

**PENNSYLVANIA PROFESSIONAL LIABILITY
JOINT UNDERWRITING ASSOCIATION**

Statutory Basis Financial Statements,
Independent Auditors' Report and
Supplemental Schedules

For the years ended December 31, 2008 and 2007

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Table of Contents

For the years ended December 31, 2008 and 2007

	<u>Page(s)</u>
Independent Auditors' Report	1
Statutory Basis Financial Statements:	
Statutory Basis Statements of Admitted Assets, Liabilities and Surplus	2
Statutory Basis Statements of Operations and Changes in Subscribers' Surplus	3
Statutory Basis Statements of Cash Flows	4
Notes to Statutory Basis Financial Statements	5 – 10
Supplemental Schedules:	
Investment Risk Interrogatories	11
Summary Investment Schedule	12
Reinsurance Interrogatories	13 – 14



S M A R T
AND ASSOCIATES, LLP

Independent Auditors' Report

To the Board of Directors of
Pennsylvania Professional Liability Joint Underwriting Association

We have audited the accompanying statutory statement of admitted assets, liabilities and surplus of Pennsylvania Professional Liability Joint Underwriting Association (the "Association") as of December 31, 2008 and 2007, and the related statutory statements of operations and changes in surplus, and cash flows for the years then ended. These statutory financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these statutory financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2, the accompanying statutory financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Association as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our audits were made for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule, Investment Risk Interrogatories and Reinsurance Interrogatories of the Association as of December 31, 2008 and for the year then ended are presented to comply with the National Association of Insurance Commissions' Accounting Practices and Procedures manual and is not a required part of the basic statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, are fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the board of directors and the management of the Association and for filing with the Insurance Department of the Commonwealth of Pennsylvania and is not intended to be and should not be used by anyone other than these specified parties.

Smart and Associates, LLP

March 30, 2009

SMART and Associates, LLP
Certified Public Accountants

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PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus

As of December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ADMITTED ASSETS		
Bonds at NAIC Carrying Value (fair value \$231,495,627 and \$232,729,773, respectively)	\$ 238,226,917	\$ 231,487,503
Cash and cash equivalents	<u>7,205,886</u>	<u>10,023,702</u>
Total cash and invested assets	245,432,803	241,511,205
Premiums receivable	669,591	1,079,783
Accrued investment income	2,144,591	2,324,936
Other assets	<u>6,168</u>	<u>7,116</u>
Total admitted assets	<u><u>\$ 248,253,153</u></u>	<u><u>\$ 244,923,040</u></u>
LIABILITIES AND SURPLUS		
Liabilities:		
Unpaid losses	\$ 80,329,958	\$ 98,950,723
Unpaid loss adjustment expenses	22,238,676	23,650,104
Unearned premiums	4,748,710	6,916,035
Advanced premiums	2,648,427	4,198,889
Accrued taxes, licenses and fees and other expenses	166,899	205,401
Amounts withheld for the account of others	<u>171,888</u>	<u>183,047</u>
Total liabilities	<u>110,304,558</u>	<u>134,104,199</u>
Commitments and contingencies	-	-
Surplus:		
Unappropriated	134,948,595	107,818,841
Appropriated	<u>3,000,000</u>	<u>3,000,000</u>
Total surplus	<u>137,948,595</u>	<u>110,818,841</u>
Total liabilities and surplus	<u><u>\$ 248,253,153</u></u>	<u><u>\$ 244,923,040</u></u>

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

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Statutory Basis Statements of Operations and Changes in Subscribers' Surplus

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Premiums earned	\$ 16,132,924	\$ 24,923,512
Losses	(6,447,767)	1,963,337
Loss adjustment expenses	4,862,365	4,888,371
Change in premium deficiency reserve	-	(108,251)
Underwriting expenses	<u>1,487,849</u>	<u>2,034,528</u>
Total losses and expenses	<u>(97,553)</u>	<u>8,777,985</u>
Underwriting gain	16,230,477	16,145,527
Net investment income	12,291,139	11,136,487
Net realized (loss) gain on investments	(1,363,341)	20,611
Service fees	<u>75,237</u>	<u>126,116</u>
Net income	27,233,512	27,428,741
Surplus, beginning of year	110,818,841	83,351,088
Unrealized loss on investments	(35,941)	-
(Increase) decrease in nonadmitted assets	<u>(67,817)</u>	<u>39,012</u>
Surplus, end of year	<u><u>\$ 137,948,595</u></u>	<u><u>\$ 110,818,841</u></u>

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

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Statutory Basis Statements of Cash Flows
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Premiums collected	\$ 12,825,329	\$ 21,544,531
Benefit and loss related payments	(18,515,606)	(9,706,206)
Commissions, expenses paid and aggregate write-in for deductions	(7,808,798)	(7,296,746)
Service fees collected	75,237	126,116
Investment income proceeds, net of investment expenses	<u>12,640,271</u>	<u>11,658,879</u>
Net cash from operating activities	<u>(783,567)</u>	<u>16,326,574</u>
Cash flows from investing activities:		
Proceeds from bonds sold, matured or repaid	77,052,666	59,014,381
Miscellaneous proceeds	1,399,281	-
Cost of bonds acquired	<u>(85,357,663)</u>	<u>(72,226,913)</u>
Net cash from investing activities	<u>(6,905,716)</u>	<u>(13,212,532)</u>
Cash flows from financing and miscellaneous sources:		
Other cash provided (applied)	<u>4,871,467</u>	<u>(25,273)</u>
Net cash from financing and miscellaneous activities	<u>4,871,467</u>	<u>(25,273)</u>
Net (decrease) increase in cash and cash equivalents	(2,817,816)	3,088,769
Cash and cash equivalents, beginning of year	<u>10,023,702</u>	<u>6,934,933</u>
Cash and cash equivalents, end of year	<u>\$ 7,205,886</u>	<u>\$ 10,023,702</u>

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

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements
For the years ended December 31, 2008 and 2007

1. Business and Organization:

The Pennsylvania Professional Liability Joint Underwriting Association (the “Association”) is a non-profit, unincorporated association established pursuant to Subsection C of the Medical Care Availability and Reduction of Error Act (“The Act”) to offer medical professional liability insurance covering the provision of health care services in the Commonwealth of Pennsylvania in accordance with Section 732 of The Act. Primary coverage is made available by the Association to those individuals and entities that qualify for such coverage from the Association under Section 732 of The Act.

The Insurance Commissioner of Pennsylvania (the “Commissioner”) approved the Association’s Plan of Operations on December 30, 1975. This plan was amended, restated and approved by the Pennsylvania Insurance Department on April 10, 2005. The Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The Association prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania (the “Department”). Effective January 1, 2001, the Commonwealth of Pennsylvania required that insurance companies domiciled in the Commonwealth of Pennsylvania prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (“NAIC”) Accounting Practices and Procedures Manual – Version effective January 1, 2001 (the “NAIC Manual”) subject to any deviations prescribed or permitted by the Commissioner. Practices under the NAIC Manual vary from accounting principles generally accepted in the United States of America (“GAAP”) primarily with respect to the initial deferral of policy acquisition costs and the accounting for investments in bonds.

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

Investments:

Investments are stated at NAIC Carrying Value, which requires that bonds, so qualified, be carried at amortized cost, and other bonds at fair values as established by the NAIC. The Association periodically evaluates its investments for other than temporary impairment. At the time an investment is determined to be other than temporarily impaired, the Association records a realized loss in the statutory statements of operations. Any subsequent increase in the investment’s market value would be reported as an unrealized gain.

Cash and Cash Equivalents:

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements, continued

For the years ended December 31, 2008 and 2007

2. Summary of Significant Accounting Policies, continued:

Unearned Premiums:

Unearned premiums represent the pro rata portion of premiums written which are applicable to the unexpired terms of the policies in force as of the reporting date.

Advanced Premiums:

Advanced premiums represent monies collected by the Association for premiums which are applicable to policies which have an inception date subsequent to the reporting period date.

Premium Deficiency:

A premium deficiency is generally established if the sum of expected loss and loss adjustment expenses and maintenance costs exceed the related unearned premium or advance premiums. The Association includes anticipated future net investment income in the analysis of the necessity of such deficiency reserve, as management believes that the inclusion of anticipated future net investment income into the analysis more accurately represents the true ultimate underwriting gain or loss on the policies underwritten. Accordingly, the Association did not recognize a premium deficiency as of December 31, 2008 and 2007, respectively.

Unpaid Losses and Loss Adjustment Expenses:

The reserve for loss and loss adjustment expenses, which include estimates for losses incurred but not reported are determined using actuarial methods with calculations based on current claim evaluations, historical experience of the Association, and, to a lesser extent, historical experience of other medical malpractice insurers in Pennsylvania.

Management continually reviews and updates its methods of making loss and loss adjustment expense reserve estimates and believes that such reserves at December 31, 2008 and 2007 are the Association's best estimate to cover the ultimate cost of claims and settlement costs. However, such liability is necessarily based on estimates of future rates of inflation and other factors; accordingly, there is no absolute assurance that the ultimate liability may not exceed such estimates. The methods of making such estimates and establishing the resulting liabilities are continually reviewed and updated and any resulting adjustments are reflected in operations in the current period.

Policy Limits:

The Association's maximum liability for a single claim on each policy is as follows:

January 1, 2001 to present	\$500,000
January 1, 1999 to December 31, 2000	400,000
January 1, 1997 to December 31, 1998	300,000
January 1, 1984 to December 31, 1996	200,000
January 1, 1983 to December 31, 1983	150,000
Prior to January 1, 1983	100,000

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements, continued

For the years ended December 31, 2008 and 2007

2. Summary of Significant Accounting Policies, continued:

Policy Limits, continued:

Subject otherwise to statutory provisions, claim amounts in excess of the above policy limits are the liability of the Medical Professional Liability Catastrophe Loss Fund (“MCARE”) to a maximum of the following limits:

January 1, 2005 to present	\$ 500,000
January 1, 2001 to December 31, 2004	700,000
January 1, 2000 to December 31, 2000	800,000
January 1, 1997 to December 31, 1999	900,000
Prior to January 1, 1997	1,000,000

MCARE was created by an act of the Pennsylvania General Assembly (P.L. 154, Act No. 13) (the “Act”) on March 20, 2002. Its purpose is to provide and administer sources of funds to pay judgments, awards or settlements in medical malpractice claims against participating healthcare providers, whose primary limits of coverage provided by its primary professional liability insurance policies are less than the final judgments, awards, or settlements. The Act imposes mandatory assessments on health care providers as defined in the Act. These assessments are required to be billed, collected, and remitted to MCARE by the direct writing medical malpractice insurer. As such, amounts determined to be owed to MCARE, billed, and collected but not yet paid to MCARE by the Association are shown as amounts withheld for the account of others in the accompanying statutory financial statements.

3. Investments:

The amortized cost and estimated fair value of investments are as follows:

	2008			
	NAIC Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity securities:				
U.S. government and agency bonds	\$ 10,648,634	\$ 806,741	\$ -	\$ 11,455,375
State government obligations	10,773,861	272,476	(84,111)	10,962,226
Corporate and other bonds	87,260,666	737,071	(3,748,847)	84,248,890
Mortgage-backed securities	129,543,756	2,445,826	(7,160,446)	124,829,136
Total investments	<u>\$ 238,226,917</u>	<u>\$ 4,262,114</u>	<u>\$ (10,993,404)</u>	<u>\$ 231,495,627</u>

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements, continued

For the years ended December 31, 2008 and 2007

3. Investments, continued:

	2007			
	NAIC Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed-maturity securities:				
U.S. government and agency bonds	\$ 47,664,045	\$ 780,414	\$ (9,054)	\$ 48,435,405
Corporate and other bonds	92,142,209	1,018,917	(1,012,094)	92,149,032
Mortgage-backed securities	91,681,247	931,031	(466,942)	92,145,336
 Total investments	 <u>\$ 231,487,501</u>	 <u>\$ 2,730,362</u>	 <u>\$ (1,488,090)</u>	 <u>\$ 232,729,773</u>

The amortized cost and fair value of fixed maturities are shown by contractual maturity as of December 31, 2008. Expected maturities could differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	NAIC Carrying Value	Fair Value
Due to mature:		
One year or less	\$ 7,400,478	\$ 7,490,042
Over one year through five years	55,584,985	54,135,685
Over five years through ten years	37,135,172	36,874,851
Over ten years	8,562,526	8,165,913
Mortgage-backed securities	129,543,756	124,829,136
 Total fixed maturities	 <u>\$ 238,226,917</u>	 <u>\$ 231,495,627</u>

Gross realized gains on investments were \$766,237 and \$196,296 for the years ended December 31, 2008 and 2007, respectively. Gross realized losses on investments were \$2,129,578 and \$175,685 for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008, the Association had gross unrealized losses of \$10,993,404, primarily caused by the overall decline in the U.S. housing and credit markets. As of December 31, 2008, the Association's investments in bonds which had unrealized losses by length of time the investments had been in an unrealized loss position are as follows:

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements, continued

For the years ended December 31, 2008 and 2007

3. Investments, continued:

	NAIC Carrying Value	Fair Value	Unrealized Loss
Less than 12 months	\$ 70,898,938	\$ 64,329,671	\$ (6,569,267)
Greater than 12 months	36,594,201	32,170,064	(4,424,137)
Total	<u>\$ 107,493,139</u>	<u>\$ 96,499,735</u>	<u>\$ (10,993,404)</u>

120 securities currently have unrealized losses. The Association considers both quantitative and qualitative factors when evaluating individual securities for other-than-temporary impairment, including but not limited to the amount and length of time a security is in an unrealized loss position, general credit quality of the issuer including third party credit ratings, and any current or anticipated adverse changes in estimated cash flows. As a result of this ongoing analysis, the Association recognized other-than-temporary impairments of \$1,287,692 for the year ended December 31, 2008, which is included in realized losses on the accompanying statement of operations. Based on the above factors and because the Association has the intent and ability to hold the remainder of these investments until a market price recovery, which may be maturity, the Association does not consider the remainder of these investments to be other-than-temporarily impaired at December 31, 2008.

4. Unpaid Losses:

Activity in the reserve for unpaid losses and loss adjustment expenses is summarized as follows:

	2008	2007
Balance at January 1	<u>\$ 122,600,827</u>	<u>\$ 130,834,426</u>
Net incurred related to:		
Current year	20,829,789	26,585,335
Prior years	<u>(22,415,191)</u>	<u>(19,733,627)</u>
Total net incurred	<u>(1,585,402)</u>	<u>6,851,708</u>
Net paid related to:		
Current period	215,292	261,085
Prior period	<u>18,231,499</u>	<u>14,824,222</u>
Total net paid	<u>18,446,791</u>	<u>15,085,307</u>
Balance at December 31	<u><u>\$ 102,568,634</u></u>	<u><u>\$ 122,600,827</u></u>

As a result of changes in estimates of insured events of prior years, the Association decreased losses and loss adjustment expenses incurred by \$22,415,191 and \$19,733,627 in 2008 and 2007, respectively, due to a combination of lower than expected claim frequency, several favorable indemnity loss settlements, and lower than expected changes in indemnity loss case reserves on open claims.

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Notes to Statutory Basis Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Leases:

The Association entered into a lease agreement on October 1, 2005. The lease agreement expires in 2011 and is subject to a renewal option at market rates prevailing at the time of renewal. At December 31, 2008, future minimum rent payments under this non-cancelable lease are as follows:

2009	\$	105,377
2010		107,723
2011		82,112
	\$	<u>295,212</u>

Rent expense was \$105,917 and \$105,051 for 2008 and 2007, respectively.

6. Retirement Plan:

The Association sponsors a defined contribution retirement plan (“Retirement Plan”) designed to provide benefits upon retirement, disability, death or termination of employment. The Retirement Plan requires the Association to contribute 3% of the respective participant’s compensation under the safe harbor provision. An employee receives the Safe Harbor Non-Elective Contribution beginning on the first day of the month following the 90th day after the employee begins working for the Association. The employee becomes eligible to participate in the Association’s Profit Sharing Contributions after completing one year of service or one thousand hours of service prior to the date of the annual eligibility computation. Participants are fully vested after completing three years of service with the Association or upon attaining age 65, death or disability. The Association contributed \$62,164 and \$15,468 to the Retirement Plan during the years ended December 31, 2008 and 2007, respectively.

7. Surplus:

Under the Pennsylvania Medical Care Availability and Reduction of Error Act (the “Act”), in any calendar year in which the Association experiences a deficit, the Association is required to file the deficit with the Commissioner for approval. A deficit is defined in the Act as the amount, if any, of the net loss which exceeds the sum of earned premiums and investment income.

In such event, and with the Commissioner’s approval of the deficit, the Association is authorized to borrow funds sufficient to satisfy the deficit. Additionally, the Association will file a rate filing with the Department in order to generate sufficient income for the Association to avoid a deficit during the following 12 month period and to repay any principal and interest on any money borrowed.

8. Appropriated Surplus:

The Association has voluntarily appropriated \$3 million of surplus as of December 31, 2008 and 2007, for contingencies related to the indemnification of the Association and its officers and directors from any liability from claims against them which may arise in the future.

9. Commitment and Contingencies:

The Association is involved in legal proceedings, which arise in the ordinary course of business. In the opinion of management, the ultimate liability with respect to these legal proceedings will not have a material effect on the results of operations or financial position of the Association.

SUPPLEMENTAL SCHEDULES

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Investment Risk Interrogatories

December 31, 2008

Supplemental Investment Disclosures:

Provided below are management's responses to the Investment Risk Interrogatories and Summary Investment Schedule required by NAIC Statutory Accounting Principles. Questions and categories not applicable to the Association have not been included below.

Investment Risks Interrogatories:

The Association's total admitted assets as of December 31, 2008 are: \$ 248,253,153

The Association's ten largest exposures to a single issuer, based upon statement value, excluding U.S. Government, U.S. Government agency securities and U.S. Government money market funds, listed by investment category, are as follows:

Issuer	Description of Exposure	Statement Value	Percentage of Total Admitted Assets
Bank of America	Corporate	\$ 5,066,165	2.04%
AT&T Inc.	Corporate	4,158,849	1.68%
Wachovia Bank	Corporate	3,256,862	1.31%
LB-UBS Commercial Mortgage Trust	Mortgage-backed security	2,968,878	1.20%
Bank of America Commercial Mortgage Trust	Mortgage-backed security	2,925,175	1.18%
Greenwich Capital	Mortgage-backed security	2,851,424	1.15%
Citibank Credit Card Issuance	Asset-backed security	2,498,689	1.01%
General Electric Capital Corp	Corporate	2,457,252	0.99%
Pepsi Bottling Group Inc	Corporate	2,385,653	0.96%
Nomura Asset Securities Corp	Mortgage-backed security	2,181,616	0.88%

The Association's amounts and percentages of total admitted assets held in bonds by NAIC rating categories are as follows:

NAIC Rating	Amount	Percentage
NAIC-1	\$ 229,770,749	92.6%
NAIC-2	15,691,367	6.3%
NAIC-3	-	0.0%
NAIC-4	-	0.0%
NAIC-5	81,214	0.0%
NAIC-6	667,603	0.3%

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Summary Investment Schedule

December 31, 2008

Investment Categories	Gross Investment Holdings		Admitted Asset	
	Amount	Percentage	Value	Percentage
U.S. Treasury securities	\$ 2,748,364	1.12%	\$ 2,748,364	1.12%
U.S. government agency obligations:				
Issued by U.S. government sponsored agencies	7,900,270	3.22%	7,900,270	3.22%
Securities issued by states, territories, and possessions and political subdivisions of the U.S.:				
States, territories and possessions	2,260,000	0.92%	2,260,000	0.92%
Revenue and assessment obligations	8,513,861	3.47%	8,513,861	3.47%
Corporate and other bonds	87,260,666	35.55%	87,260,666	35.55%
Mortgage-backed securities:				
Pass-through securities:				
Guaranteed by GNMA	226,401	0.09%	226,401	0.09%
Issued or guaranteed by FNMA and FHLMC	58,681,564	23.91%	58,681,564	23.91%
All other MBS	7,900,946	3.22%	7,900,946	3.22%
CMOs and REMICs:				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	20,858,947	8.50%	20,858,947	8.50%
All other MBS	41,875,898	17.06%	41,875,898	17.06%
Cash and cash equivalents	7,205,886	2.94%	7,205,886	2.94%
	<u>\$ 245,432,803</u>	<u>100.00%</u>	<u>\$ 245,432,803</u>	<u>100.00%</u>

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Reinsurance Interrogatories
December 31, 2008 and 2007

Provided below are management's responses to certain reinsurance interrogatories required by NAIC Statutory Accounting Principles:

Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes () No (X)

Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- (a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- (c) Aggregate stop loss reinsurance coverage;
- (d) A unilateral right by either or both parties to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes () No (X)

Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member, where:

- (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
- (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes () No (X)

PENNSYLVANIA PROFESSIONAL LIABILITY JOINT UNDERWRITING ASSOCIATION

Reinsurance Interrogatories, continued

December 31, 2008 and 2007

Except for transactions meeting the requirements of paragraph 30 of SSAP No. 62—Property and Casualty Reinsurance, disclose if the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

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

Yes () No (X)