

# **Chesapeake Employers' Insurance Company**

## **Audited Statutory Basis Financial Statements and Supplementary Information**

*Years ended December 31, 2021 and 2020  
with Report of Independent Auditors*

Chesapeake Employers' Insurance Company

Audited Statutory Basis Financial Statements  
and Supplementary Information

Years ended December 31, 2021 and 2020

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## Report of Independent Auditors

Board of Directors  
Chesapeake Employers' Insurance Company

### **Opinions**

We have audited the statutory financial statements of Chesapeake Employers' Insurance Company (Chesapeake), which comprise the statutory basis balance sheets as of December 31, 2021 and 2020, and the related statutory basis statements of income, changes in surplus and cash flows for the years then ended, and the related notes to the financial statements.

### *Unmodified Opinion on Regulatory Basis of Accounting*

In our opinion, the accompanying financial statements present fairly, in all material respects, the admitted assets, liabilities, and surplus of Chesapeake as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with the basis of accounting described in Note 2.

### *Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Chesapeake as of December 31, 2021 and 2020, 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 Financial Statements section of our report. We are required to be independent of Chesapeake, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

### **Responsibilities of Management for the Financial Statements**

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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 Chesapeake's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chesapeake'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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Investment Risks Interrogatories, Summary Investment Schedule and Reinsurance Summary Supplemental Filing of Chesapeake as of December 31, 2021, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Maryland Insurance Administration. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia  
May 25, 2022

# Chesapeake Employers' Insurance Company

## Statutory-Basis Balance Sheets

|                                                                       | As of December 31,      |                         |
|-----------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                       | 2021                    | 2020                    |
| <b>Admitted Assets</b>                                                |                         |                         |
| Bonds                                                                 | \$ 2,007,579,520        | \$ 1,899,026,243        |
| Preferred stock                                                       | 7,754,464               | 11,464,662              |
| Common stock                                                          | 204,742,403             | 230,052,265             |
| Real estate occupied by Chesapeake                                    | 7,520,336               | 7,757,458               |
| Cash, cash equivalents and short-term investments                     | 85,766,981              | 97,434,222              |
| Other invested assets                                                 | 107,245,467             | 81,736,250              |
| Receivable for securities                                             | 9,091,094               | 14,100,711              |
| Total cash and invested assets                                        | 2,429,700,265           | 2,341,571,811           |
| Accrued investment income                                             | 12,013,812              | 12,521,424              |
| Uncollected premiums and agents' balances in the course of collection | 11,850,927              | 13,169,147              |
| Deferred premiums                                                     | 42,457,441              | 45,612,433              |
| Funds held by or deposited with reinsured companies                   | 674,438                 | 692,790                 |
| Amounts recoverable from reinsurers                                   | 284,055                 | 285,157                 |
| Electronic data processing equipment, net                             | 1,046,990               | 769,385                 |
| Due from affiliate                                                    | 13,719,303              | 13,826,800              |
| Current federal income taxes recoverable                              | -                       | 8,052                   |
| Other assets                                                          | 584,469                 | 176,684                 |
| Total admitted assets                                                 | <u>\$ 2,512,331,700</u> | <u>\$ 2,428,633,683</u> |
| <b>Liabilities and Surplus</b>                                        |                         |                         |
| Liabilities:                                                          |                         |                         |
| Reserves for losses and loss adjustment expenses, net                 | \$ 1,092,116,000        | \$ 1,112,687,000        |
| Accounts payable and accrued expenses                                 | 16,805,010              | 20,046,765              |
| Borrowed money and accrued interest                                   | 140,034,218             | 140,036,169             |
| Unearned premiums                                                     | 74,244,383              | 73,087,233              |
| Policyholder dividends payable                                        | 34,221,070              | 29,213,057              |
| Funds held by company under reinsurance treaties                      | 212,000                 | 271,000                 |
| Advance payments from policyholders                                   | 5,725,470               | 4,254,218               |
| Provision for reinsurance                                             | 539,000                 | 88,000                  |
| Payable for securities                                                | 10,902,505              | 15,955,107              |
| Total liabilities                                                     | <u>1,374,799,656</u>    | <u>1,395,638,549</u>    |
| <b>Surplus:</b>                                                       |                         |                         |
| Appropriated for subsidiaries                                         | 15,000,000              | 22,000,000              |
| Unappropriated                                                        | 1,122,532,044           | 1,010,995,134           |
| Total surplus                                                         | <u>1,137,532,044</u>    | <u>1,032,995,134</u>    |
| Total liabilities and surplus                                         | <u>\$ 2,512,331,700</u> | <u>\$ 2,428,633,683</u> |

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

# Chesapeake Employers' Insurance Company

## Statutory-Basis Statements of Income

|                                        | Years ended December 31, |                      |
|----------------------------------------|--------------------------|----------------------|
|                                        | <u>2021</u>              | <u>2020</u>          |
| Underwriting income:                   |                          |                      |
| Net premiums earned                    | \$ 168,935,969           | \$ 187,602,726       |
| Losses incurred, net                   | 87,972,585               | 92,579,240           |
| Loss adjustment expenses incurred, net | 40,106,638               | 34,033,420           |
| Commissions                            | 21,986,446               | 20,807,500           |
| Other underwriting expenses, net       | 33,325,049               | 36,120,839           |
| Provision for bad debt                 | <u>1,675,275</u>         | <u>2,073,173</u>     |
| Underwriting (loss) income             | <u>(16,130,024)</u>      | <u>1,988,554</u>     |
| Net investment income                  | 56,617,622               | 57,824,756           |
| Net realized gain on investments       | <u>100,637,810</u>       | <u>37,726,456</u>    |
| Net investment gain                    | <u>157,255,432</u>       | <u>95,551,212</u>    |
| Other income                           | 488,670                  | 390,980              |
| Dividends to policyholders             | <u>(15,924,910)</u>      | <u>(15,888,010)</u>  |
| Net income                             | <u>\$ 125,689,168</u>    | <u>\$ 82,042,736</u> |

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

Chesapeake Employers' Insurance Company

Statutory-Basis Statements of Changes in Surplus

|                                           | Years ended December 31,       |                                |
|-------------------------------------------|--------------------------------|--------------------------------|
|                                           | <u>2021</u>                    | <u>2020</u>                    |
| Surplus at beginning of year              | \$ 1,032,995,134               | \$ 912,049,720                 |
| Net income                                | 125,689,168                    | 82,042,736                     |
| Change in net unrealized investment gains | (23,455,252)                   | 41,668,569                     |
| Change in nonadmitted assets              | 2,753,994                      | (3,571,891)                    |
| Change in provision for reinsurance       | <u>(451,000)</u>               | <u>806,000</u>                 |
| Surplus at end of year                    | <u><u>\$ 1,137,532,044</u></u> | <u><u>\$ 1,032,995,134</u></u> |

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



# Chesapeake Employers' Insurance Company

## Statutory-Basis Statements of Cash Flows

|                                                                         | Years ended December 31, |                      |
|-------------------------------------------------------------------------|--------------------------|----------------------|
|                                                                         | 2021                     | 2020                 |
| <b>Cash from operations</b>                                             |                          |                      |
| Premiums collected                                                      | \$ 174,402,102           | \$ 172,609,861       |
| Loss and loss adjustment expenses paid, net of subrogation received     | (148,649,130)            | (169,436,474)        |
| Policyholder dividends paid                                             | (10,916,897)             | (11,027,254)         |
| Underwriting expenses paid                                              | (52,478,962)             | (52,310,438)         |
| Other losses                                                            | (1,616,135)              | (1,682,193)          |
| Federal income taxes received (paid)                                    | 8,052                    | 3,085                |
| Investment income received, net of investment expenses paid             | <u>66,375,040</u>        | <u>67,841,021</u>    |
| Net cash provided by operations                                         | <u>27,124,070</u>        | <u>5,997,608</u>     |
| <b>Cash from investing activities</b>                                   |                          |                      |
| Proceeds from investments sold, matured or repaid:                      |                          |                      |
| Bonds                                                                   | 595,482,011              | 682,971,448          |
| Stocks                                                                  | 169,499,580              | 67,431,099           |
| Other invested assets                                                   | 27,596,656               | 4,952,463            |
| Net gains (losses) on cash, cash equivalents and short-term investments | 149,574                  | (411)                |
| Miscellaneous proceeds                                                  | <u>133,125</u>           | <u>19,875,293</u>    |
| Total investment proceeds                                               | <u>792,860,946</u>       | <u>775,229,892</u>   |
| Cost of investments acquired (long-term only):                          |                          |                      |
| Bonds                                                                   | 680,165,412              | 683,329,365          |
| Stocks                                                                  | 110,984,273              | 75,222,588           |
| Other invested assets                                                   | 38,632,273               | 28,445,633           |
| Miscellaneous applications                                              | <u>176,111</u>           | <u>2,869,633</u>     |
| Total investments acquired                                              | <u>829,958,069</u>       | <u>789,867,219</u>   |
| Net cash used in investments                                            | <u>(37,097,123)</u>      | <u>(14,637,327)</u>  |
| <b>Cash from financing and miscellaneous activities</b>                 |                          |                      |
| Miscellaneous applications                                              | (1,694,188)              | (3,409,813)          |
| Borrowing from FHLB                                                     | -                        | <u>39,841,538</u>    |
| Net cash (used in) provided by financing and miscellaneous activities   | <u>(1,694,188)</u>       | <u>36,431,725</u>    |
| Net (decrease) increase in cash and short-term investments              | (11,667,241)             | 27,792,006           |
| Cash, cash equivalents and short-term investments at beginning of year  | <u>97,434,222</u>        | <u>69,642,216</u>    |
| Cash, cash equivalents and short-term investments at end of year        | <u>\$ 85,766,981</u>     | <u>\$ 97,434,222</u> |

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

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements

Years ended December 31, 2021 and 2020

### 1. Organization and Purpose

The Chesapeake Employers' Insurance Company (Chesapeake) was established as an insurer to provide workers' compensation insurance to Maryland employers under the Workers' Compensation Law enacted in 1914 under the name of the State Accident Fund, which was changed to Injured Workers' Insurance Fund (IWIF) in 1990. In April 2012, Maryland Senate Bill 745 (the Bill) was approved by the Maryland General Assembly, restructuring IWIF into a new company, Chesapeake Employers' Insurance Company (Chesapeake). On October 1, 2013, all insurance operations were transferred from IWIF to Chesapeake, a non-profit, non-stock corporation. Chesapeake is exempt from federal income taxes under 501(c)(27) of the Internal Revenue Code (the Code). Prior to 2020, the Board of Directors was appointed by the governor of the State of Maryland. The Board of Directors is comprised of nine members who appoint a Chief Executive Officer to assist them in operating and administering Chesapeake. Beginning in 2020, the Chesapeake Board of Directors election process began transitioning to policyholder election. This process is expected to complete by June 2022.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying statutory basis financial statements have been prepared on the basis of accounting prescribed or permitted by the Maryland Insurance Administration (MIA). The MIA requires that insurance companies domiciled in the State of Maryland prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) Statements of Statutory Accounting Principles (SSAP), subject to any deviations prescribed or permitted by the MIA. There are no differences from NAIC statutory accounting practices reflected in these financial statements.

The preparation of financial statements in conformity with SSAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

SSAP varies from accounting principles generally accepted in the United States (GAAP). The more significant variances from GAAP are as follows:

- For statutory purposes, bonds are generally recorded at amortized cost or fair value based on the rating received from the NAIC. For GAAP, bonds classified as "available-for-sale" are recorded at fair value, with unrealized gains and losses recorded as a separate component of accumulated other comprehensive income, net of tax.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### *Basis of Presentation (continued)*

- Under SSAP, unrealized gains and losses on investments in equity securities are generally recorded as a direct credit or charge to surplus, net of the adjustment for deferred federal income taxes. Under GAAP, unrealized gains and losses on equity securities are reported directly in net income.
- Under SSAP, majority owned subsidiaries are accounted for using the equity method or are considered non-admitted assets. Under GAAP these entities would be consolidated.
- Investments in convertible bonds are carried at amortized cost in accordance with valuation criteria established by the NAIC. Under GAAP, convertible bonds are carried as investments available for sale and in accordance with accounting standards for accounting for derivative instruments and hedging activities, the conversion feature is bifurcated from the debt host security and recorded at fair value. Under GAAP, the changes in the fair value of the conversion feature are included in the statement of income.
- Agent commissions and other acquisition costs are expensed as incurred under SSAP instead of being deferred and amortized over the terms of the related policy contracts proportionally to the premiums earned, as required under GAAP.
- Reserves for losses and loss adjustment expenses as well as unearned premiums ceded to reinsurers have been reported as reductions to the related reserves rather than as assets, as would be required under GAAP.
- Statutory reserves for unauthorized reinsurance in excess of collateral obtained from such unauthorized reinsurers and for overdue authorized reinsurance are carried as liabilities and charged directly to surplus; under GAAP, such reserves are restored to surplus and a reserve for uncollectible reinsurance is provided through earnings, if necessary.
- Nonadmitted assets, principally receivables over 90 days past due, furniture and equipment, non-operating system software, and prepaid expenses, are excluded from the statutory basis balance sheets. Changes in nonadmitted asset balances are charged directly to surplus. Under GAAP, such assets are recorded at historical cost or net realizable value net of appropriate valuation allowances.
- Investment income and expense for real estate occupied by Chesapeake are recorded in the statement of income and would not be included as such under GAAP.
- The statutory statement of cash flows does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activity is not included.

The effect of the differences between SSAP and GAAP on the accompanying financial statements has not been determined but is presumed to be material.

##### *Subsequent Events*

Chesapeake has performed an evaluation of subsequent events through May 25, 2022, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **2. Summary of Significant Accounting Policies (Continued)**

##### *COVID-19 Risks and Uncertainties*

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. Chesapeake's operational and financial performance will depend on certain developments, including the duration and spread of COVID-19 and its impact on Chesapeake and its policyholders, employees and vendors. As such, COVID-19 could have a material adverse effect on Chesapeake's financial position in the future. The ultimate duration and impact of the COVID-19 outbreak on Chesapeake's financial position cannot be reasonably estimated at this time.

##### *Income Taxes*

As noted above, Chesapeake is exempt from the payment of income taxes on its exempt activities under Section 501(c)(27) of the Internal Revenue Code. However, Chesapeake is subject to taxes on its unrelated business activities. Management has concluded that Chesapeake has maintained its exempt status. Chesapeake does not have any uncertain tax positions that are material to the financial statements as of December 31, 2021.

##### *Investments*

Chesapeake invests in various investment instruments. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statutory basis financial statements. Bonds are generally carried at amortized cost using the interest method to amortize purchase discounts or premiums, except for NAIC class 3 through class 6 securities, which are carried at the lower of amortized cost or fair value. Prepayment assumptions for asset-backed or loan-backed bonds are obtained from dealer surveys and are based on the current interest rate and economic environment. The prospective yield method is used to account for significant changes in estimated cash flows from the original purchase assumptions. Common stocks and perpetual preferred stocks with NAIC designation 1 or 2 are carried at fair value with the net unrealized gain or loss included in surplus. Perpetual preferred stocks are carried at fair value. Redeemable preferred stocks, rated highest or high quality (NAIC designation 1 or 2), are carried at amortized cost. Redeemable preferred stocks with NAIC designation 3 through 6 are carried at the lower of cost, amortized cost or fair value. Mandatory convertible preferred stocks (regardless if the preferred stock is redeemable or perpetual) are reported at fair value, not to exceed any currently effective call price, in the periods prior to conversion.

In 2021 and 2020, other invested assets consisted of investments in real estate investment trusts, limited partnerships, and a subsidiary controlled affiliate. For the valuation of real estate investment trusts and limited partnerships, Chesapeake values the holdings using GAAP basis equity of the trust or partnership. For the subsidiary controlled affiliate investment, the value is stated at GAAP equity value, adjusted to a statutory basis of accounting, in accordance with SSAP No. 97, *Investments in Subsidiaries, Controlled and Affiliated Entities*.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### *Investments (continued)*

Investments in alternative investment funds are typically valued, as a practical expedient, utilizing the net asset valuations provided by the underlying private investment companies or their administrators, without adjustment, when the net asset valuations of the investments are calculated in a manner consistent with GAAP for investment companies. Chesapeake applies the practical expedient to its investments in private investment companies, unless it is probable that Chesapeake will sell a portion of an investment at an amount different from the net asset valuation. If it is probable that Chesapeake will sell an investment at an amount different from the net asset valuation or in other situations where the practical expedient is not available, Chesapeake considers other factors in addition to the net asset valuation, such as features of the investment, including subscription and redemption rights, expected discounted cash flows, transactions in the secondary market, bids received from potential buyers, and overall market conditions in its determination of fair value.

Investments in alternative investment funds not valued using the practical expedient are valued at Chesapeake's ownership percentage of the audited GAAP equity and are included in Level 3 of the fair value hierarchy as other invested assets. Chesapeake considers the length of time until the investment is redeemable, including notice and lock-up periods or any other restriction on the disposition of the investment.

##### *Other-Than-Temporary Impairment of Investments*

Management periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation considers several factors, including but not limited to length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near-term prospects for recovery of the fair value of a security; and the intent and ability of Chesapeake to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are recorded as realized losses and are included in investment income as realized losses in the statements of income.

The recognition, measurement and presentation standards for other-than-temporary impairments (OTTI) for loan-backed and structured securities are recorded in accordance with SSAP No. 43R, *Loan-backed and Structured Securities* (SSAP 43R). Under SSAP 43R, with respect to an investment in an impaired loan-backed or structured security, OTTI occurs if Chesapeake (a) intends to sell the security, (b) has an inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, or (c) the present value of cash flows expected to be collected is less than the amortized cost basis of the security.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 2. Summary of Significant Accounting Policies (Continued)

##### *Other-Than-Temporary Impairment of Investments (continued)*

If Chesapeake intends to sell the security, or does not have the intent and ability to retain the security for a period of time sufficient to recover the amortized cost basis, a loss in the entire amount of the difference between the security's carrying value and its fair value at the balance sheet date is reflected in net investment gain in the income statement.

For asset-backed or loan-backed bonds, if Chesapeake determines that it is probable it will be unable to collect all amounts or the present value of cash flows expected to be collected is less than the amortized cost basis of the security and Chesapeake has no intent to sell the debt security and has the intent and ability to hold, a credit loss is recognized in net investment gain in the income statement to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis is reflected as an unrealized loss.

##### *Investment Fair Value Measurement*

SSAP No. 100, *Fair Value Measurements* (SSAP 100) defines fair value, establishes a framework and hierarchy for measuring fair value, and requires disclosures about fair value measurements. SSAP 100 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available.

The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets that Chesapeake has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **2. Summary of Significant Accounting Policies (Continued)**

##### *Investment Fair Value Measurement (continued)*

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, Chesapeake estimates fair value using methods, models and assumptions that management believes relevant to the particular asset or liability. This process may include the use of unobservable inputs in discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

##### *Securities Lending*

Chesapeake participated in a securities lending program during 2020. Effective November 2020, Chesapeake suspended participation in the program. During this program, securities were transferred to an independent broker or dealer in exchange for collateral equal to at least 102% of the fair value of securities on loan. Securities under loan were maintained on Chesapeake's financial records and are included in the investment summary in Note 4.

Under SSAP No. 103, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, when a lender receives collateral that it may reinvest, it is reported on the balance sheet, since the lender bears reinvestment risk. Chesapeake recognizes the value of the reinvested collateral as an asset, determined in accordance with SSAP for investment valuation (securities lending reinvested collateral assets). A separate liability is also established to record the obligation to return the collateral (payable for securities lending). Chesapeake is required to follow the same impairment guidance as for other similar invested assets reported on the balance sheet.

##### *Premiums Receivable*

Premiums receivable represent amounts currently due from insureds, with provision made for accounts considered uncollectible or nonadmitted in accordance with SSAP. Chesapeake routinely assesses the collectibility of premiums receivable, and any uncollectible receivable is written off in the period the determination is made. As of December 31, 2021 and December 31, 2020, the allowance for uncollectible premiums receivable was \$2,884,008 and \$3,321,508, respectively.

##### *Deferred Premiums*

Deferred premiums consist of unbilled premiums that represent installment premiums not yet due as well as earned but unbilled (EBUB). Chesapeake conducts audits on its policyholders annually to determine the actual premium incurred for the term. EBUB premiums are adjustments to premium for payroll growth, industry mix and other economic factors. Chesapeake estimates EBUB based on historical patterns reflective of the policy mix as of December 31.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **2. Summary of Significant Accounting Policies (Continued)**

##### *Cash, Cash Equivalents and Short-Term Investments*

Cash and cash equivalents consists of bank deposits, commercial paper and money market funds. Short-term investments include fixed maturity securities with maturity dates of one year or less from the date of purchase. The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by federal law. Chesapeake may hold funds with financial institutions in excess of the FDIC insured amount. However, Chesapeake has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

##### *Loss and Loss Adjustment Expenses*

The liability for unpaid losses and loss adjustment expenses (LAE) includes case basis estimates of reported losses, plus supplemental reserves for incurred but not reported losses (IBNR) calculated based upon loss projections utilizing certain actuarial assumptions and studies of historical loss experience and industry statistics. Chesapeake discounts future lifetime compensation indemnity claims using a 2.90% interest rate in 2021 and 2020. Chesapeake uses an actuarial analysis in determining estimates for unpaid losses. The actuary employs accepted methodologies such as the incurred and paid loss development methods, expected loss ratios and the Bornhuetter-Ferguson method in devising projected estimates for ultimate incurred losses, also taking into account prior period development to identify trends for evaluating adequacy of the provision. Management believes that its aggregate liability for unpaid losses and LAE at December 31, 2021 represents its best estimate of the amount necessary to cover the ultimate cost of losses based upon an actuarial analysis prepared by a consulting actuary. However, because of future events beyond the control of management, such as changes in approved benefit rates, changes in law, judicial interpretations of law and medical inflation, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

##### *Equipment and Software*

Equipment consists of electronic data processing (EDP) equipment. EDP equipment and software are recorded at cost net of accumulated depreciation and is depreciated on a straight-line basis over three years. Non-operating system software is recorded as a non-admitted asset in accordance with SSAP.

##### *Real Estate*

Chesapeake has recorded its real estate occupied by Chesapeake at depreciated cost. Chesapeake's real estate, excluding land, is depreciated on a straight-line basis over a period of forty years.



## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **2. Summary of Significant Accounting Policies (Continued)**

##### *Premiums and Unearned Premiums*

Premiums are recognized as revenue ratably over the contract period. Unearned premiums represent the portion of premium that is applicable to the unexpired terms on policies in force at the balance sheet date.

##### *Premium Deficiency Reserves*

Chesapeake establishes premium deficiency reserves, when required, for the amount by which anticipated future benefit costs and contract maintenance costs under a group of existing contracts will exceed unearned premiums and reinsurance recoveries on those contracts. Such reserves are continually monitored and reviewed, and any changes in estimates are reflected in current operations. Chesapeake anticipates investment income as a factor in its premium deficiency reserve calculation. For the years ended December 31, 2021 and 2020, Chesapeake did not record a premium deficiency reserve.

##### *Reinsurance Premiums*

Chesapeake limits the maximum net loss that can arise from large or catastrophic losses by reinsuring certain levels of risks with other insurers or reinsurers. Prospective reinsurance premiums and ceded reserves are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Certain reinsurance contracts contain premium refund provisions that are recorded based on loss experience under the contracts. Chesapeake records such adjustable features using assumptions consistent with those used in estimating the liability for losses and loss adjustment expenses.

In entering into reinsurance agreements, management considers a variety of factors, including the creditworthiness of reinsurers. In preparing financial statements, management makes estimates of amounts receivable from reinsurers which includes consideration of amounts, if any, estimated to be uncollectible based on an assessment of factors, including an evaluation of the creditworthiness of the reinsurers. Management believes that all amounts receivable and recoverable from reinsurers are fully collectible at December 31, 2021 and 2020. In the event that any or all of the reinsuring companies are unable to meet their obligations under existing reinsurance agreements, Chesapeake would be contingently liable for such amounts.

##### *Advertising Costs*

Advertising costs are expensed as incurred. Advertising costs incurred and included in other underwriting expenses were \$2,274,077 and \$2,044,639 for the years ended December 31, 2021 and 2020, respectively.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **2. Summary of Significant Accounting Policies (Continued)**

##### *Dividends to Policyholders*

Chesapeake has safety group and individual dividend programs that allow participating members to receive a dividend upon meeting certain loss ratio and written premium criteria. Chesapeake incurred \$924,910 and \$888,010 in 2021 and 2020 respectively, for the safety dividend and individual dividend programs.

During 2021 and 2020, the Board of Directors authorized corporate dividends of \$15 million. These dividends are based on policyholder loss ratios for accident years 2022 through 2023.

#### **3. Regulatory Matters**

Chesapeake is subject to regulation by the MIA. The MIA, under statute, mandates the maintenance of minimum surplus. Chesapeake was in compliance with these requirements at December 31, 2021 and 2020.

In addition to the surplus requirement, the MIA has adopted the NAIC Risk-based Capital (RBC) requirements. The NAIC's RBC calculation is a method of measuring the minimum amount of capitalization appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. Chesapeake's RBC is calculated by applying factors to various asset, premium and reserve items. The capital requirements are higher for those items with greater underlying risk, and correspondingly lower as risk level decreases. The adequacy of an insurance company's statutory basis surplus can then be measured by a comparison to its RBC as determined by the formula.

At December 31, 2021 and 2020, Chesapeake's RBC regulatory ratio exceeds all of the action levels as defined by the NAIC and MIA.

#### **4. Investments**

Chesapeake is authorized to invest its excess cash in those investments that are permitted for insurance companies domiciled in the State of Maryland as authorized in Title 5, Subtitle 6, of the Insurance Article, Annotated Code of Maryland. The Board has adopted an investment policy and reviews all investment transactions for compliance with the investment policy.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 4. Investments (Continued)

Proceeds from the sale and maturities of investments were \$792,860,946 and \$775,229,892 for 2021 and 2020, respectively. Gross realized gains of \$39,399,491 and \$42,330,683 and gross realized losses of \$6,906,242 and \$18,021,771 were realized on the sales of investments in bonds in 2021 and 2020, respectively. Gross realized gains of \$72,433,630 and \$18,109,269 and gross realized losses of \$4,214,598 and \$1,822,092 were realized on the sales of investments in equities in 2021 and 2020, respectively. Gross realized gains of \$101,640 and \$0 with \$0 in gross realized losses were realized on sales of other long term assets in 2021 and 2020. In addition, Chesapeake recognized other-than-temporary impairment losses of \$176,111 and \$2,869,633 for the years ended December 31, 2021 and 2020. Management has concluded that the remaining unrealized losses are temporary as of December 31, 2021.

During 2021 and 2020, Chesapeake incurred a prepayment penalty and acceleration fees on the sale of called securities. In 2021, the called securities included 43 CUSIPs with total aggregate investment income of \$2,063,337. During 2020, the called securities included 22 CUSIPs with total aggregate investment income of \$553,325.

The carrying value, gross unrealized gains and losses and fair values of bonds consist of the following as of December 31, 2021:

|                                 | Carrying Value         | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value             |
|---------------------------------|------------------------|------------------------------|-------------------------------|------------------------|
| U.S. treasury obligations       | \$ 32,284,833          | \$ 2,996,199                 | \$ (22,350)                   | \$ 35,258,682          |
| U.S. government agency bonds    | 13,000,000             | 74,190                       | (5,289)                       | 13,068,901             |
| State, municipal and provincial | 289,099,528            | 14,386,344                   | (1,005,858)                   | 302,480,014            |
| Corporate bonds                 | 1,286,357,964          | 83,941,279                   | (4,980,981)                   | 1,365,318,262          |
| Mortgage-backed securities:     |                        |                              |                               |                        |
| Government sponsored            | 241,668,764            | 11,300,323                   | (2,268,252)                   | 250,700,835            |
| Commercial and residential      | 145,168,431            | 3,283,173                    | (1,016,797)                   | 147,434,807            |
| Totals                          | <u>\$2,007,579,520</u> | <u>\$ 115,981,508</u>        | <u>\$ (9,299,527)</u>         | <u>\$2,114,261,501</u> |

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

The carrying value, gross unrealized gains and losses and fair values of bonds consist of the following at December 31, 2020:

|                                 | Carrying Value         | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value             |
|---------------------------------|------------------------|------------------------------|-------------------------------|------------------------|
| U.S. treasury obligations       | \$ 42,795,084          | \$ 4,878,449                 | \$ (778)                      | \$ 47,672,755          |
| U.S. government agency bonds    | 14,000,000             | 329,095                      | -                             | 14,329,095             |
| State, municipal and provincial | 276,173,719            | 20,292,891                   | (666,754)                     | 295,799,856            |
| Corporate bonds                 | 1,164,648,101          | 114,224,565                  | (1,468,971)                   | 1,277,403,695          |
| Mortgage-backed securities:     |                        |                              |                               |                        |
| Government sponsored            | 268,923,038            | 20,339,278                   | (428,344)                     | 288,833,972            |
| Commercial and residential      | 132,486,301            | 6,271,847                    | (923,999)                     | 137,834,149            |
| Totals                          | <u>\$1,899,026,243</u> | <u>\$ 166,336,125</u>        | <u>\$ (3,488,846)</u>         | <u>\$2,061,873,522</u> |

The cost, gross unrealized gains and losses and fair values of preferred, common stock and other equity consist of the following as of December 31, 2021:

|                            | Cost                  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         |
|----------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
| Redeemable preferred stock | \$ 7,754,464          | \$ 670,654                   | \$ (58,151)                   | \$ 8,366,967          |
| Common stock               | 159,703,727           | 51,460,501                   | (6,421,825)                   | 204,742,403           |
| Totals                     | <u>\$ 167,458,191</u> | <u>\$ 52,131,155</u>         | <u>\$ (6,479,976)</u>         | <u>\$ 213,109,370</u> |

The cost, gross unrealized gains and losses and fair values of preferred, common stock and other equity consist of the following as of December 31, 2020:

|                            | Cost                  | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value         |
|----------------------------|-----------------------|------------------------------|-------------------------------|-----------------------|
| Redeemable preferred stock | \$ 11,464,662         | \$ 1,007,640                 | \$ (40,423)                   | \$ 12,431,879         |
| Common stock               | 145,105,517           | 88,916,884                   | (3,970,136)                   | 230,052,265           |
| Totals                     | <u>\$ 156,570,179</u> | <u>\$ 89,924,524</u>         | <u>\$ (4,010,559)</u>         | <u>\$ 242,484,144</u> |

All common stocks held as of December 31, 2021 and 2020 are categorized as industrial and miscellaneous industries.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **4. Investments (Continued)**

Included in other invested assets on the balance sheet is Chesapeake's wholly-owned, affiliated, non-insurance subsidiary, iCubed Ventures LLC (iCubed), which is stated at GAAP equity adjusted to a statutory basis of accounting. Chesapeake invested a total of \$5,000,000 in 2020 and an additional \$7,000,000 in 2021 into iCubed and this investment was valued at \$13,750,571 as of December 31, 2020 and \$24,236,545 as of December 31, 2021. During 2020 and 2021, Chesapeake also invested in surplus debentures valued at a total of \$3,305,556 and \$1,306,873, respectively.

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

During 2021 and 2020, Chesapeake held positions in several limited partnerships and real estate investment funds. The carrying value, which approximates fair value, remaining commitment, and ability to redeem in these alternative investment funds at December 31, 2021 and 2020 are summarized as follows:

| Fund Name                                              | 2021<br>Carrying Value | 2020<br>Carrying Value | Unfunded<br>Commitment<br>at<br>December 31,<br>2021 | Redemption<br>Frequency |
|--------------------------------------------------------|------------------------|------------------------|------------------------------------------------------|-------------------------|
| AG Energy Partners II L.P                              | \$ 3,544,914           | \$ 3,579,966           | \$ 406,693                                           | **                      |
| AG Core Plus Realty Fund III                           | 1,615,406              | 3,056,056              | 4,251,422                                            | **                      |
| AG Core Plus Realty Fund IV, LP                        | 6,902,799              | 9,925,344              | 873,250                                              | **                      |
| Sullivan Debt Fund LP                                  | 859,623                | 975,063                | 3,889                                                | **                      |
| Latitude Management Real Estate<br>Capital III         | 321,888                | 2,445,699              | 250,000                                              | **                      |
| PCCP Credit IV GP, LLC                                 | 72,118                 | 465,397                | 420,940                                              | **                      |
| Neuberger Berman Secondary<br>Opportunities Fund IV    | 7,810,114              | 5,458,930              | 3,357,814                                            | **                      |
| Elm Tree U.S. Net Lease Fund IV, LP                    | 3,127,094              | 1,577,404              | 6,974,424                                            | **                      |
| Franklin Templeton Private Real Estate<br>Fund IIA     | 4,692,202              | 4,926,504              | 1,450,347                                            | **                      |
| ValStone Opportunity Fund VI                           | 9,035,909              | 8,800,862              | 487,812                                              | **                      |
| BlackRock Multi-Alternative<br>Opportunities Fund      | 5,671,781              | 3,606,692              | 4,788,178                                            | **                      |
| BlackRock Global Energy & Power<br>Infrastructure Fund | 4,769,614              | 2,816,612              | 5,274,481                                            | **                      |
| Octagon CLO Opportunity Fund III, LP                   | -                      | 8,048,957              | -                                                    | **                      |
| Dyal IV US Investors, LP                               | 7,670,805              | 2,682,285              | 7,007,154                                            | **                      |
| PCCP Equity VIII                                       | 3,716,626              | 3,153,184              | 1,680,798                                            | **                      |
| Invesco Credit Partners Fund II                        | 2,515,507              | -                      | 7,665,969                                            | **                      |
| Carval's CVI Credit Value Fund A V LP                  | 2,200,135              | 1,000,000              | 8,000,000                                            | **                      |
| Auldbress Partners Secondary<br>Opportunity Fund II    | 7,354,022              | 2,161,168              | 581,440                                              | **                      |
| Auldbress Partners Secondary<br>Opportunity Fund III   | 1,261,317              | -                      | 8,696,035                                            | **                      |
| Heitman Value Partners Fund V                          | 1,035,927              | -                      | 8,964,073                                            | **                      |
| Benefit Street DebtFund I                              | 4,223,121              | -                      | 5,995,049                                            | **                      |
| RRA Debt Fund II                                       | 3,301,127              | -                      | 1,700,000                                            | **                      |
| Total                                                  | <u>\$ 81,702,049</u>   | <u>\$ 64,680,123</u>   | <u>\$ 78,829,768</u>                                 |                         |

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

\*\*These investments in illiquid funds are longer term in nature and generally not liquid. Except under special circumstances, generally no investment withdrawals or transfers are permitted prior to the termination or liquidation of the fund.

The carrying value and fair value of bonds and short term investments at December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                                        | <u>Carrying Value</u>   | <u>Fair Value</u>       |
|----------------------------------------|-------------------------|-------------------------|
| Due in one year or less                | \$ 71,849,071           | \$ 73,040,585           |
| Due after one year through five years  | 484,833,828             | 535,434,046             |
| Due after five years through ten years | 582,639,844             | 595,686,498             |
| Due after ten years                    | 481,419,582             | 511,964,730             |
| Mortgage-backed securities             |                         |                         |
| Government sponsored                   | 241,668,764             | 250,700,835             |
| Commercial and residential             | 145,168,431             | 147,434,807             |
| Total                                  | <u>\$ 2,007,579,520</u> | <u>\$ 2,114,261,501</u> |

The following table shows the investments with gross unrealized losses and their fair value and the length of time the individual securities have been in a continuous unrealized loss position at December 31, 2021:

| <u>December 31, 2021</u>         | <u>Less than twelve months</u> |                        | <u>Twelve months or greater</u> |                        | <u>Total</u>          |                        |
|----------------------------------|--------------------------------|------------------------|---------------------------------|------------------------|-----------------------|------------------------|
|                                  | <u>Fair Value</u>              | <u>Unrealized Loss</u> | <u>Fair Value</u>               | <u>Unrealized Loss</u> | <u>Fair Value</u>     | <u>Unrealized Loss</u> |
| U.S. treasury obligations        | \$ 956,300                     | \$ (22,350)            | \$ -                            | \$ -                   | \$ 956,300            | \$ (22,350)            |
| U.S. government agency bonds     | 2,994,711                      | (5,289)                | -                               | -                      | 2,994,711             | (5,289)                |
| State, municipal, and provincial | 47,409,918                     | (599,996)              | 11,660,364                      | (405,862)              | 59,070,282            | (1,005,858)            |
| Corporate bonds                  | 366,791,200                    | (3,956,198)            | 45,983,042                      | (1,024,783)            | 412,774,242           | (4,980,981)            |
| Mortgage-backed securities:      |                                |                        |                                 |                        |                       |                        |
| Governmental                     | 79,912,074                     | (1,581,621)            | 11,546,730                      | (686,631)              | 91,458,804            | (2,268,252)            |
| Commercial                       | 54,664,265                     | (754,659)              | 5,442,232                       | (262,138)              | 60,106,497            | (1,016,797)            |
| Preferred stock                  | 1,097,303                      | (58,151)               | -                               | -                      | 1,097,303             | (58,151)               |
| Common stock                     | 38,623,593                     | (6,415,884)            | 75,258                          | (5,941)                | 38,698,851            | (6,421,825)            |
| Total                            | <u>\$ 592,449,364</u>          | <u>\$ (13,394,148)</u> | <u>\$ 74,707,626</u>            | <u>\$ (2,385,355)</u>  | <u>\$ 667,156,990</u> | <u>\$ (15,779,503)</u> |

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

The following table shows the investments with gross unrealized losses and their fair value and the length of time the individual securities have been in a continuous unrealized loss position at December 31, 2020:

| December 31, 2020                | Less than twelve months |                       | Twelve months or greater |                       | Total                 |                       |
|----------------------------------|-------------------------|-----------------------|--------------------------|-----------------------|-----------------------|-----------------------|
|                                  | Fair Value              | Unrealized Loss       | Fair Value               | Unrealized Loss       | Fair Value            | Unrealized Loss       |
| U.S.treasury obligations         | \$ 2,250,450            | \$ (778)              | \$ -                     | \$ -                  | \$ 2,250,450          | \$ (778)              |
| U.S. government agency bonds     | -                       | -                     | -                        | -                     | -                     | -                     |
| State, municipal, and provincial | 21,648,702              | (666,754)             | -                        | -                     | 21,648,702            | (666,754)             |
| Corporate bonds                  | 130,154,391             | (1,129,152)           | 54,027,507               | (339,819)             | 184,181,898           | (1,468,971)           |
| Mortgage-backed securities:      |                         |                       |                          |                       |                       |                       |
| Governmental                     | 46,986,298              | (394,359)             | 993,163                  | (33,985)              | 47,979,461            | (428,344)             |
| Commercial                       | 30,741,139              | (715,066)             | 1,154,551                | (208,933)             | 31,895,690            | (923,999)             |
| Preferred stock                  | 1,054,931               | (23,029)              | 323,150                  | (17,394)              | 1,378,081             | (40,423)              |
| Common stock                     | 13,440,504              | (1,732,575)           | 5,193,942                | (2,237,561)           | 18,634,446            | (3,970,136)           |
| Total                            | <u>\$ 246,276,415</u>   | <u>\$ (4,661,713)</u> | <u>\$ 61,692,313</u>     | <u>\$ (2,837,692)</u> | <u>\$ 307,968,728</u> | <u>\$ (7,499,405)</u> |

All bonds in unrealized loss positions are current with principal and interest payments and Chesapeake has the intent and ability to hold such securities until recovery of cost, which may be maturity.

For the years ended December 31, 2021 and 2020, major categories of Chesapeake's net investment income are summarized as follows:

|                                | 2021                 | 2020                 |
|--------------------------------|----------------------|----------------------|
| Bonds                          | \$ 54,832,557        | \$ 59,312,414        |
| Equity securities              | 2,855,286            | 3,379,612            |
| Real estate                    | 1,807,720            | 1,807,720            |
| Cash and other invested assets | <u>7,512,733</u>     | <u>3,487,606</u>     |
| Gross investment income        | 67,008,296           | 67,987,352           |
| Investment expense             | <u>(10,390,674)</u>  | <u>(10,162,596)</u>  |
| Net investment income          | <u>\$ 56,617,622</u> | <u>\$ 57,824,756</u> |

As described in Note 2, Chesapeake participated in a securities lending program and suspended participation in November 2020. Income from the lending program totaled \$0 and \$191,521 in 2021 and 2020, respectively.



# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

For the years ended December 31, 2021 and 2020, there are no nonadmitted investment income due and accrued amounts excluded from the financial statements.

The following table provides information about Chesapeake's investments measured at fair value as of December 31, 2021:

| Class of Security                              | Carrying<br>Value       | Level 1               | Level 2                 | Level 3           | Fair<br>Value           |
|------------------------------------------------|-------------------------|-----------------------|-------------------------|-------------------|-------------------------|
| U.S. treasury obligations                      | \$ 32,284,833           | \$ -                  | \$ 35,258,682           | \$ -              | \$ 35,258,682           |
| U.S. government agency<br>bonds                | 13,000,000              | -                     | 13,068,901              | -                 | 13,068,901              |
| State, municipal and<br>provincial             | 289,099,528             | -                     | 302,480,014             | -                 | 302,480,014             |
| Corporate bonds                                | 1,286,357,964           | -                     | 1,365,318,262           | -                 | 1,365,318,262           |
| Mortgage-backed securities:                    |                         |                       |                         |                   |                         |
| Government sponsored                           | 241,668,764             | -                     | 250,700,835             | -                 | 250,700,835             |
| Commercial and<br>residential                  | 145,168,431             | -                     | 147,434,807             | -                 | 147,434,807             |
| Redeemable preferred<br>stock                  | 7,754,464               | 8,366,967             | -                       | -                 | 8,366,967               |
| Common stock                                   | 204,742,403             | 198,278,003           | 6,464,400               | -                 | 204,742,403             |
| Other invested assets                          | 1,621,289               | -                     | 1,299,401               | 321,888           | 1,621,289               |
| Total value of<br>investments                  | <u>\$ 2,221,697,676</u> | <u>\$ 206,644,970</u> | <u>\$ 2,122,025,302</u> | <u>\$ 321,888</u> | <u>2,328,992,160</u>    |
| Alternative investment<br>funds valued at NAV* |                         |                       |                         |                   | 81,380,161              |
| Total                                          |                         |                       |                         |                   | <u>\$ 2,410,372,321</u> |

# Chesapeake Employers' Insurance Company

## Notes to Statutory-Basis Financial Statements (Continued)

### 4. Investments (Continued)

The following table provides information about Chesapeake's investments measured at fair value as of December 31, 2020:

| Class of Security                           | Carrying Value          | Level 1               | Level 2                 | Level 3             | Fair Value              |
|---------------------------------------------|-------------------------|-----------------------|-------------------------|---------------------|-------------------------|
| U.S. treasury obligations                   | \$ 42,795,084           | \$ -                  | \$ 47,672,755           | \$ -                | \$ 47,672,755           |
| U.S. government agency bonds                | 14,000,000              | -                     | 14,329,095              | -                   | 14,329,095              |
| State, municipal and provincial             | 276,173,719             | -                     | 295,799,856             | -                   | 295,799,856             |
| Corporate bonds                             | 1,164,648,101           | -                     | 1,274,713,890           | 2,689,805           | 1,277,403,695           |
| Mortgage-backed securities:                 |                         |                       |                         |                     |                         |
| Government sponsored                        | 268,923,038             | -                     | 288,833,972             | -                   | 288,833,972             |
| Commercial and residential                  | 132,486,301             | -                     | 137,834,149             | -                   | 137,834,149             |
| Redeemable preferred stock                  | 11,464,662              | 12,431,879            | -                       | -                   | 12,431,879              |
| Common stock                                | 230,052,265             | 221,961,965           | 8,090,300               | -                   | 230,052,265             |
| Other invested assets                       | 5,941,173               | 3,305,556             | -                       | 2,445,699           | 5,751,255               |
| Total value of investments                  | <u>\$ 2,146,484,343</u> | <u>\$ 237,699,400</u> | <u>\$ 2,067,274,017</u> | <u>\$ 5,135,504</u> | <u>2,310,108,921</u>    |
| Alternative investment funds valued at NAV* |                         |                       |                         |                     | <u>62,234,424</u>       |
| Total                                       |                         |                       |                         |                     | <u>\$ 2,372,343,345</u> |

\*Certain investments that were measured at net asset value per share have not been classified in the fair value hierarchy.

A reconciliation of investments disclosed or measured at fair value with the use of significant unobservable inputs (Level 3) from January 1, 2020 to December 31, 2021 is as follows:

|                              | Total Level 3 Investments |
|------------------------------|---------------------------|
| Balance at January 1, 2020   | \$ 16,674,044             |
| Total gains                  | (398,068)                 |
| Purchases                    | 6,772,160                 |
| Redemptions                  | <u>(17,912,632)</u>       |
| Balance at January 1, 2021   | 5,135,504                 |
| Total losses                 | (251,745)                 |
| Purchases                    | -                         |
| Redemptions                  | <u>(4,561,871)</u>        |
| Balance at December 31, 2021 | <u>\$ 321,888</u>         |

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 5. Federal Home Loan Bank

On October 7, 2015, Chesapeake became a member of the Federal Home Loan Bank (FHLB) of Atlanta. Through its membership, Chesapeake can conduct business activity (borrowings) with the FHLB. It is part of Chesapeake's strategy to utilize any borrowings to provide additional liquidity on an as needed basis. As part of membership, Chesapeake was required to purchase Class B1 membership stock which must be maintained throughout its membership. During 2021 the criteria for B1 membership stock was reduced, lowering the amount Chesapeake is required hold, resulting in a buyback. In addition, for any borrowings Chesapeake receives, it is required to purchase additional activity stock based on the amount of the borrowing. Class B2 activity stock is required to be maintained by Chesapeake as long as the borrowing is outstanding and, upon settlement of the borrowing, must be sold back to the FHLB at original cost. As of December 31, 2021, Chesapeake has a maximum borrowing capacity of \$249,134,400 as determined by the FHLB based on Chesapeake's financial and operating condition.

As of December 31, 2021, Chesapeake had eight outstanding credit advances totaling \$140 million from FHLB. During 2021, the floating interest rates on the credit advances ranged from 0.02% to 0.69% per annum. During 2020, the floating interest rates on the credit advances ranged from 0.26% to 1.83% per annum. During 2021 and 2020, Chesapeake incurred \$402,385 and \$952,682 of interest, respectively, for these loans. Chesapeake is required to maintain a collateral security deposit with the lender, whereby the fair value amount to be maintained must be at least equal to the amount of outstanding advances.

As of December 31, 2021 and 2020, the collateral pledged by Chesapeake to the FHLB was as follows:

|                   | Fair Value     | Admitted Value | Amount<br>Borrowed at<br>Time of<br>Maximum |
|-------------------|----------------|----------------|---------------------------------------------|
| December 31, 2021 | \$ 152,243,386 | \$ 141,627,647 | \$ 140,000,000                              |
| December 31, 2020 | 155,623,586    | 141,323,735    | 140,000,000                                 |

The following is the aggregate total of FHLB common stock owned by Chesapeake as of December 31:

|                                                           | 2021                | 2020                |
|-----------------------------------------------------------|---------------------|---------------------|
| Membership stock - Class B1 (not eligible for redemption) | \$ 1,214,400        | \$ 2,140,300        |
| Activity stock - Class B2                                 | 5,250,000           | 5,950,000           |
| Total                                                     | <u>\$ 6,464,400</u> | <u>\$ 8,090,300</u> |

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 6. Land, Building and Equipment

As of December 31, 2021 and 2020, real estate occupied by Chesapeake consisted of the following:

|                            | <u>2021</u>         | <u>2020</u>         |
|----------------------------|---------------------|---------------------|
| Land                       | \$ 1,335,400        | \$ 1,335,400        |
| Buildings and improvements | <u>14,206,861</u>   | <u>14,206,861</u>   |
|                            | 15,542,261          | 15,542,261          |
| Accumulated depreciation   | <u>(8,021,925)</u>  | <u>(7,784,803)</u>  |
|                            | <u>\$ 7,520,336</u> | <u>\$ 7,757,458</u> |

Depreciation expense related to real estate was \$237,121 for the years ended December 31, 2021 and 2020.

As of December 31, 2021 and 2020, EDP equipment consisted of the following:

|                               | <u>2021</u>         | <u>2020</u>         |
|-------------------------------|---------------------|---------------------|
| EDP equipment                 | \$ 6,121,923        | \$ 5,535,800        |
| Non-operating system software | 36,376,879          | 35,429,735          |
| Accumulated depreciation      | (26,863,982)        | (25,673,211)        |
| Non-admitted assets           | <u>(14,587,830)</u> | <u>(14,522,939)</u> |
| Total EDP equipment           | <u>\$ 1,046,990</u> | <u>\$ 769,385</u>   |

Depreciation expense related to EDP equipment and software was \$1,343,363 and \$1,214,689 for the years ended December 31, 2021 and 2020, respectively.

#### 7. Insurance Activity

Premium revenue includes premiums written directly by Chesapeake and assumed reinsurance, and is reported net of reinsurance ceded. Ceded reinsurance does not relieve Chesapeake from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in additional losses to Chesapeake. Management monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect of reinsurance assumed and ceded on net premiums earned for the years ended December 31, 2021 and 2020, is as follows:

|                     | <u>2021</u>           | <u>2020</u>           |
|---------------------|-----------------------|-----------------------|
| Direct premiums     | \$ 167,487,004        | \$ 185,638,014        |
| Reinsurance assumed | 8,574,925             | 9,019,385             |
| Reinsurance ceded   | <u>(7,125,960)</u>    | <u>(7,054,673)</u>    |
| Net premiums earned | <u>\$ 168,935,969</u> | <u>\$ 187,602,726</u> |

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 7. Insurance Activity (Continued)

The effect of reinsurance assumed and ceded on net premiums written for the years ended December 31, 2021 and 2020, is as follows:

|                      | <u>2021</u>           | <u>2020</u>           |
|----------------------|-----------------------|-----------------------|
| Direct premiums      | \$ 168,766,033        | \$ 171,860,633        |
| Reinsurance assumed  | 8,453,046             | 8,314,863             |
| Reinsurance ceded    | <u>(7,125,960)</u>    | <u>(7,054,673)</u>    |
| Net premiums written | <u>\$ 170,093,119</u> | <u>\$ 173,120,823</u> |

Chesapeake's ceded reinsurance arrangements resulted in a net decrease in losses and LAE incurred as of December 31, 2021 and 2020, respectively, as a result of a change in ceded reserves in the accompanying financial statements as follows:

|                                       | <u>2021</u>           | <u>2020</u>            |
|---------------------------------------|-----------------------|------------------------|
| Loss and loss expenses incurred ceded | <u>\$ (6,163,826)</u> | <u>\$ (11,374,882)</u> |
| Loss and loss expense reserves        | <u>\$ 50,804,000</u>  | <u>\$ 46,081,000</u>   |

As of December 31, 2021 and 2020, Chesapeake has pledged collateral in the amount of \$30,252,678 and \$31,550,435, respectively, for the benefit of two insurance companies for which it assumes reinsurance.

#### 8. Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses is computed in accordance with generally accepted actuarial practices and is based upon historical claims payment experience, loss development and other current factors, which in management's judgment require recognition in the calculation. During the actuarial analysis, a range of expected ultimate losses and related expenses is developed for Chesapeake to use in determining its recorded liability for unpaid losses and LAE.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 8. Loss and Loss Adjustment Expenses (Continued)

Activity in the liability for loss and LAE expenses for the years ended December 31, 2021 and 2020, is summarized as follows:

|                                               | <u>2021</u>                    | <u>2020</u>                    |
|-----------------------------------------------|--------------------------------|--------------------------------|
| Balance as of January 1                       | \$ 1,112,687,000               | \$ 1,155,320,000               |
| Incurred losses and loss expenses related to: |                                |                                |
| Current year                                  | 183,124,000                    | 168,991,000                    |
| Prior years                                   | <u>(55,044,767)</u>            | <u>(42,378,340)</u>            |
| Total incurred                                | <u>128,079,233</u>             | <u>126,612,660</u>             |
| <br>Paid losses and loss expenses related to: |                                |                                |
| Current year                                  | 24,350,523                     | 21,808,000                     |
| Prior years                                   | <u>124,299,710</u>             | <u>147,437,660</u>             |
| Total paid                                    | <u>148,650,233</u>             | <u>169,245,660</u>             |
| <br>Balance at December 31                    | <u><u>\$ 1,092,116,000</u></u> | <u><u>\$ 1,112,687,000</u></u> |

The estimated liability related to prior years decreased by approximately \$55 million in 2021, largely due to favorable development for accident years 2020 and prior. Total direct loss and LAE reserve favorable development on all prior accident years (prior to tabular discounts) was approximately \$60 million. This was offset by a reduction in tabular discounts for prior accident years of approximately \$5 million. The reduction in tabular reserves was primarily due to a reduction in claims eligible for discount (the indemnity portion of Permanent Total and Fatal Claims), and also to the aging of claimants, settlements and claim closings in general.

The estimated liability related to prior years decreased by approximately \$42 million in 2020, largely due to favorable development for accident years 2019 and prior. Total direct loss and LAE reserve favorable development on all prior accident years (prior to tabular discounts) was approximately \$45 million. This was offset by a reduction in tabular discounts for prior accident years of approximately \$3 million. The reduction in tabular reserves was primarily due to a reduction in claims eligible for discount (the indemnity portion of Permanent Total and Fatal Claims), and also to the aging of claimants, settlements and claim closings in general.

The reserve for losses and LAE have been discounted on a tabular basis using actuarial tables constructed from the United States Life Tables, 2018, as published by the Center for Disease Control, National Vital Statistics Reports, Volume 69, Number 12, at a discount rate of 2.90% in 2021 and 2020. The 2021 and 2020 reserves for loss and LAE include \$126,277,193 and \$136,374,728, respectively, that are eligible for discounting. The amount of discount for case and IBNR reserves at 2021 and 2020 is \$41,124,000 and \$45,657,666, respectively.

The estimated salvage and subrogation amounts deducted from the reserve for losses and LAE are \$10,174,000 and \$11,809,000 at December 31, 2021 and 2020, respectively.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **9. Third-Party Advance for Claims Processing**

Under a contract effective July 1, 1990, Chesapeake, prior to October 1, 2013, acted as administrator for certain State of Maryland workers' compensation claims. Monthly billings to the State of Maryland were based on actual claims paid on behalf of the state and a proportionate amount of administrative reinsurance expenses. After October 1, 2013, IWIF acts as the administrator. IWIF bills the State for the cost of claims and administrative expenses and then reimburses Chesapeake for their share of administrative reinsurance costs.

#### **10. Related Party Transactions**

As described in Note 1, Maryland Senate Bill 745 restructured IWIF, the insurance company, into a new company, Chesapeake, effective October 1, 2013, and maintained IWIF as a third party administrator for the State of Maryland. IWIF is a separate legal entity and is an instrumentality of the State. Employees who were employed by IWIF at September 30, 2013, could elect to remain IWIF employees in order to maintain their State benefits or could elect to become employees of the newly formed company, Chesapeake. Beginning in 2020, IWIF's Board of Directors consists of the State Treasurer or State Treasurer's designee and the two members of the Chesapeake board appointed by the governor. IWIF and Chesapeake also share management and the employees of the respective companies perform work on behalf of both organizations.

In 2018, Chesapeake established two wholly owned subsidiaries: Chesapeake Risk Solutions, Inc. (CRS) and iCubed. CRS provides third-party administration of risk management and workers' compensation claims handling services. There was no activity in CRS during 2021 or 2020. iCubed is a corporate venture capital subsidiary that was established to partner with other venture capital firms, incubators/accelerators, research institutions, and entrepreneurs to identify and invest in innovative insurance technologies.

Chesapeake provided IWIF with an interest-free advance of \$10 million in 2013 and an additional \$2.5 million in 2018. The remaining loan will be repaid to Chesapeake upon an amendment to the intercompany agreement or upon the termination of the contract with the State of Maryland. At December 31, 2021 and 2020, the remaining balance due from IWIF on this loan was \$12,500,000. Certain expenses and reimbursements for IWIF are processed by Chesapeake. IWIF charges an administrative fee to the State for work performed to administer the State claims and those fees are collected by IWIF and passed along to Chesapeake. For the years ended December 31, 2021 and 2020, IWIF recognized \$11,158,054 and \$12,019,089, respectively, for administrative expenses and shared reinsurance coverage associated with managing the State claims. For the years ended December 31, 2021 and 2020, IWIF reported \$1,076,107 and \$1,326,800, respectively, due to Chesapeake related to claims administration activity. Chesapeake receives reimbursements and recoveries for State medical claims on behalf of IWIF and offsets the amount due to them from IWIF for claim reimbursements. For the years ended December 31, 2021 and 2020, Chesapeake collected \$2,792,213 and \$4,846,612, respectively, on behalf of IWIF.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **11. Retirement and Pension Benefits**

Chesapeake made required contributions on behalf of former and current IWIF employees during the years ended December 31, 2021 and 2020, of \$518,279 and \$582,819, respectively, which represented approximately 3.8% and 3.9% of the covered payroll for each period. Prior to the restructuring of Chesapeake and IWIF, as noted in Note 1, IWIF contributed to the State Retirement and Pension System of Maryland (the System), established by the State of Maryland to provide pension benefits for state employees and employees of various other participating entities within the State. The System is an agent, multi-employer public employee retirement system, and Chesapeake accounted for the plan as such. The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans that are managed by the Board of Trustees for the System. All State employees and employees of the participating entities are covered by the System.

For employees who remained employees under the System, Chesapeake funds a 401(k) matching program that matches dollar for dollar contributions of up to 3% of an employee's compensation. The 401(k) plan is administered by the State of Maryland through a supplemental retirement program. During the years ended December 31, 2021 and 2020, Chesapeake contributed \$351,034 and \$376,596, respectively, as part of the 401(k) matching program.

For employees who chose to not remain an employee under the System and for all new employees, Chesapeake funds a 401(k) contribution plan in which employees can expect to receive a 3% safe harbor contribution and a 5% profit sharing employer contribution regardless of any voluntary contributions that the employee may make. Employees vest 20% annually over a five year period. During the years ended December 31, 2021 and 2020, Chesapeake contributed \$1,484,310 and \$1,519,156, respectively, as part of the 401(k) program.

#### **12. Appropriated Surplus**

In 2021 and 2020, Chesapeake reserved \$15,000,000 and \$22,000,000, respectively, for subsidiary ventures CRS and iCubed.

#### **13. Disclosures about Fair Value of Financial Instruments**

The methods and assumptions used to estimate the fair value of financial instruments as of December 31, 2021 and 2020 are described below:

*Cash and Short-term Investments:* The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

*Investment Securities:* See Notes 2 and 4 for information regarding the fair values of Chesapeake's investments.



## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **13. Disclosures about Fair Value of Financial Instruments (Continued)**

*Premium Receivable:* The carrying amounts reported in the accompanying balance sheets approximate their fair value, given the short-term nature.

*Borrowed Money:* The carrying value approximates fair value due to the fact that the borrowing program is limited only to members of the FHLB.

#### **14. Commitments and Contingencies**

Chesapeake is subject to various claims and litigation in the ordinary course of business. In the opinion of management, the ultimate outcome of these claims and litigation will not have material adverse effect on the financial position or operating results of Chesapeake.

Chesapeake has purchased annuities to facilitate structured settlements of claims for which the claimant is payee. Chesapeake may be contingently liable to the payee if the annuity issuer fails to fulfill its obligations. These annuities are for the settlement of indemnity claims and have durations of various lengths. The amount of such contingent liability at December 31, 2021 and 2020, is \$12,910,984 and \$15,350,075, respectively. The amount of reserves for loss and loss adjustment expenses removed from Chesapeake as a result of the purchased annuities is \$53,360,261 and \$63,606,022 at December 31, 2021 and 2020, respectively.

#### **15. Guaranty Fund Assessment and Premium Taxes**

The Maryland Guaranty Fund (Guaranty Fund) provides protection to claimants and policyholders for the payment of monies when an insurance carrier becomes insolvent. The Guaranty Fund can assess an insurance carrier up to 2% of their premiums in any particular year to provide money to the Guaranty Fund. During 2008, State of Maryland regulators performed an examination of Chesapeake under Chapter 567, Section 2 of laws of Maryland (Chapter 567 of the Acts of 2000) and concluded that Chesapeake qualified for membership in the Guaranty Fund on the basis of meeting solvency requirements. Chesapeake recorded a liability of \$0 and \$1,980,000 as of December 31, 2021 and 2020 respectively, for contributions. Chesapeake was notified in 2021 that there would be no payment necessary and thus removed the liability of \$1,980,000.

Chesapeake is also subject to a 2% premium tax to the State of Maryland. Chesapeake incurred premium tax expense of \$3,199,553 and \$3,223,317 for the years ended December 31, 2021 and 2020, respectively.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 16. Other Underwriting Expenses

The significant components of net other underwriting expenses incurred during 2021 and 2020 were as follows:

|                                                    | 2021                 | 2020                 |
|----------------------------------------------------|----------------------|----------------------|
| Salaries and related items                         | \$ 16,151,658        | \$ 17,314,016        |
| Taxes, licenses and fees                           | 2,018,413            | 3,992,058            |
| Employee relations and welfare                     | 3,304,468            | 3,269,069            |
| Advertising                                        | 2,274,077            | 2,044,639            |
| Postage and telephone                              | 941,800              | 768,527              |
| Rent and rent items                                | 772,557              | 770,101              |
| Legal and auditing                                 | 625,377              | 753,735              |
| Equipment                                          | 985,615              | 975,111              |
| Printing and stationery                            | 543,668              | 744,461              |
| Cost of depreciation of EDP equipment and software | 2,905,458            | 2,715,878            |
| Travel and travel related items                    | 150,141              | 168,719              |
| Directors' fees                                    | 23,725               | 213,222              |
| Other                                              | 1,680,774            | 1,411,232            |
| Insurance                                          | 492,959              | 434,647              |
| Board, bureaus and associations                    | 296,670              | 371,424              |
| Audit of assured's records                         | 157,689              | 174,000              |
| Other underwriting expenses incurred               | <u>\$ 33,325,049</u> | <u>\$ 36,120,839</u> |

#### 17. Surplus

The portion of surplus represented or reduced by each item below is as follows as of and for the year ended December 31, 2021:

|                               | Cumulative<br>Increase (Decrease)<br>in Surplus | Current Year<br>Increase (Decrease)<br>in Surplus |
|-------------------------------|-------------------------------------------------|---------------------------------------------------|
| Unrealized investment gains   | \$ 60,879,373                                   | \$ (23,455,252)                                   |
| Nonadmitted assets            |                                                 |                                                   |
| Premium receivable            | (20,827,024)                                    | (1,653,833)                                       |
| Non-operating system software | (7,479,808)                                     | 3,877,552                                         |
| Furniture & equipment         | (1,545,493)                                     | 102,058                                           |
| Prepaid expenses              | (2,042,284)                                     | 123,277                                           |
| Other asset                   | (2,125,689)                                     | 304,939                                           |
| Totals                        | <u>\$ 26,859,075</u>                            | <u>\$ (20,701,259)</u>                            |

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### 18. Annual Statement Reconciliation

There are no differences in surplus or net income as reported in these financial statements and Chesapeake's 2021 and 2020 Annual Statement as filed with the regulators.

#### 19. Restricted Assets

The following table discloses quantitative information about Chesapeake's restricted assets by category of restricted asset for the year ended December 31, 2021. Because Chesapeake is a property and casualty insurance company, it does not hold assets that would be required to be held in a separate account. Accordingly, no distinction is made between general account and separate account restricted assets in the following tables.

| Restricted Asset<br>Category                                 | Total Current<br>Year Admitted<br>Asset | Total Prior Year<br>Admitted Asset | Increase/<br>(Decrease) | Restricted to<br>Total Admitted<br>Assets |
|--------------------------------------------------------------|-----------------------------------------|------------------------------------|-------------------------|-------------------------------------------|
| FHLB capital stock                                           | \$ 6,464,400                            | \$ 8,090,300                       | \$ (1,625,900)          | 0 %                                       |
| On deposit with other<br>regulatory bodies                   | 1,200,281                               | 1,205,524                          | (5,243)                 | 0 %                                       |
| Pledged as collateral to<br>FHLB                             | 141,627,647                             | 141,323,735                        | 303,912                 | 6 %                                       |
| Pledged as collateral not<br>captured in other<br>categories | 30,252,678                              | 31,550,435                         | (1,297,757)             | 1 %                                       |
| Other restricted assets                                      | <u>79,716,206</u>                       | <u>70,265,246</u>                  | <u>9,450,960</u>        | <u>3 %</u>                                |
| Total restricted assets                                      | <u>\$ 259,261,212</u>                   | <u>\$ 252,435,240</u>              | <u>\$ 6,825,972</u>     | <u>10 %</u>                               |

As required by the Chesapeake's other states coverage agreements, Chesapeake has pledged assets as collateral which are classified as "pledged as collateral not captured in other categories." Chesapeake also has a Special Deposit with the Federal Reserve Bank of Philadelphia for United States Longshore and Harbor Claims and a certificate of authority deposit with the State of Maryland, which are classified as "on deposit with other regulatory bodies." In addition, Chesapeake maintains certain other assets, such as pledged collateral and capital stock of the Federal Home Loan Bank of Atlanta (FHLB), that is restricted in use. Unfunded investment commitments to limited partnerships and real estate trusts are also included in other restricted assets.

Chesapeake has other restricted assets pledged to Argonaut Insurance Company (Argonaut) and Zurich North America (Zurich) as part of a fronting arrangement for coverage provided in other states. The arrangements require a loss fund deposit. The Argonaut balance was \$24,438 and \$42,790 for the years ended December 31, 2021 and 2020, respectively. The amount held by Zurich was \$650,000 for the years ended December 31, 2021 and 2020.

## Chesapeake Employers' Insurance Company

### Notes to Statutory-Basis Financial Statements (Continued)

#### **20. Legislative Matters**

In April 2015, the Maryland General Assembly passed a new law (Chapter 36, Laws of Maryland), which has multiple provisions to be phased-in over several years. The significant provisions include: requiring Chesapeake to fully affiliate with the National Council on Compensation Insurance (NCCI) and file its rates using NCCI rules, policies, and loss costs; changing the board composition from a governor-appointed board to a board where the policyholders appoint seven of the nine board members; and gives Chesapeake the authority to establish, own or acquire a subsidiary which will allow Chesapeake to write workers' compensation policies in other states, and at that point Chesapeake would then be subject to federal income taxes. This phase-in will take several years, with policyholder elections beginning in 2020; federal tax liability in 2022; writing in other states in 2022 and full NCCI affiliation before January 1, 2023.

#### **21. Subsequent Events**

Subsequent to year end, Chesapeake agreed on an additional \$20,000,000 investment into iCubed. This will be invested at \$5,000,000 per year for four years beginning in July 2022.

## Supplementary Information



SUPPLEMENT FOR THE YEAR 2021 OF THE Chesapeake Employers' Insurance Company

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2021

(To Be Filed by April 1)

Of The Chesapeake Employers' Insurance Company .....  
Address (City, State and Zip Code) Towson, MD 21286-2235.....  
NAIC Group Code 0000.....NAIC Company Code 11039.....Employer's ID Number 46-1056754.....

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. \$ 2,512,331,699
2. Ten largest exposures to a single issuer/borrower/investment.

|      | <u>1</u>                               | <u>2</u>                       | <u>3</u>      | <u>4</u>                                   |
|------|----------------------------------------|--------------------------------|---------------|--------------------------------------------|
|      | <u>Issuer</u>                          | <u>Description of Exposure</u> | <u>Amount</u> | <u>Percentage of Total Admitted Assets</u> |
| 2.01 | JP MORGAN US GOVT CAPITAL SHS.....     | MMFund.....                    | \$ 66,608,596 | 2.7 %                                      |
| 2.02 | Southwest Airlines Co.....             | Bonds.....                     | \$ 31,001,217 | 1.2 %                                      |
| 2.03 | Pioneer Natural Resources Company..... | Bonds.....                     | \$ 19,887,618 | 0.8 %                                      |
| 2.04 | Booking Holdings Inc.....              | Bonds.....                     | \$ 18,690,352 | 0.7 %                                      |
| 2.05 | Ares Capital Corporation.....          | Bonds.....                     | \$ 17,635,308 | 0.7 %                                      |
| 2.06 | Euronet Worldwide, Inc.....            | Bonds.....                     | \$ 13,703,230 | 0.5 %                                      |
| 2.07 | Citigroup Inc.....                     | Bonds.....                     | \$ 13,523,136 | 0.5 %                                      |
| 2.08 | Expedia Group, Inc.....                | Bonds.....                     | \$ 13,503,094 | 0.5 %                                      |
| 2.09 | JPMorgan Chase & Co.....               | Bonds.....                     | \$ 12,989,234 | 0.5 %                                      |
| 2.10 | Illumina, Inc.....                     | Bonds.....                     | \$ 11,771,446 | 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 | \$ .....1,388,056,844 | .....55.2 % | 3.07 | P/RP-1           | \$ .....1,097,303 | .....0.0 % |
| 3.02 | NAIC 2 | \$ .....492,367,474   | .....19.6 % | 3.08 | P/RP-2           | \$ .....6,657,161 | .....0.3 % |
| 3.03 | NAIC 3 | \$ .....77,147,700    | .....3.1 %  | 3.09 | P/RP-3           | \$ .....          | ..... %    |
| 3.04 | NAIC 4 | \$ .....49,870,283    | .....2.0 %  | 3.10 | P/RP-4           | \$ .....          | ..... %    |
| 3.05 | NAIC 5 | \$ .....847,251       | .....0.0 %  | 3.11 | P/RP-5           | \$ .....          | ..... %    |
| 3.06 | NAIC 6 | \$ .....              | ..... %     | 3.12 | P/RP-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 \$ 256,601,235 10.2 %
- 4.03 Foreign-currency-denominated investments \$ %
- 4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

|       |                                                                                                                  |                         |                   |            |
|-------|------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|------------|
| 5.    | Aggregate foreign investment exposure categorized by NAIC sovereign designation:                                 |                         |                   |            |
|       |                                                                                                                  | <u>1</u>                | <u>2</u>          |            |
| 5.01  | Countries designated NAIC 1.....                                                                                 | \$ .....250,045,733     | .....10.0         | %          |
| 5.02  | Countries designated NAIC 2.....                                                                                 | \$ .....1,959,561       | .....0.1          | %          |
| 5.03  | Countries designated NAIC 3 or below.....                                                                        | \$ .....4,595,941       | .....0.2          | %          |
| 6.    | Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:        |                         |                   |            |
|       |                                                                                                                  | <u>1</u>                | <u>2</u>          |            |
|       | Countries designated NAIC 1:                                                                                     |                         |                   |            |
| 6.01  | Country 1: Cayman Islands.....                                                                                   | \$ .....172,321,623     | .....6.9          | %          |
| 6.02  | Country 2: Netherlands.....                                                                                      | \$ .....22,692,609      | .....0.9          | %          |
|       | Countries designated NAIC 2:                                                                                     |                         |                   |            |
| 6.03  | Country 1: Mexico.....                                                                                           | \$ .....1,162,946       | .....0.0          | %          |
| 6.04  | Country 2: Italy.....                                                                                            | \$ .....796,615         | .....0.0          | %          |
|       | Countries designated NAIC 3 or below:                                                                            |                         |                   |            |
| 6.05  | Country 1: Virgin Islands, British.....                                                                          | \$ .....2,996,991       | .....0.1          | %          |
| 6.06  | Country 2: Argentina.....                                                                                        | \$ .....865,673         | .....0.0          | %          |
| 7.    | Aggregate unhedged foreign currency exposure.....                                                                | <u>1</u>                | <u>2</u>          | %          |
| 8.    | Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:                          |                         |                   |            |
|       |                                                                                                                  | <u>1</u>                | <u>2</u>          |            |
| 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: |                         |                   |            |
|       |                                                                                                                  | <u>1</u>                | <u>2</u>          |            |
|       | 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:                                                |                         |                   |            |
|       | <u>1</u>                                                                                                         | <u>2</u>                | <u>3</u>          | <u>4</u>   |
|       | <u>Issuer</u>                                                                                                    | <u>NAIC Designation</u> |                   |            |
| 10.01 | Siemens Financieringsmaatschappij N.V.....                                                                       | 1FE.....                | \$ .....7,925,030 | .....0.3 % |
| 10.02 | Invesco Finance PLC.....                                                                                         | 2FE.....                | \$ .....5,053,424 | .....0.2 % |
| 10.03 | UBS Group Funding (Switzerland) AG.....                                                                          | 1FE.....                | \$ .....5,005,811 | .....0.2 % |
| 10.04 | Enel Finance International N.V.....                                                                              | 2FE.....                | \$ .....4,401,696 | .....0.2 % |
| 10.05 | Shell International Finance B.V.....                                                                             | 1FE.....                | \$ .....3,849,771 | .....0.2 % |
| 10.06 | Lcm 31 Ltd.....                                                                                                  | 1FE.....                | \$ .....3,710,000 | .....0.1 % |
| 10.07 | KKR CLO 32 Ltd.....                                                                                              | 1FE.....                | \$ .....3,600,000 | .....0.1 % |
| 10.08 | Montpelier Re Holdings Ltd.....                                                                                  | 1FE.....                | \$ .....3,508,232 | .....0.1 % |
| 10.09 | Galaxy XXVIII CLO, Ltd.....                                                                                      | 1FE, 2FE, 4FE.....      | \$ .....3,359,486 | .....0.1 % |
| 10.10 | Symphony CLO XXIV Ltd.....                                                                                       | 1FE.....                | \$ .....3,060,000 | .....0.1 % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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.

|                                                               | <u>1</u> | <u>2</u> |   |
|---------------------------------------------------------------|----------|----------|---|
| 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.

|                                                                                          | <u>1</u> | <u>2</u> | <u>3</u> |   |
|------------------------------------------------------------------------------------------|----------|----------|----------|---|
| 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 interest less than 2.5% of the reporting entity's total admitted assets?Yes [ ] No [X]  
If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

|                                                | <u>1</u><br>Issuer | <u>2</u>   | <u>3</u> |       |
|------------------------------------------------|--------------------|------------|----------|-------|
| 13.02 Easterly Government Properties, Inc..... | \$ .....           | 10,250,076 | .....    | 0.4 % |
| 13.03 FHLBank Atlanta.....                     | \$ .....           | 6,464,400  | .....    | 0.3 % |
| 13.04 Tandem Diabetes Care, Inc.....           | \$ .....           | 5,394,787  | .....    | 0.2 % |
| 13.05 Abiomed, Inc.....                        | \$ .....           | 5,303,863  | .....    | 0.2 % |
| 13.06 Bio-Techne Corporation.....              | \$ .....           | 5,228,238  | .....    | 0.2 % |
| 13.07 Masimo Corporation.....                  | \$ .....           | 4,938,027  | .....    | 0.2 % |
| 13.08 Cognex Corporation.....                  | \$ .....           | 4,937,138  | .....    | 0.2 % |
| 13.09 Repligen Corporation.....                | \$ .....           | 4,539,358  | .....    | 0.2 % |
| 13.10 Inogen, Inc.....                         | \$ .....           | 4,461,344  | .....    | 0.2 % |
| 13.11 Neogen Corporation.....                  | \$ .....           | 4,374,799  | .....    | 0.2 % |



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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 ☐ No ☒
- If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

|                                                                             | <u>1</u>                                                                                        | <u>2</u>           | <u>3</u> |   |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------|----------|---|
| 14.02                                                                       | Aggregate statement value of investments held in nonaffiliated, privately placed equities ..... | \$ .....81,706,875 | .....3.3 | % |
| Largest three investments held in nonaffiliated, privately placed equities: |                                                                                                 |                    |          |   |
| 14.03                                                                       | ValStone.....                                                                                   | \$ .....9,035,909  | .....0.4 | % |
| 14.04                                                                       | Neuberger Berman.....                                                                           | \$ .....7,810,114  | .....0.3 | % |
| 14.05                                                                       | DYAL CAPITAL PARTNERS IV LP.....                                                                | \$ .....7,670,805  | .....0.3 | % |

Ten largest fund managers:

|       | <u>1</u>                                                                           | <u>2</u>              | <u>3</u>           | <u>4</u>               |
|-------|------------------------------------------------------------------------------------|-----------------------|--------------------|------------------------|
|       | <u>Fund Manager</u>                                                                | <u>Total Invested</u> | <u>Diversified</u> | <u>Non-Diversified</u> |
| 14.06 | JP MORGAN US GOVT CAPITAL SHS.....                                                 | \$ .....66,608,596    | \$ .....66,608,596 | \$ .....               |
| 14.07 | Invesco Exchange-Traded Fund Trust II - Invesco Taxable<br>Municipal Bond ETF..... | \$ .....2,959,808     | \$ .....2,959,808  | \$ .....               |
| 14.08 | BlackRock Liquidity Funds - T-Fund.....                                            | \$ .....1,292,095     | \$ .....1,292,095  | \$ .....               |
| 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 ☒ No ☐
- If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

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

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 ☒ No ☐
- If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

|       | <u>1</u>                                            | <u>2</u> | <u>3</u> |   |
|-------|-----------------------------------------------------|----------|----------|---|
|       | <u>Type (Residential, Commercial, Agricultural)</u> |          |          |   |
| 16.02 | .....                                               | \$ ..... | .....    | % |
| 16.03 | .....                                               | \$ ..... | .....    | % |
| 16.04 | .....                                               | \$ ..... | .....    | % |
| 16.05 | .....                                               | \$ ..... | .....    | % |
| 16.06 | .....                                               | \$ ..... | .....    | % |
| 16.07 | .....                                               | \$ ..... | .....    | % |
| 16.08 | .....                                               | \$ ..... | .....    | % |
| 16.09 | .....                                               | \$ ..... | .....    | % |
| 16.10 | .....                                               | \$ ..... | .....    | % |
| 16.11 | .....                                               | \$ ..... | .....    | % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. 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 |          |
|---------------|------------|-------------|----------|------------|----------|--------------|----------|
|               |            | <u>1</u>    | <u>2</u> | <u>3</u>   | <u>4</u> | <u>5</u>     | <u>6</u> |
| 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 |          |          |
|-------|-------------|----------|----------|
|       | <u>1</u>    | <u>2</u> | <u>3</u> |
| 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.

|                                                                | <u>1</u>                                                                           | <u>2</u> | <u>3</u> |   |
|----------------------------------------------------------------|------------------------------------------------------------------------------------|----------|----------|---|
| 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                                                          | .....                                                                              | \$ ..... | .....    | % |

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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     |                            |                            |
|------------------------------------------------------------------------------------------------------------|-------------|----------|---|----------------------------|----------------------------|----------------------------|
|                                                                                                            | <u>1</u>    | <u>2</u> |   | <u>1st Qtr</u><br><u>3</u> | <u>2nd Qtr</u><br><u>4</u> | <u>3rd Qtr</u><br><u>5</u> |
| 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  |          |   |
|-------------------------------|----------|----------|---|----------|----------|---|
|                               | <u>1</u> | <u>2</u> |   | <u>3</u> | <u>4</u> |   |
| 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     |                            |                            |
|-------------------------------|-------------|----------|---|----------------------------|----------------------------|----------------------------|
|                               | <u>1</u>    | <u>2</u> |   | <u>1st Qtr</u><br><u>3</u> | <u>2nd Qtr</u><br><u>4</u> | <u>3rd Qtr</u><br><u>5</u> |
| 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     |                            |                            |
|-------------------------------|-------------|----------|---|----------------------------|----------------------------|----------------------------|
|                               | <u>1</u>    | <u>2</u> |   | <u>1st Qtr</u><br><u>3</u> | <u>2nd Qtr</u><br><u>4</u> | <u>3rd Qtr</u><br><u>5</u> |
| 23.01 Hedging .....           | \$ .....    | .....    | % | \$ .....                   | \$ .....                   | \$ .....                   |
| 23.02 Income generation ..... | \$ .....    | .....    | % | \$ .....                   | \$ .....                   | \$ .....                   |
| 23.03 Replications .....      | \$ .....    | .....    | % | \$ .....                   | \$ .....                   | \$ .....                   |
| 23.04 Other .....             | \$ .....    | .....    | % | \$ .....                   | \$ .....                   | \$ .....                   |

SUMMARY INVESTMENT SCHEDULE

| Investment Categories                                                                      | Gross Investment Holdings |                                | Admitted Assets as Reported in the Annual Statement |                                                 |                         |                                |
|--------------------------------------------------------------------------------------------|---------------------------|--------------------------------|-----------------------------------------------------|-------------------------------------------------|-------------------------|--------------------------------|
|                                                                                            | 1                         | 2                              | 3                                                   | 4                                               | 5                       | 6                              |
|                                                                                            | Amount                    | Percentage of Column 1 Line 13 | Amount                                              | Securities Lending Reinvested Collateral Amount | Total (Col. 3+4) Amount | Percentage of Column 5 Line 13 |
| 1. Long-Term Bonds (Schedule D, Part 1):                                                   |                           |                                |                                                     |                                                 |                         |                                |
| 1.01 U.S. governments .....                                                                | 93,212,255                | 3.836                          | 93,212,255                                          |                                                 | 93,212,255              | 3.836                          |
| 1.02 All other governments .....                                                           |                           |                                |                                                     |                                                 |                         |                                |
| 1.03 U.S. states, territories and possessions, etc. guaranteed .....                       | 14,161,231                | 0.583                          | 14,161,231                                          |                                                 | 14,161,231              | 0.583                          |
| 1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed ..... | 33,707,961                | 1.387                          | 33,707,961                                          |                                                 | 33,707,961              | 1.387                          |
| 1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed .....    | 438,891,438               | 18.064                         | 438,891,438                                         |                                                 | 438,891,438             | 18.064                         |
| 1.06 Industrial and miscellaneous .....                                                    | 1,424,049,821             | 58.610                         | 1,424,049,821                                       |                                                 | 1,424,049,821           | 58.610                         |
| 1.07 Hybrid securities .....                                                               | 597,006                   | 0.025                          | 597,006                                             |                                                 | 597,006                 | 0.025                          |
| 1.08 Parent, subsidiaries and affiliates .....                                             |                           |                                |                                                     |                                                 |                         |                                |
| 1.09 SVO identified funds .....                                                            | 2,959,808                 | 0.122                          | 2,959,808                                           |                                                 | 2,959,808               | 0.122                          |
| 1.10 Unaffiliated bank loans .....                                                         |                           |                                |                                                     |                                                 |                         |                                |
| 1.11 Total long-term bonds .....                                                           | 2,007,579,520             | 82.627                         | 2,007,579,520                                       |                                                 | 2,007,579,520           | 82.627                         |
| 2. Preferred stocks (Schedule D, Part 2, Section 1):                                       |                           |                                |                                                     |                                                 |                         |                                |
| 2.01 Industrial and miscellaneous (Unaffiliated) .....                                     | 7,754,464                 | 0.319                          | 7,754,464                                           |                                                 | 7,754,464               | 0.319                          |
| 2.02 Parent, subsidiaries and affiliates .....                                             |                           |                                |                                                     |                                                 |                         |                                |
| 2.03 Total preferred stocks .....                                                          | 7,754,464                 | 0.319                          | 7,754,464                                           |                                                 | 7,754,464               | 0.319                          |
| 3. Common stocks (Schedule D, Part 2, Section 2):                                          |                           |                                |                                                     |                                                 |                         |                                |
| 3.01 Industrial and miscellaneous Publicly traded (Unaffiliated) .....                     | 204,742,403               | 8.427                          | 204,742,403                                         |                                                 | 204,742,403             | 8.427                          |
| 3.02 Industrial and miscellaneous Other (Unaffiliated) .....                               |                           |                                |                                                     |                                                 |                         |                                |
| 3.03 Parent, subsidiaries and affiliates Publicly traded .....                             |                           |                                |                                                     |                                                 |                         |                                |
| 3.04 Parent, subsidiaries and affiliates Other .....                                       |                           |                                |                                                     |                                                 |                         |                                |
| 3.05 Mutual funds .....                                                                    |                           |                                |                                                     |                                                 |                         |                                |
| 3.06 Unit investment trusts .....                                                          |                           |                                |                                                     |                                                 |                         |                                |
| 3.07 Closed-end funds .....                                                                |                           |                                |                                                     |                                                 |                         |                                |
| 3.08 Total common stocks .....                                                             | 204,742,403               | 8.427                          | 204,742,403                                         |                                                 | 204,742,403             | 8.427                          |
| 4. Mortgage loans (Schedule B):                                                            |                           |                                |                                                     |                                                 |                         |                                |
| 4.01 Farm mortgages .....                                                                  |                           |                                |                                                     |                                                 |                         |                                |
| 4.02 Residential mortgages .....                                                           |                           |                                |                                                     |                                                 |                         |                                |
| 4.03 Commercial mortgages .....                                                            |                           |                                |                                                     |                                                 |                         |                                |
| 4.04 Mezzanine real estate loans .....                                                     |                           |                                |                                                     |                                                 |                         |                                |
| 4.05 Total valuation allowance .....                                                       |                           |                                |                                                     |                                                 |                         |                                |
| 4.06 Total mortgage loans .....                                                            |                           |                                |                                                     |                                                 |                         |                                |
| 5. Real estate (Schedule A):                                                               |                           |                                |                                                     |                                                 |                         |                                |
| 5.01 Properties occupied by company .....                                                  | 7,520,337                 | 0.310                          | 7,520,337                                           |                                                 | 7,520,337               | 0.310                          |
| 5.02 Properties held for production of income .....                                        |                           |                                |                                                     |                                                 |                         |                                |
| 5.03 Properties held for sale .....                                                        |                           |                                |                                                     |                                                 |                         |                                |
| 5.04 Total real estate .....                                                               | 7,520,337                 | 0.310                          | 7,520,337                                           |                                                 | 7,520,337               | 0.310                          |
| 6. Cash, cash equivalents and short-term investments:                                      |                           |                                |                                                     |                                                 |                         |                                |
| 6.01 Cash (Schedule E, Part 1) .....                                                       | 17,156,257                | 0.706                          | 17,156,257                                          |                                                 | 17,156,257              | 0.706                          |
| 6.02 Cash equivalents (Schedule E, Part 2) .....                                           | 68,381,581                | 2.814                          | 68,381,581                                          |                                                 | 68,381,581              | 2.814                          |
| 6.03 Short-term investments (Schedule DA) .....                                            | 229,143                   | 0.009                          | 229,143                                             |                                                 | 229,143                 | 0.009                          |
| 6.04 Total cash, cash equivalents and short-term investments .....                         | 85,766,981                | 3.530                          | 85,766,981                                          |                                                 | 85,766,981              | 3.530                          |
| 7. Contract loans .....                                                                    |                           |                                |                                                     |                                                 |                         |                                |
| 8. Derivatives (Schedule DB) .....                                                         |                           |                                |                                                     |                                                 |                         |                                |
| 9. Other invested assets (Schedule BA) .....                                               | 107,245,467               | 4.414                          | 107,245,467                                         |                                                 | 107,245,467             | 4.414                          |
| 10. Receivables for securities .....                                                       | 9,091,094                 | 0.374                          | 9,091,094                                           |                                                 | 9,091,094               | 0.374                          |
| 11. Securities Lending (Schedule DL, Part 1) .....                                         |                           |                                |                                                     | XXX                                             | XXX                     | XXX                            |
| 12. Other invested assets (Page 2, Line 11) .....                                          |                           |                                |                                                     |                                                 |                         |                                |
| 13. Total invested assets                                                                  | 2,429,700,265             | 100.000                        | 2,429,700,265                                       |                                                 | 2,429,700,265           | 100.000                        |

Chesapeake Employers Insurance Company

Reinsurance Summary Supplemental Filing

December 31, 2021

As of December 31, 2021, Chesapeake's reinsurance program does not include any contracts with risk limiting features identified in paragraphs 114 through 119 of Statement of Statutory Accounting Principles No. 62R, *Property and Casualty Reinsurance*.