the first and second layers of coverage, and it includes a provision wherein KEMI may share in the reinsurer's ultimate profit, if any. Under the terms of the agreement, KEMI maintains a Funds Withheld balance which is secured by a Trust Account equal to no less than 105% of Funds Withheld. The Funds Withheld balance is shown net of a profit-sharing receivable. The contract was commuted, with an effective date of September 30, 2022. As of December 31, 2022 and 2021, retroactive reinsurance reserves ceded were $0 and $17,062,629, respectively. KEMI recognized a gain in 2022 of $9,414,248 related to the commutation.

As of December 31, 2022 and 2021, Funds Withheld under this contract consisted of the following:

	2022	2021
Funds withheld	$ -	$ 43,755,585
Profit sharing receivable	-	(18,437,371)
Totals	$ -	$ 25,318,214

Note I - Leases

KEMI leases space for its main office under a noncancelable operating lease. The operating lease expires December 31, 2029; however, KEMI has an option to terminate the lease on December 31, 2024 (reflected below) with six months prior written notice. The agreement also includes an option to extend the lease for an additional 60 months following the expiration on December 31, 2029. Rental expense under the lease was $814,975 and $803,167 for 2022 and 2021, 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 $96,904 and $133,978 for 2022 and 2021, respectively. The weighted average remaining lease term was 2.26 years at December 31, 2022.

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

2023	$ 891,085
2024	892,365
2025	66,453
2026	67,793
2027	28,482
Thereafter	-
	$ 1,946,178

Note J - 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. Employer contributions to the defined benefit pension plan were $6,184,000 and $4,164,000 and 2022 and 2021, respectively. Employer contributions to the retiree health insurance plan were $0 and $20,000 in 2022 and 2021, respectively. In 2023, KEMI expects to contribute $85,000 per pay period to the defined benefit pension and postretirement benefit plans. These employer contribution rates will be evaluated as deemed necessary to ensure the financial soundness of the plan.

As of December 31, 2022 and 2021, KEMI recorded the actuarially determined liabilities, nonadmitted 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	
	2022	2021	2022	2021
Change in benefit obligation				
Benefit obligation at beginning of year	$ 44,893,267	$ 46,620,046	$ 3,048,949	$ 3,311,834
Service cost	1,320,577	1,565,246	153,414	155,223
Interest cost	1,175,846	1,053,470	83,735	79,765
Contribution by plan participants	429,404	418,359	-	-
Actuarial (gain) loss	(3,568,281)	(2,810,906)	(864,174)	(457,083)
Benefits paid	(295,196)	(1,952,948)	(42,015)	(40,790)
Benefit obligation at end of year	$ 43,955,617	$ 44,893,267	$ 2,379,909	$ 3,048,949

Note J - Retirement Plans (Continued)

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

	Pension benefits		Postretirement benefits	
	2022	2021	2022	2021
Change in plan assets				
Fair value of plan assets at beginning of year	$ 34,615,889	$ 31,179,915	$ 5,369,377	$ 5,243,877
Actual return on plan assets	(3,735,729)	868,863	(559,126)	146,290
Reporting entity contribution	6,184,000	4,164,000	-	20,000
Plan participants' contributions	373,512	356,059	-	-
Benefits paid	(295,196)	(1,952,948)	(42,015)	(40,790)
Fair value of plan assets at end of year	$ 37,142,476	$ 34,615,889	$ 4,768,236	$ 5,369,377
Funded status				
Assets (nonadmitted)				
Prepaid benefits costs	$ 8,577,618	$ 6,518,201	$ 1,557,844	$ 1,573,886
Liabilities recognized				
Liability for pension benefits	$ (6,813,141)	$ (10,277,378)	$ -	$ -
Components of net periodic benefit cost				
Service cost	$ 1,320,577	$ 1,565,246	$ 153,414	$ 155,223
Interest cost	1,175,846	1,053,470	83,735	79,765
Expected return on plan assets	(1,422,403)	(1,287,436)	(212,867)	(210,644)
Recognized gains and losses	488,803	778,180	(148,705)	(107,045)
Prior service cost recognized	2,935,272	2,935,272	140,465	140,465
Total net periodic benefit cost	$ 4,498,095	$ 5,044,732	$ 16,042	$ 57,764

Note J - Retirement Plans (Continued)

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

	Pension benefits		Postretirement benefits	
	2022	2021	2022	2021
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	$ 16,795,579	$ 22,483,005	$ (746,542)	$ (320,393)
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	2,019,255	(1,973,974)	(92,181)	(392,729)
Net gain or loss recognized	(488,803)	(778,180)	148,705	107,045
Items not yet recognized as a component of net periodic cost - current year	$ 15,390,759	$ 16,795,579	$ (830,483)	$ (746,542)
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	488,802	(156,856)	(148,705)
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost				
Net prior service cost or credit	$ 6,604,358	$ 9,539,630	$ 1,003,149	$ 1,143,614
Net recognized gains and losses	8,786,401	7,255,949	(1,833,632)	(1,890,156)

Weighted-average assumptions used to determine net periodic benefit cost as of December 31, 2022 and 2021:

	Pension benefits		Postretirement benefits	
	2022	2021	2022	2021
Weighted average discount rate	4.95%	2.64%	5.06%	2.79%
Expected long-term rate of return on plan assets	4.00%	4.00%	4.00%	4.00%
Rate of compensation increase	3.00%	3.00%	N/A	N/A

The amount of the accumulated benefit obligation for the defined benefit pension plan was $39,318,999 and $40,752,449 as of December 31, 2022 and 2021, 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.

Note J - Retirement Plans (Continued)

Defined Benefit Pension and Postretirement Benefit 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
2023	$ 3,009,877	$ 64,722
2024	4,541,523	86,434
2025	2,685,873	83,120
2026	3,560,434	88,273
2027	2,939,227	94,966
2028 through 2032	18,914,914	600,076

KEMI does not have any regulatory contribution requirements for 2023, however, KEMI currently intends to make voluntary contributions of approximately $2.2 million to the defined benefit pension and postretirement benefit plans in 2023.

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. A 2.31% increase in the discount rate from December 31, 2021 to December 31, 2022 decreased the projected pension benefit obligation by $13,245,940.

Note J - Retirement Plans (Continued)

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

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

	Level 1	Level 2	Level 3	Total
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	$ 37,001,878	$ -	$ 140,598	$ 37,142,476

	Level 1	Level 2	Level 3	Total
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	-	-	95,364
Total plan assets	$ 4,768,234	$ -	$ -	$ 4,768,234

Note J - Retirement Plans (Continued)

Defined Benefit Pension and Postretirement Benefit Plans (Continued)

Fair Value Measurements of Plan Assets as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Defined benefit pension plan				
Assets (mutual funds)				
Fixed interest/stable value/cash	$ 5,192,383	$ -	$ -	$ 5,192,383
Short-term bonds	5,538,542	-	-	5,538,542
Intermediate-term bonds	15,577,150	-	-	15,577,150
High yield bonds	1,384,636	-	-	1,384,636
Balanced	692,318	-	-	692,318
Large-cap stocks	2,423,112	-	-	2,423,112
Mid-cap stocks	346,159	-	-	346,159
Small-cap stocks	346,159	-	-	346,159
Foreign stocks	1,730,794	-	-	1,730,794
Specialty	1,384,636	-	-	1,384,636
Total plan assets	$ 34,615,889	$ -	$ -	$ 34,615,889

	Level 1	Level 2	Level 3	Total
Postretirement benefit plan				
Assets (mutual funds)				
Fixed interest/stable value/cash	$ 805,407	$ -	$ -	$ 805,407
Short-term bonds	859,100	-	-	859,100
Intermediate-term bonds	2,416,220	-	-	2,416,220
High yield bonds	214,775	-	-	214,775
Balanced	107,388	-	-	107,388
Large-cap stocks	375,856	-	-	375,856
Mid-cap stocks	53,694	-	-	53,694
Small-cap stocks	53,694	-	-	53,694
Foreign stocks	268,469	-	-	268,469
Specialty	214,774	-	-	214,774
Total plan assets	$ 5,369,377	$ -	$ -	$ 5,369,377

Note J - 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 2022 and 2021, KEMI contributed matching funds of $1,234,440 and $1,082,324, 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 K - Federal Income Taxes

As described in Note A, 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 L - 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 M - 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

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Kentucky Employers' Mutual Insurance Authority
dba Kentucky Employers' Mutual Insurance

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the statutory basis financial statements of Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI"), as of and for the year ended December 31, 2022, and the related notes to the statutory basis financial statements, which collectively comprise KEMI's basic statutory financial statements, and have issued our report thereon dated April 6, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the statutory financial statements, we considered KEMI's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEMI's internal control. Accordingly, we do not express an opinion on the effectiveness of KEMI's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KEMI's statutory basis financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of the statutory basis financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of KEMI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KEMI's internal control and compliance. This report is intended solely for the information and use of the Board of Directors, management and the Kentucky Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 6, 2023

Awareness Letter

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

We were engaged by Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") to perform an annual audit, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, of KEMI's 2022 statutory financial statements. In connection therewith, we acknowledge the following:

- We are aware of the provisions relating to the accounting and financial reporting matters in the Insurance Code of the Commonwealth of Kentucky and the related rules and regulations of the Department of Insurance of the Commonwealth of Kentucky that are applicable to audits of statutory financial statements of insurance entities. Also, after completion of our audit, we expect that we will issue our report on the statutory basis financial statements of KEMI as to their conformity with accounting practices prescribed or permitted by the Department of Insurance of the Commonwealth of Kentucky.

This letter is intended solely for the information and use of the Board of Directors and management of KEMI and the Department of Insurance of the Commonwealth of Kentucky and is not intended to be, and should not be, used by anyone other than these specified parties.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 6, 2023

Qualification Letter

To the Board of Directors
Kentucky Employers' Mutual Insurance Authority
dba Kentucky Employers' Mutual Insurance

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller of the United States, the statutory basis financial statements of Kentucky Employers' Mutual Insurance Authority dba Kentucky Employers' Mutual Insurance ("KEMI") for the year ended December 31, 2022, and have issued our report thereon dated April 6, 2023. In connection therewith, we advise you as follows:

1. We are independent certified public accountants with respect to KEMI and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Kentucky Board of Public Accountancy.

2. The engagement partner and manager are all Certified Public Accountants, have experience in public accounting, and are experienced in auditing insurance enterprises. Members of the engagement team were assigned to perform tasks commensurate with their training and experience.

3. We understand that KEMI intends to file its audited statutory financial statements and our report thereon with the Kentucky Department of Insurance and that the Insurance Commissioner of the Commonwealth will be relying on that information in monitoring and regulating the statutory financial condition of KEMI.

   While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, KEMI and the Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, policyholder surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Kentucky Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, we have the responsibility, within the inherent limitations of the auditing process, to design our audit to obtain reasonable assurance that errors and fraud that have a material effect on the statutory basis financial statements will be detected and to exercise due care in the conduct of the audit.

Qualification Letter (Continued)

The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on statutory basis financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting fraud. Because of the characteristics of fraud, particularly those involving forgery and collusion, a properly designed and executed audit may not detect material fraud. In addition, an audit does not address the possibility that material error or fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of KEMI to adopt sound accounting policies, to maintain an adequate and effective system of accounts, to establish and maintain internal control that will, among other things, provide reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of statutory basis financial statements in conformity with accounting practices prescribed or permitted by the Kentucky Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the financial position of insurers and should not rely solely upon the independent auditor's report.

4. We will retain the workpapers prepared in the conduct of our audit until the Kentucky Department of Insurance has filed a Report of Examination covering 2022, but not longer than seven years, and on instructions from KEMI, will make them available for review by the Kentucky Department of Insurance or any other departments of insurance.

5. The engagement partner is a licensed Certified Public Accountant and is a member in good standing of the American Institute of Certified Public Accountants.

6. We confirm that to the best of our knowledge and belief, we are in compliance with all applicable requirements of Section 806 KAR 3:170 of the Administrative Code.

7. To the best of our knowledge and belief, we are in compliance with the requirements of Section 7 of the NAIC's Model Rule (Regulation) *Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

Our practice is subject to peer review under the oversight of the AICPA's National Peer Review Committee. A copy of our most recent unqualified report is available upon request. This letter is furnished solely for filing with the Kentucky Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

MCM CPAs & Advisors LLP

Louisville, Kentucky
April 6, 2023

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	2 Percentage of Column 1 Line 13	Admitted Assets as Reported in the Annual Statement 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	27,198,764	2.521	27,198,764		27,198,764	2.521
1.02 All other governments	1,022,739	0.095	1,022,739		1,022,739	0.095
1.03 U.S. states, territories and possessions, etc. guaranteed	5,707,761	0.529	5,707,761		5,707,761	0.529
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed	8,309,148	0.770	8,309,148		8,309,148	0.770
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	134,967,905	12.509	134,967,905		134,967,905	12.509
1.06 Industrial and miscellaneous	796,045,092	73.781	796,045,092		796,045,092	73.781
1.07 Hybrid securities	3,120,449	0.289	3,120,449		3,120,449	0.289
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	976,371,857	90.495	976,371,857		976,371,857	90.495
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)	1,751,725	0.162	1,751,725		1,751,725	0.162
2.02 Parent, subsidiaries and affiliates		0.000				0.000
2.03 Total preferred stocks	1,751,725	0.162	1,751,725		1,751,725	0.162
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)	64,039,641	5.936	64,039,641		64,039,641	5.936
3.02 Industrial and miscellaneous Other (Unaffiliated)	453,321	0.042	453,321		453,321	0.042
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	64,492,962	5.978	64,492,962		64,492,962	5.978
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	0.373	4,025,000		4,025,000	0.373
5.04 Total real estate	4,025,000	0.373	4,025,000		4,025,000	0.373
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	12,921,985	1.198	12,921,985		12,921,985	1.198
6.02 Cash equivalents (Schedule E, Part 2)	6,051,657	0.561	6,051,657		6,051,657	0.561
6.03 Short-term investments (Schedule DA)		0.000				0.000
6.04 Total cash, cash equivalents and short-term investments	18,973,642	1.759	18,973,642		18,973,642	1.759
7. Contract loans		0.000				0.000
8. Derivatives (Schedule DB)		0.000				0.000
9. Other invested assets (Schedule BA)	12,809,215	1.187	12,809,215		12,809,215	1.187
10. Receivables for securities	500,000	0.046	500,000		500,000	0.046
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	1,078,924,401	100.000	1,078,924,401		1,078,924,401	100.000

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2022
(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. $ 1,134,004,080

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

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	Federal National Mortgage Association	CMO, MBS	$ 63,470,389	5.6 %
2.02	Federal Home Loan Mortgage Corporation	CMO, MBS	$ 46,781,993	4.1 %
2.03	ElmTree Fund IV G.P., L.L.C.	Sch BA-Joint Venture	$ 12,809,215	1.1 %
2.04	JPMorgan Chase & Co.	Bonds, Equity	$ 7,589,151	0.7 %
2.05	AbbVie Inc.	Bonds, Equity	$ 7,215,227	0.6 %
2.06	Morgan Stanley	Bonds, Equity	$ 6,561,443	0.6 %
2.07	CVS Health Corporation	Bonds, Equity	$ 5,999,994	0.5 %
2.08	The Home Depot, Inc.	Bonds, Equity	$ 5,981,605	0.5 %
2.09	Bank of America Corporation	Bonds, Equity	$ 5,942,169	0.5 %
2.10	Target Corporation	Bonds, Equity	$ 5,544,104	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	$ 680,991,622	60.1 %	3.07	NAIC 1	$ 1,751,725	0.2 %
3.02	NAIC 2	$ 265,699,922	23.4 %	3.08	NAIC 2	$	%
3.03	NAIC 3	$ 26,548,601	2.3 %	3.09	NAIC 3	$	%
3.04	NAIC 4	$ 1,578,711	0.1 %	3.10	NAIC 4	$	%
3.05	NAIC 5	$	%	3.11	NAIC 5	$	%
3.06	NAIC 6	$ 1,553,000	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	$ 119,177,868	10.5 %
4.03	Foreign-currency-denominated investments	$	%
4.04	Insurance liabilities denominated in that same foreign currency	$	%

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

		1	2
5.01	Countries designated NAIC-1	$ 113,353,384	10.0 %
5.02	Countries designated NAIC-2	$ 3,528,180	0.3 %
5.03	Countries designated NAIC-3 or below	$ 2,296,304	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	$ 35,406,397	3.1 %
6.02	Country 2: United Kingdom	$ 26,291,516	2.3 %
	Countries designated NAIC - 2:		
6.03	Country 1: Mexico	$ 2,973,623	0.3 %
6.04	Country 2: Peru	$ 554,556	%
	Countries designated NAIC - 3 or below:		
6.05	Country 1: Virgin Islands, British	$ 1,496,304	0.1 %
6.06	Country 2: Jamaica	$ 800,000	0.1 %

		1	2
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 Issuer	2 NAIC Designation	3	4
10.01	Barclays PLC	2FE	$ 5,371,231	0.5 %
10.02	BNP Paribas SA	1FE, 2FE	$ 3,789,976	0.3 %
10.03	UBS Group AG	1FE	$ 3,120,449	0.3 %
10.04	Macquarie Group Limited	1FE	$ 3,039,921	0.3 %
10.05	Diageo Capital PLC	1FE	$ 2,768,271	0.2 %
10.06	Transurban Finance Company Pty Ltd	2FE	$ 2,509,416	0.2 %
10.07	Lsega Financing PLC	1FE	$ 2,498,262	0.2 %
10.08	BPCE SA	1FE	$ 2,494,024	0.2 %
10.09	Scentre Group Trust 1	1FE	$ 2,177,210	0.2 %
10.10	GlaxoSmithKline Capital PLC	1FE	$ 2,110,224	0.2 %

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 IV G.P., L.L.C.	$ 12,809,215	1.1 %
13.03	Carlyle Tactical Private Credit Fund	$ 1,751,725	0.2 %
13.04	Federal Home Loan Bank of Cincinnati	$ 1,444,800	0.1 %
13.05	Broadcom Inc.	$ 1,274,257	0.1 %
13.06	Abbott Laboratories	$ 1,251,935	0.1 %
13.07	Caterpillar Inc.	$ 1,250,264	0.1 %
13.08	Cigna Corporation	$ 1,248,158	0.1 %
13.09	Colgate-Palmolive Company	$ 1,242,361	0.1 %
13.10	Pfizer Inc.	$ 1,240,572	0.1 %
13.11	The Procter & Gamble Company	$ 1,240,367	0.1 %

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.

	1	2	3
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:

	1 Fund Manager	2 Total Invested	3 Diversified	4 Nondiversified
14.06	First American Funds, Inc. - Government Obligations Fund	$ 6,051,657	$ 6,051,657	$
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.

	1	2	3
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		$	%

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 Type (Residential, Commercial, Agricultural)	2	3
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 1	2	3
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		$	%

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

		At Year End		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
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		Written	
		1	2	3	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		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
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		At End of Each Quarter		
				1st Quarter	2nd Quarter	3rd Quarter
		1	2	3	4	5
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 [ ]