




Pennsylvania Professional Liability Joint Underwriting Association

Statutory Financial Statements and Supplementary Information

December 31, 2024 and 2023



Pennsylvania Professional Liability Joint Underwriting Association
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December 31, 2024 and 2023

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Independent Auditor's Report

Board of Directors
Pennsylvania Professional Liability Joint Underwriting Association
Dresher, PA

Opinion

We have audited the accompanying statutory financial statements of Pennsylvania Professional Liability Joint Underwriting Association (the Association), which comprise the statutory statement of admitted assets, liabilities, and surplus as of December 31, 2024, and the related statutory statements of income and changes in surplus, and cash flows for the year then ended, and the related notes to the statutory financial statements.

In our opinion, the accompanying statutory financial statements present fairly, in all material respects, the statutory financial position of the Association as of December 31, 2024, and the statutory results of its operations and its cash flow for the year then ended in accordance with the basis of accounting described in Note 2.

Basis for Opinion

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

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 of the statutory financial statements, which describes the basis of accounting. As described in Note 2 to the statutory financial statements, the statutory financial statements are prepared by the Association in accordance with the accounting practices prescribed or permitted by the Insurance Department of the Commonwealth of Pennsylvania (the Insurance Department), which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Pennsylvania's statutes. As a result, the statutory financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Prior Period Audited by Other Auditors

The financial statements of the Association as of December 31, 2023, were audited by other auditors whose report dated May 20, 2024, expressed an unmodified opinion on those statements in accordance with accounting practices prescribed or permitted by the Insurance Department.

Responsibilities of Management for the Statutory Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

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

Report on Supplementary Information

Our 2024 audit was conducted for the purpose of forming an opinion on the 2024 statutory financial statements as a whole. The statutory financial statements were prepared on the basis of accounting practices prescribed or permitted by the Insurance Department. The accompanying supplemental schedules as of and for the year ended December 31, 2024, listed in the table of contents are presented for the purpose of complying with the National Association of Insurance Commissioners' *Instructions to Annual Audited Financial Reports* and the National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* and are presented for purposes of additional analysis and are not a required part of the 2024 statutory financial statements. 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 2024 statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2024 statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2024 statutory financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors, management of the Association, and the Insurance Department and is not intended to be and should not be used by anyone other than these specified parties.

Forvis Mazars, LLP

**Fort Washington, PA
May 22, 2025**

Pennsylvania Professional Liability Joint Underwriting Association

Statutory Statements of Admitted Assets, Liabilities, and Surplus December 31, 2024 and 2023

	2024	2023
Admitted Assets		
Bonds	\$ 366,532,065	\$ 361,802,051
Common stock	1,116	3,707
Cash and cash equivalents	10,265,687	5,219,126
Other invested assets	1,231,765	1,231,829
Total cash and invested assets	378,030,633	368,256,713
Premiums receivable	520,389	338,596
Accrued investment income	2,466,310	2,460,442
Other assets	5,227	12,494
Total admitted assets	<u>\$ 381,022,559</u>	<u>\$ 371,068,245</u>
Liabilities and Surplus		
Liabilities		
Unpaid losses	\$ 23,384,658	\$ 19,259,644
Unpaid loss adjustment expenses	6,796,979	6,756,700
Unearned premiums	1,927,665	1,424,403
Advanced premiums	590,032	1,306,289
Accrued taxes, licenses and fees and other expenses	372,523	308,955
Amounts withheld for the account of others	66,082	43,258
Total liabilities	33,137,939	29,099,249
Surplus		
Unappropriated	344,884,620	338,968,996
Appropriated	3,000,000	3,000,000
Total surplus	347,884,620	341,968,996
Total liabilities and surplus	<u>\$ 381,022,559</u>	<u>\$ 371,068,245</u>

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

Pennsylvania Professional Liability Joint Underwriting Association

Statutory Statements of Income and Changes in Surplus Years Ended December 31, 2024 and 2023

	2024	2023
Premiums earned	\$ 7,046,233	\$ 5,960,494
Expenses:		
Losses incurred	8,487,349	3,228,682
Loss adjustment expenses incurred	2,273,105	1,281,019
Underwriting expenses	1,375,722	1,540,230
Total expenses	12,136,176	6,049,931
Underwriting loss	(5,089,943)	(89,437)
Net investment income	12,228,274	10,813,938
Net realized loss on investments	(1,278,695)	(1,408,889)
Service fees	47,570	14,354
Net income	5,907,206	9,329,966
Surplus, beginning of year	341,968,996	332,112,726
Unrealized (loss) gain on investments	(277)	447,644
Decrease in nonadmitted assets	8,695	78,660
Surplus, end of year	\$ 347,884,620	\$ 341,968,996

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

Pennsylvania Professional Liability Joint Underwriting Association

Statutory Statements of Cash Flows Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Premiums collected	\$ 6,651,446	\$ 6,006,792
Benefit and loss related payments	4,125,014	363,432
Commissions, expenses paid and aggregate write-in for deductions	(3,766,446)	(3,095,634)
Service fees collected	47,569	14,354
Investment income proceeds, net of investment expenses	12,485,823	11,003,990
Net cash from operating activities	19,543,406	14,292,934
Cash flows from investing activities:		
Proceeds from bonds sold, matured or repaid	104,869,382	56,711,622
Proceeds from stocks sold	662,622	-
Cost of bonds acquired	(111,139,741)	(67,410,861)
Cost of stocks acquired	(632,000)	-
Miscellaneous proceeds	-	60,834
Net cash used in investing activities	(6,239,737)	(10,638,405)
Cash flows from financing and miscellaneous sources:		
Other cash provided	(8,257,108)	(3,189,749)
Net cash used in financing and miscellaneous activities	(8,257,108)	(3,189,749)
Net increase in cash and cash equivalents	5,046,561	464,780
Cash and cash equivalents, beginning of year	5,219,126	4,754,346
Cash and cash equivalents, end of year	\$ 10,265,687	\$ 5,219,126

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

Pennsylvania Professional Liability Joint Underwriting Association

Notes to Statutory Financial Statements Years Ended December 31, 2024 and 2023

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 and restated. 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 financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures 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") and these differences include:

- Policy acquisition costs, such as commissions, premium taxes, and other costs incurred in connection with acquiring new and renewal business are expensed in the year incurred, rather than being deferred and amortized over the related policy term;
- Certain assets designated as non-admitted assets (principally prepaid expenses) are excluded from the statutory statements of admitted assets, liabilities, and surplus by a direct charge to unassigned surplus;
- Investments in bonds, which the Association holds as available for sale, if qualified for such treatment, are carried at amortized cost rather than at fair value as would be required under GAAP;
- Investments in common stock and preferred stock of unaffiliated entities are carried at values prescribed by the NAIC, primarily quota market prices. Changes in unrealized appreciation or depreciation of common stock or preferred stock are credited or charged directly to unassigned surplus.
- Bonds identified as other-than-temporarily impaired are marked to market with the impairment charge recorded in earnings, whereas under GAAP, only the credit related component of the identified bonds impairment is recorded through earnings;
- Certain reclassifications would be required with respect to the statutory statements of admitted assets, liabilities, and surplus, and the statutory statements of cash flows to conform to GAAP.

Use of Estimates

The preparation of financial statements in conformity with the accounting practices prescribed or permitted by the Department requires management to make certain estimates and assumptions that affect the reported amounts of admitted assets, liabilities, revenues, expenses and disclosures during the reporting period. Actual results could differ from these estimates.

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Investments

Bonds are carried at values prescribed by the NAIC, primarily book-adjusted carrying value. Bonds are amortized using the scientific method. Redeemable preferred stocks that have characteristics of debt securities and are rated as high quality or better by the NAIC are reported at costs or amortized cost. All other redeemable preferred stocks are reported at the lower of cost, amortized cost, or fair value. Nonredeemable preferred stocks are reported at lower of cost or fair value. Common stocks are carried at values prescribed by the NAIC, primarily quoted market prices. Investments with maturity dates of one year or less at acquisition are considered short-term investments. Realized investment gains and losses, computed using the specific cost method, are included in the determination of income. Changes in unrealized appreciation or depreciation on common stocks, if any, are credited or charged directly to surplus. In accordance with the Practices and Procedures Manual of the NAIC Investment Analysis Office, bonds which are below medium grade (a designation of 3, 4, 5, or 6) are stated at the lower of amortized cost or fair value. 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.

Loan backed securities are stated and adjusted using the retrospective method. Prepayment assumptions are obtained from Bloomberg market data and the Association's investment manager's internal estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Premiums Receivable

Premiums receivable consist of premium balances due from the insured. Any receivable amounts older than 90 days outstanding are treated as nonadmitted assets. Receivable balances in excess of 90 days outstanding were \$0 at December 31, 2024. The Association routinely assesses the collectability of its receivables.

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 that 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 advanced 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, 2024 and 2023, 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, 2024 and 2023 are the Association's best estimate to cover the ultimate cost of claims and settlement costs. However, such liability is 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.

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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

Subject 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 "MCARE 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 MCARE Act imposes mandatory assessments on health care providers as defined in the MCARE Act. These assessments are required to be billed, collected, and remitted to MCARE by the medical malpractice insurer that directly wrote the coverage. 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.

Subsequent Events

The Association has evaluated known recognized and non-recognized subsequent events through May 22, 2025, which is the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

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3. Investments

The NAIC carrying value for bonds or cost for preferred stocks and estimated fair value of investments at December 31, are as follows:

2024				
	NAIC Carrying Value or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. government	\$ 35,643,617	\$ 846	\$ (6,205,665)	\$ 29,438,798
State, territories, possessions and political subdivisions	6,224,438	77,892	(194,354)	6,107,976
Special revenue and special assessments	13,395,218	37,098	(1,797,427)	11,634,889
Industrial and miscellaneous	158,991,971	814,395	(14,286,905)	145,519,461
Hybrid securities	1,412,121	5,814	(18,708)	1,399,227
Mortgage/asset-backed	150,864,700	161,286	(9,861,067)	141,164,919
Total bonds	366,532,065	1,097,331	(32,364,126)	335,265,270
Common stocks	1,034	82	-	1,116
Total investments	<u>\$ 366,533,099</u>	<u>\$ 1,097,413</u>	<u>\$ (32,364,126)</u>	<u>\$ 335,266,386</u>
2023				
	NAIC Carrying Value or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds:				
U.S. government	\$ 32,171,261	\$ 413,598	\$ (4,751,160)	\$ 27,833,699
State, territories, possessions and political subdivisions	10,749,745	214,180	(534,366)	10,429,559
Special revenue and special assessments	19,477,003	57,603	(1,793,595)	17,741,011
Industrial and miscellaneous	163,648,386	1,739,183	(15,163,553)	150,224,016
Hybrid securities	1,408,072	-	(112,384)	1,295,688
Mortgage/asset-backed	134,347,584	336,358	(10,528,611)	124,155,331
Total bonds	361,802,051	2,760,922	(32,883,669)	331,679,304
Common stocks	1,034	2,673	-	3,707
Total investments	<u>\$ 361,803,085</u>	<u>\$ 2,763,595</u>	<u>\$ (32,883,669)</u>	<u>\$ 331,683,011</u>

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The NAIC carrying value and fair value of bonds are shown by contractual maturity as of December 31, 2024. 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	\$ 8,126,382	\$ 8,077,255
Over one year through five years	64,643,536	63,109,000
Over five years through ten years	72,464,526	66,671,374
Over ten years	70,432,921	56,242,722
Mortgage/asset-backed	150,864,700	141,164,919
Total bonds	<u>\$ 366,532,065</u>	<u>\$ 335,265,270</u>

Proceeds from the sale of bonds during the years ended December 31, 2024 and 2023, were \$104,869,382 and \$56,711,622, respectively. Gross realized gains on investments were \$2,188,517 and \$1,218,656 for the years ended December 31, 2024 and 2023, respectively. Gross realized losses on investments were \$3,467,212 and \$2,627,545 for the years ended December 31, 2024 and 2023, respectively.

As of December 31, 2024 and 2023, the Association's investments with unrealized losses by length of time they have been in an unrealized loss position are as follows:

	2024					
	12 Months or Less		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Bonds:						
U.S. government	\$ 10,176,632	\$ (724,955)	\$ 17,859,713	\$ (5,480,710)	\$ 28,036,345	\$ (6,205,665)
State, territories, possessions and political subdivisions	-	-	1,665,646	(194,354)	1,665,646	(194,354)
Special revenue and special assessments	-	-	10,667,791	(1,797,427)	10,667,791	(1,797,427)
Mortgage/asset-backed	36,526,241	(440,031)	87,265,949	(9,421,036)	123,792,190	(9,861,067)
Industrial and miscellaneous	28,372,267	(745,323)	86,311,167	(13,541,582)	114,683,434	(14,286,905)
Hybrid securities	-	-	907,208	(18,708)	907,208	(18,708)
Total bonds	75,075,140	(1,910,309)	204,677,474	(30,453,817)	279,752,614	(32,364,126)
Common stocks	-	-	-	-	-	-
Total investments	<u>\$ 75,075,140</u>	<u>\$ (1,910,309)</u>	<u>\$ 204,677,474</u>	<u>\$ (30,453,817)</u>	<u>\$ 279,752,614</u>	<u>\$ (32,364,126)</u>

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	2023					
	12 Months or less		Greater than 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Bonds:						
U.S. government	\$ 1,939,453	\$ (7,834)	\$ 22,057,441	\$ (4,743,326)	\$ 23,996,894	\$ (4,751,160)
State, territories, possessions and political subdivisions	-	-	5,193,747	(534,366)	5,193,747	(534,366)
Special revenue and special assessments	549,890	(110)	15,808,518	(1,793,485)	16,358,408	(1,793,595)
Mortgage/asset-backed	8,117,123	(225,865)	99,455,105	(10,302,746)	107,572,228	(10,528,611)
Industrial and miscellaneous	8,825,807	(362,117)	103,803,277	(14,801,436)	112,629,084	(15,163,553)
Hybrid securities	-	-	1,295,688	(112,384)	1,295,688	(112,384)
Total bonds	19,432,273	(595,926)	247,613,776	(32,287,743)	267,046,049	(32,883,669)
Common stocks	-	-	-	-	-	-
Total investments	<u>\$ 19,432,273</u>	<u>\$ (595,926)</u>	<u>\$ 247,613,776</u>	<u>\$ (32,287,743)</u>	<u>\$ 267,046,049</u>	<u>\$ (32,883,669)</u>

At December 31, 2024 and 2023, 343 securities and 340 securities, respectively, are in an unrealized loss position. 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 adverse changes in estimated cash flows. Based on the above factors and because the Association has the intent and ability to hold these investments until a market price recovery, which may be maturity, the Association does not consider these investments to be other-than-temporarily impaired at December 31, 2024.

Components of investment income earned for the years ended December 31, are as follows:

	2024	2023
Bonds	\$ 12,763,148	\$ 11,298,093
Other invested assets	58,062	58,065
Total investment income	12,821,210	11,356,158
Less: investment expenses	(592,936)	(542,220)
Net investment income	<u>\$ 12,228,274</u>	<u>\$ 10,813,938</u>

4. Fair Value Measurements

The Association maximizes the use of observable inputs in its valuation techniques and applies unobservable inputs only to the extent that observable inputs are unavailable.

The Association must establish the appropriate input level in the fair value hierarchy for each fair value measurement. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The Association recognizes transfers between levels at the beginning of the reporting period.

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets that the Association's pricing sources have the ability to access. Since the valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant amount or degree of judgment.

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Level 2 – Valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data. The Association utilized the market approach for the bonds measured at fair value as of December 31, 2024 and 2023.

Level 3 – Valuations that are derived from techniques in which one or more of the significant inputs are unobservable, including broker quotes, which are non-binding.

The Association's investments are comprised of a variety of different securities, which are classified into levels based on the valuation technique and inputs used in their valuation. The valuation of cash equivalents, common stocks and U.S. Treasury securities are generally based on Level 1 inputs, which use unadjusted quoted market prices in active markets. The valuation of the Association's U.S. Government and Agency securities, state and political subdivision securities, corporate debt, non-agency mortgage, asset-backed securities, preferred stocks, and other invested assets generally incorporate significant Level 2 inputs using the market and income approach techniques. The Association may assign a lower level to inputs typically considered to be Level 2 based on its assessment of liquidity and relative level of uncertainty surrounding inputs. At December 31, 2024 and 2023, the Association did not have any investments classified within Level 3. The Association did not have any liabilities measured at fair value as of December 31, 2024 and 2023.

The following table presents the carrying amounts and fair value of the Association's financial instruments as of December 31, 2024 and 2023:

	Fair Value	Admitted Assets	2024		
			Level 1	Level 2	Level 3
Assets:					
Bonds	\$ 335,265,270	\$ 366,532,065	\$ 29,438,798	\$ 305,826,472	\$ -
Common stocks	1,116	1,116	1,116	-	-
Cash and cash equivalents	10,265,687	10,265,687	10,265,687	-	-
Other invested asset	1,014,447	1,231,765	-	1,014,447	-
	Fair Value	Admitted Assets	2023		
			Level 1	Level 2	Level 3
Assets:					
Bonds	\$ 331,679,304	\$ 361,802,051	\$ 27,833,699	\$ 303,845,605	\$ -
Common stocks	3,707	3,707	3,707	-	-
Cash and cash equivalents	5,219,126	5,219,126	5,219,126	-	-
Other invested asset	1,045,081	1,231,829	-	1,045,081	-

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

The fair values of bonds, preferred stocks and other invested assets are based on fair values that reflect the price at which a security would sell in an arm's length transaction between a willing buyer and seller.

As such, sources of valuation include third party pricing sources and exchanges.

The carrying value of all other financial instruments approximates fair value.

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5. Unpaid Losses and Loss Adjustment Expenses

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

	2024	2023
Balance at January 1	\$ 26,016,344	\$ 26,081,936
Incurred related to:		
Current year	6,952,505	8,496,911
Prior years	3,807,949	(3,987,210)
Total net incurred	10,760,454	4,509,701
Paid related to:		
Current year	(330,634)	(364,755)
Prior years	(6,264,527)	(4,210,538)
Total net paid	(6,595,161)	(4,575,293)
Balance at December 31	\$ 30,181,637	\$ 26,016,344

As a result of changes in estimates of insured events of prior years, the Association increased (decreased) losses and loss adjustment expenses incurred by \$3,807,949 and (\$3,987,210) in 2024 and 2023, respectively. The unfavorable (favorable) loss reserve development during 2024 and 2023 are based on ongoing analysis of loss development trends and are not attributable to any specific event or occurrence.

6. Leases

Effective October 1, 2016, the Association entered into a lease agreement with Sentry KPG III, L.P, which was amended on March 31, 2023, to extend until November 30, 2024. The lease agreement was subject to a renewal option at market rates prevailing at the time of renewal, however the lease was not renewed. At December 31, 2024, future minimum rental payments under this non-cancelable lease are \$0. Rent expense was \$76,935 and \$81,752 for 2024 and 2023, respectively.

7. 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 \$35,198 and \$59,203 to the Retirement Plan during the year ended December 31, 2024 and 2023, respectively. As of December 31, 2024 and 2023, there was \$40,582 and \$52,824 payable to the retirement plan, respectively.

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8. Surplus

Under 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. The Act defined a deficit 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. The Association did not incur a deficit for the years ended December 31, 2024 and 2023.

9. Appropriated Surplus

The Association has voluntarily appropriated \$3 million of surplus as of December 31, 2024 and 2023, 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.

10. 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.

On October 30, 2017, the Commonwealth of Pennsylvania signed into law Act No. 2017-44, which required the Association to transfer \$200,000,000 of its surplus to Pennsylvania's General Fund, or face the legislature's attempt to dissolve the Association. The Court granted the Association's request for a permanent injunction barring enforcement of Act 44 on May 18, 2018, on the theory that the Association's assets are its private property protected by the Takings Clause of the Fifth Amendment to the United States Constitution. On June 22, 2018, the Commonwealth of Pennsylvania signed into law Act No. 2018-41, which would transform the Association into a government entity housed within the Pennsylvania Insurance Department and transfer all of the Association's assets, including all of its surplus, to the Insurance Department. The court granted the Association's request for a permanent injunction barring enforcement of Act 41 on December 18, 2018. The Governor and the General Assembly have appealed both decisions to the United States Court of Appeals for the Third Circuit. The two appeals are consolidated, and the court's decision is pending the outcome of litigation of Act 15. In June 28, 2019, the Commonwealth of Pennsylvania signed into law Act 15 which subjects the Association to portions of the budget process, including the requirement that the Association be funded by a legislative appropriation, and subjected the Association to various statutes that are applicable only to government agencies.

In 2020, the court granted the Association and the Commonwealth of Pennsylvania's motions for summary judgment related to Act 15, striking down provisions that subjected the Association to portions of the budget process but leaving other provisions in place. The Commonwealth of Pennsylvania appealed the grant of summary judgment in favor of the Association, and the Association cross-appealed the grant of summary judgment in favor of the Commonwealth of Pennsylvania. Briefing on the appeals was completed in July 2021 and the Third Circuit heard oral argument on all three appeals on November 9, 2022. On January 19, 2023, the Third Circuit, acknowledging that the fundamental question before it is one of federal law (whether JUA "is an entity that can assert federal constitutional rights against the Commonwealth"), petitioned the Pennsylvania Supreme Court to accept and decide "an important state law issue that bears on the federal law question, namely, whether as a matter of Pennsylvania law the JUA would be considered a public or private entity." On March 8, 2023, the Pennsylvania Supreme Court accepted the question certified by the Third Circuit, directed the parties to brief the issue, and held oral argument on November 29, 2023. On February 21, 2024, the Pennsylvania Supreme Court decided that it should not have granted the Third Circuit's request in the first place, and declined to answer the question whether JUA is "private or public" because "although Pennsylvania law may prove helpful and informative, the question currently before the Third Circuit is principally one of federal law. Given this context, we respectfully decline to answer the general question posed to us by the Third Circuit." The third Circuit decision held that the Association was a governmental entity, such that Pennsylvania could lawfully take all of the Association's funds. On March 24, 2025, the Association sought U.S. Supreme Court review by filing its petition for writ of certiorari. The opposing parties waived their response. On

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April 11, 2025, the Court requested a response, ordering the Respondents (Defendants) to file a brief in opposition by May 12, 2025, indicating that at least one Justice believes the case is potentially worthy of the Court's review. Respondents were granted an extension to May 27, 2025 as the deadline to file their brief in opposition to PAJUA's certiorari petition in the U.S. Supreme Court. Also, two amicus curiae ("friend of the court") briefs were filed supporting the PAJUA's certiorari petition (one from the American Medical Association and the Pennsylvania Medical Society, and another from the New England Legal Foundation). During the pendency of the litigation, including the appeals, JUA stipulated that it would not make any transfer, distribution, payment or charitable contribution without prior approval of the Pennsylvania Department of Insurance unless the transfer, distribution, payment or charitable contribution is made in the ordinary course of business (including but not limited to paying claims, salaries, fees, business expenses, etc. As of December 31, 2024 and 2023, there is no payable for the transfer of surplus and no amounts have been transferred to the Commonwealth of Pennsylvania as of May 22, 2025.

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Investment Risk Interrogatories

December 31, 2024

Provided below are management's responses to the Investment Risk Interrogatories and Summary Investment Schedule required by NAIC SAP. Questions/Categories not applicable to the Association have not been included below.

Reporting entity's total admitted assets as of December 31, 2024 were: \$ 381,022,559

The Association's ten largest exposures to a single issuer/borrower/investment, excluding U.S. government, U.S. government agency securities, and U.S. government money market funds, are as follows:

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
1	Federal National Mortgage Association	CMO, MBS	\$ 32,872,308	8.63%
2	Federal Home Loan Mortgage Corporation	CMO, MBS	31,856,467	8.36%
3	JPMorgan Chase & Co.	Bonds	2,504,188	0.66%
4	Pfizer Investment Enterprises Pte. Ltd.	Bonds	2,330,154	0.61%
5	Virginia Power Fuel Securitization, LLC	ABS	2,000,239	0.52%
6	NFL TRUST 20-XI	Bonds	2,000,000	0.52%
7	Kubota Credit Owner Trust 2024-2	ABS	1,999,957	0.52%
8	Bank of America Corporation	Bonds	1,992,008	0.52%
9	J P Morgan Mortgage Trust 2024-12	MBS	1,976,263	0.52%
10	Pacific Life Global Funding II	Bonds	1,947,751	0.51%

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

Rating	Amount	Percentage of Total Admitted Assets
Bonds:		
NAIC-1	\$ 278,406,318	73.07%
NAIC-2	80,975,548	21.25%
NAIC-3	6,153,146	1.61%
NAIC-4	997,053	0.26%
NAIC-5	-	0.00%
NAIC-6	-	0.00%

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Investment Risk Interrogatories (Cont.)

December 31, 2024

	Amount	Percentage of Total Admitted Assets
Total admitted assets held in foreign investments	\$ 25,564,998	6.71%

Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1	\$ 25,564,998	6.71%
Countries rated NAIC-2	-	0.00%
Countries rated NAIC-3 or below	-	0.00%

The Association's largest foreign investment exposures by country, by the country's NAIC sovereign rating:

	Amount	Percentage of Total Admitted Assets
Countries rated NAIC-1:		
France	\$ 3,740,820	0.98%
United Kingdom	3,485,925	0.91%
Countries rated NAIC-2:		
India	-	0.00%
Countries rated NAIC-3 or below:		
Virgin Islands	-	0.00%

The Association's largest non- sovereign (i.e. non-governmental) foreign issues:

	Issuer	NAIC Designation	Amount	Percentage of Total Admitted Assets
1	Pfizer Investment Enterprises Pte. Ltd.	1FE	\$ 2,330,154	0.61%
2	BPCE S.A.	1FE	1,880,820	0.49%
3	BNP Paribas SA .	1FE	1,860,000	0.49%
4	BAE Systems PLC	2FE	1,510,588	0.40%
5	Enel Finance International N.V.	1FE	1,498,123	0.39%
6	OSCAR US Funding XIII LLC	1FE	1,477,082	0.39%
7	Textainer Marine Containers VII Ltd., Series 2021-3	2FE	1,282,741	0.34%
8	Aig Clo 2021-1 LLC	1FE	1,272,841	0.33%
9	AerCap Ireland Capital Designated Activity Company	1FE	1,255,896	0.33%
10	UBS Group AG	1FE	1,249,813	0.33%

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Summary Investment Schedule December 31, 2024

Investment Categories	Gross Investment Holdings		Admitted Asset	
	Amount	Percentage	Value	Percentage
U.S. Treasury securities	\$ 35,643,617	9.43%	\$ 35,643,617	9.43%
U.S. government agency obligations:				
Issued by U.S. government				
sponsored agencies	-	0.00%	-	0.00%
Securities issued by states, territories,				
and possessions and political				
subdivisions of the U.S.:				
States, territories and possessions	-	0.00%	-	0.00%
Political subdivisions of states,				
territories and possessions	6,224,438	1.65%	6,224,438	1.65%
Revenue and assessment obligations	13,395,218	3.54%	13,395,218	3.54%
Industrial development and similar obligations	-	0.00%	-	0.00%
Hybrid securities	1,412,121	0.37%	1,412,121	0.37%
Mortgage-backed securities:				
Pass-through securities:				
Guaranteed by GNMA	-	0.00%	-	0.00%
Issued or guaranteed by				
FNMA and FHLMC	-	0.00%	-	0.00%
All other MBS	-	0.00%	-	0.00%
CMOs and REMICs:				
Issued or guaranteed by GNMA,				
FNMA, FHLMC or VA	25,998,693	6.88%	25,998,693	6.88%
All other	124,866,007	33.03%	124,866,007	33.03%
Other debt and other fixed income				
securities (excluding short-term):				
Unaffiliated domestic securities	158,991,971	42.05%	158,991,971	42.05%
Unaffiliated Non-U.S. securities	-	0.00%	-	0.00%
Preferred stocks	-	0.00%	-	0.00%
Publicly traded equity securities				
(excluding preferred stocks):	1,116	0.00%	1,116	0.00%
Receivables for securities	-	0.00%	-	0.00%
Cash and cash equivalents	10,265,687	2.72%	10,265,687	2.72%
Other Invested assets	1,231,765	0.33%	1,231,765	0.33%
	<u>\$ 378,030,633</u>	<u>100.00%</u>	<u>\$ 378,030,633</u>	<u>100.00%</u>

Pennsylvania Professional Liability Joint Underwriting Association

Reinsurance Interrogatories

December 31, 2024

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)

Except for transactions meeting the requirements of paragraph 36 of SSAP No. 62R—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)