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REPORT OF THE ANNUAL MEETING

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April 20, 2009

Insurance Placement Facility of Pennsylvania

530 Walnut Street, Suite 1650  
Philadelphia, PA 19106-3698

Board of Directors

2008 - 2009

Mr. John D. Fillippo, Chairman . . . . .	ACE USA
Ms. Susan A. Erney . . . . .	The Harleysville Insurance Companies
Ms. Joanne K. Martyn . . . . .	Chubb Group of Insurance Companies
Mr. William W. Martin . . . . .	The Hartford
Mr. Terry McConnell . . . . .	Erie Insurance Group
Ms. Andrea Short . . . . .	Allstate Insurance Companies
Ms. Marci Thomas . . . . .	State Farm Insurance Companies
Mr. Daniel M. Taylor, Jr., Esq., General Counsel . . . . .	Swartz Campbell LLC
Mr. John M. Ogle, General Manager . . . . .	Insurance Placement Facility of Pennsylvania

AGENDA FOR THE ANNUAL MEETING  
INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

April 20, 2009 - 1:30 P.M.

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1. Call to Order - 1:30 P.M. - Mr. John D. Fillippo, Chairman, presiding
2. Approval of Minutes of Previous Year Annual Meeting - April 23, 2008
3. Ratification of Board Action
4. Report of the Chairman
5. Report of the General Manager
6. Treasurer's Report
7. Other Business
8. Election of Board of Directors 2009 - 2010

Nominations are :

- 1) ACE USA
  - 2) Allstate Insurance Companies
  - 3) Chubb Group of Insurance Companies
  - 4) Erie Insurance Group
  - 5) State Farm Insurance Companies
  - 6) The Harleysville Insurance Companies
  - 7) The Hartford
9. Adjournment of Meeting

Insurance Placement Facility of Pennsylvania  
Minutes of the Annual Meeting  
April 20, 2009  
Administrative Offices of the Facility  
1:30 p.m.  
530 Walnut Street, Suite 1650  
Philadelphia, PA

The Annual Meeting of the Insurance Placement Facility of Pennsylvania was called to order with Chairman John D. Fillippo presiding. General Manager John M. Ogle served as secretary and reported that a quorum was present in person or by proxy. Mr. Ogle reported that attendees represented 210 companies or 64.4% of the membership.

Upon motion duly made, seconded and carried, the Minutes of the April 23, 2008 Annual Meeting were approved as distributed.

A motion to ratify the actions of the Board of Directors for the 2008-2009 term was duly made, seconded and carried.

Motions were made, seconded and carried to waive the reading of the Chairman's report, the General Manager's report and the Treasurer's report, as all three reports will be incorporated into the Annual Report submitted to Member Companies. The reports were accepted as presented.

The General Manager noted the 2008 financial audit report provided by the accounting firm of Smart and Associates, LLP as presented and accepted by the Board of Directors will be made part of the Annual Report submitted to Member Companies.

**New Business**

The Secretary advised that as resolved at the April 2008 meeting and as approved by the Board at its September 9, 2008 meeting and in accordance with Article XII, entitled Amendments to the Constitution, and Article X, entitled Amendments to the By-Laws, proper notice was provided and proxies recorded with 231 member companies voting, in either person or proxy, 66.6% of the membership approved of the proposed amendments. Upon motion duly made and seconded, the amendments were approved as previously provided and the General Manager was instructed to file the changes with regulatory agencies.

With no other new business, Nominating Committee Chairman Mr. William W. Martin, placed into nomination the following Member Companies to serve on the Board of Directors for the 2009-2010 term.

ACE USA  
Allstate Insurance Companies  
Chubb Group of Insurance Companies

Erie Insurance Group  
State Farm Insurance Companies  
The Harleysville Insurance Companies  
The Hartford

There being no other nominations, it was moved, seconded and carried to close nominations. Chairman Fillippo requested and received confirmation from the secretary that a sufficient amount of ballots had been cast for the nominees. Mr. Ogle reported that 199 companies representing 59.2% of the membership indicated their intention to cast ballots in person or by proxy in favor of the nominees. Therefore, upon motion duly made seconded and carried, the slate was declared elected.

The next annual meeting was set for April 2010.

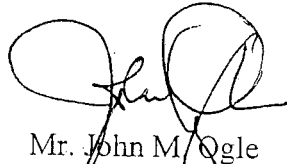
There being no further business and upon motion duly made, seconded and carried, the meeting was adjourned.

Approved by,



Mr. John D. Fillippo  
Chairman of the Board

Respectfully submitted by,



Mr. John M. Ogle  
General Manager

Report of the Chairman

Mr. John D. Fillippo

41<sup>st</sup> Annual Meeting

of the Members of the

Insurance Placement Facility of Pennsylvania

April 20, 2009

Good Afternoon and welcome to the 41<sup>st</sup> Annual Meeting of the Insurance Placement Facility of Pennsylvania. In 2008, as it has done for more than four decades, the Pennsylvania FAIR Plan provided a basic property insurance option to those property owners who were unable to obtain property coverage in the voluntary market. Not only did the Pennsylvania FAIR Plan continue to meet its obligations and purposes as outlined in the enabling statute and plan of operations, it did so without cost to member companies. In addition, in this new age of federal bailouts and government stimulus programs, it seems important to note that the Insurance Placement Facility of Pennsylvania continues to operate, as it has since 1968, at no cost to federal, state or local taxpayers.

Over the past forty years, while experiencing the many ups and downs of the insurance marketplace, the Pennsylvania FAIR Plan has adjusted itself not only to the market, but also to the new technologies and public expectations of any given time period. During periods of a hard market, the Pennsylvania Plan saw its policy counts increase leading management to focus on issues such as increasing efficiencies and ensuring satisfactory customer service is maintained. As the current soft market continued through 2008, the Pennsylvania FAIR Plan wrote fewer policies and management focused on cost control measures.

Years ago, the Plan conducted business with typewriters and a large clerical pool of employees. Business transactions utilized form letters and response times of thirty days were commonplace. Now, business is many times conducted electronically with applications completed, paid for and transmitted with just a few keystrokes. E-mail has replaced letters and turn around times have been reduced to minutes or hours instead of days or weeks.

As I step down from my term as your Chairman, and as the Pennsylvania property insurance market begins a new phase, I am confident that the Pennsylvania FAIR Plan will continue to take whatever steps are necessary to ensure it continues to serve the citizens of the Commonwealth and its insurance membership.

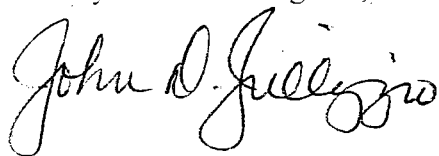
Over the past years it has been a pleasure to work alongside so many talented and dedicated individuals. General Manager, John M. Ogle and his staff continue to perform the day to day functions of the operation in an efficient and cost effective manner. I am confident in their stewardship and would like to extend my gratitude for a job well done.

I would also like to thank General Counsel, Daniel M. Taylor for his timely advice and counsel. Many situations develop over the course of the year that could result in expensive or adverse results, but Dan has helped to steer the Plan out of harm's way with his clear perspective and well thought out legal advice.

I would also like to thank the Pennsylvania Insurance Department and specifically, Commissioner Joel Ario and his staff for their efforts to ensure a healthy and competitive marketplace.

Lastly, I would be remiss if I did not thank each of my fellow Board Members. Your willingness to attend each meeting and to remain engaged in the oversight process made my term as your Chairman both a rewarding and enjoyable experience.

Thank you and best regards,

A handwritten signature in black ink that reads "John D. Fillippo". The signature is written in a cursive, flowing style.

John D. Fillippo  
Chairman of the Board

Report of the General Manager  
Mr. John M. Ogle

41<sup>st</sup> Annual Meeting  
of the Members of the  
Insurance Placement Facility of Pennsylvania  
April 20, 2009

Good Afternoon and welcome to the 41<sup>st</sup> Annual Meeting of the Insurance Placement Facility of Pennsylvania.

2008 was another year of a soft insurance market in the State of Pennsylvania. As is the case anytime the voluntary market is in a healthy and competitive state, the residual market experiences a depopulation trend as many marginal underwriting risks find a home within the voluntary industry. Certainly that was the case in 2008.

To illustrate, in 2008 the Insurance Placement Facility of Pennsylvania received 3,718 New Applications. In 2007, the Plan received 4,982 applications and in 2006, there were 6,396 New Applications submitted to the Plan. Overall, the Insurance Placement Facility of Pennsylvania issued 31,925 policies in 2008. In 2007, 35,767 policies were issued and in 2006, a total of 40,204 policies were issued. In two years, new applications counts fell by more than 41% and Total Policies Issued declined by just over 20%.

The decline in business impacted Total Premium Written as well. Premiums declined from a 2006 high of \$13,051,393 to a 2008 low of \$10,140,153, a decline of just over 22%. Despite the declines, the Pennsylvania FAIR Plan is still in a solid financial position. In 2008, the Insurance Placement Facility of Pennsylvania earned \$10,859,814 in premiums, incurred \$4,479,998 in losses, \$996,773 in loss adjustment expenses incurred and \$4,153,614 in general expenses incurred. After accounting for Investment Income and Other Income and Expenses, the Plan recorded a 2008 net result of operations surplus of \$1,604,122.

The decline in activity has lowered the number of employees at the Plan. As those numbers declined, it is important not to overlook the anxiety and/or concern of those left behind.



I would like to take this opportunity to thank each and every employee, past and present, for their dedication and professionalism. No matter the circumstances, the staff has always acted in the best interests of the policyholders and applicants and I am very proud to work alongside such a fine group of individuals.

What we do on a day to day basis could not be accomplished without the support of our Board Members. On behalf of myself and the staff, I would like to thank the Members of the Board for their efforts. With all the changes that happen within any company, I believe we are fortunate to have the consistent services of such an experienced and dedicated group.

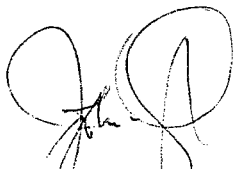
In addition, with all that they do behind the scenes, it might be easy to overlook the contributions of our Committee Members. Their efforts are important to the Plan and I would be remiss if I did not recognize their contributions.

The Plan is fortunate to have the services of General Counsel, Daniel M. Taylor who provides timely and well thought out legal advice to both the Plan and the Board. The Plan also has the services of several very qualified professional vendors including our Information Systems security consultants, 44three and our independent auditing firm, Smart & Associates.

Lastly, I would like to thank the Pennsylvania Insurance Department and specifically, Commissioner Joel Ario and his staff for their steady guidance in the oversight of the Insurance Placement Facility of Pennsylvania.

In closing, I am amazed at the talent and professionalism of those associated with this organization and I look forward to the challenges that lay ahead.

Best regards,



John M. Ogle  
General Manager

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

**PENNSYLVANIA FAIR PLAN**

Treasurer's Report

December 31, 2008

**ASSETS**

Cash in Bank	4,877,724.99
Investments, Short term at cost plus accumulated discount	8,870,363.36
Accrued Investment Income	0.00
Due from Participating Members	187,714.62
Premiums Receivable	9,026.10
Other Receivables	94,587.26
Prepaid Premium Tax	0.00
Total Assets	<u>14,039,416.33</u>

**LIABILITIES AND MEMBERS' EQUITY**

Unearned Premiums	5,068,958.00
Unearned Advance Premiums	284,511.00
Outstanding Losses	1,297,293.00
Outstanding Loss Adjustment Expenses	231,561.00
Accrued Expenses	89,650.00
Unpaid Post Retirement Benefits	899,950.00
Unpaid Pension	3,051,034.00
Accounts Payable	127,094.12
Claims Checks Payable	174,461.46
Unpaid Premium Tax	0.00
Total Liabilities	<u>11,224,512.58</u>
Members' Equity (Deficit)	2,814,903.75
Total Liabilities and Members' Equity	<u>14,039,416.33</u>

Respectfully Submitted,



RoseMarie McDonald  
Accounting Manager

**INSURANCE PLACEMENT FACILITY  
OF PENNSYLVANIA**

Statutory Financial Statements,  
Independent Auditors' Report and  
Supplemental Schedules

For the years ended December 31, 2008 and 2007

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# SMART

AND ASSOCIATES, LLP

Board of Directors  
Insurance Placement Facility of Pennsylvania

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory basis financial statements of Insurance Placement Facility of Pennsylvania (the "Facility") for the year ended December 31, 2008 and have issued our report thereon dated April 13, 2009. In connection therewith, we advise you as follows:

- a. We are independent certified public accountants with respect to the Facility and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants.
- b. The engagement partner is a certified public accountant and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises were assigned to perform tasks commensurate with their training and experience.
- c. We understand that the Facility intends to file the audited statutory financial statements and our report thereon with the Insurance Department of the Commonwealth of Pennsylvania and that the insurance commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Facility.

While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Facility and insurance commissioners should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the respective department of insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud.

SMART and Associates, LLP  
Certified Public Accountants

80 Lancaster Avenue | Devon, PA 19333 | 610.254.0700 | Fax 610.254.5293 | [www.smartgrp.com](http://www.smartgrp.com)

SMART and Associates, LLP and SMART Business Advisory and Consulting, LLC have an alternative practice structure.  
The two companies are separate and independent legal entities that work together to meet clients' business needs. SMART Business Advisory and Consulting, LLC is not a licensed CPA firm.

Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement caused by fraud. In addition, an audit does not address the possibility that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

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

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

- d. We will retain the workpapers prepared in the conduct of our audit no longer than seven years, and on instructions from the Facility, will make them available for review by the Insurance Department of the Commonwealth of Pennsylvania.
- e. This is our third year as auditor of the Facility and the engagement partner is a member in good standing of the American Institute of Certified Public Accountants.
- f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of 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*

April 13, 2009



# SMART

AND ASSOCIATES, LLP

April 13, 2009

To the Board of Directors  
Insurance Placement Facility of Pennsylvania

We have audited the financial statements of the Insurance Placement Facility of Pennsylvania (the "Facility") for the year ended December 31, 2008, and have issued our report thereon dated April 13, 2009. Professional standards require that we provide you with the following information related to our audit.

### Independence

Professional standards suggest that we communicate with you regarding all relationships between Smart and Associates, LLP ("SMART") and the Facility that, in our professional judgment, may reasonable be thought to bear in our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since January 1, 2008.

We are not aware of any relationships between SMART and the Facility that, in our professional judgment, may reasonably be thought to bear on our independence.

We hereby confirm that as of April 13, 2009, we are independent accountants with respect to the Facility.

### Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated December 13, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the statutory-basis financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting practices permitted or prescribed by the Insurance Department of the Commonwealth of Pennsylvania. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit in March after management prepared the Facility's year-end financial statements. Our audit was primarily substantive in nature with a focus invested assets, reserves, premiums and claims. Our materiality thresholds were based on the Facility's total assets as of December 31, 2008.

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Certified Public Accountants

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## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Facility are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability for pension and other post retirement benefits is determined using actuarial methods with calculations based on expected return on plan assets, expected compensation rate increases, discount rates, and future expected benefit payments. We evaluated the key assumptions used to develop the liability for pension and other post retirement benefits in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No such matters were noted.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 13, 2009.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and of the Facility and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Smart and Associates, LLP*

Smart and Associates, LLP



**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

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For the years ended December 31, 2008 and 2007

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## Independent Auditors' Report

The Board of Directors  
Insurance Placement Facility of Pennsylvania

We have audited the accompanying statutory statements of admitted assets, liabilities, and members' equity of Insurance Placement Facility of Pennsylvania (the "Facility") as of December 31, 2008 and 2007, and the related statutory statements of operations and members' equity and cash flows for the years then ended. These statutory financial statements are the responsibility of the Facility'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 audit 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 1 to the statutory financial statements, the Facility prepared these statutory financial statements using 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 members' equity of Insurance Placement Facility of Pennsylvania 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 1.

Our audits were made for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental investment disclosures, as of and for the year ended December 31, 2008, are presented to comply with the National Association of Insurance Commissioner's Accounting Practices and Procedures manual and is not a required part of the 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, is 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 Facility and for filing with the Insurance Department of the Commonwealth of Pennsylvania and other state insurance departments to whose jurisdiction the Facility is subject and is not intended to be and should not be used by anyone other than these specified parties.

*Smart and Associates, LLP*

April 13, 2009

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**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**  
Statutory Statements of Admitted Assets, Liabilities and Members' Equity  
December 31, 2008 and 2007

	2008	2007
<b>ADMITTED ASSETS</b>		
Short-term investments at amortized cost	\$ -	\$ 10,400,504
Cash and cash equivalents	13,748,088	4,055,218
Due from related parties	94,587	122,599
Premiums receivable	9,026	32,819
Assessments receivable	187,715	-
	\$ 14,039,416	\$ 14,611,140
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
Liabilities:		
Unearned premiums	\$ 5,068,958	\$ 5,788,619
Claims/drafts payable	174,461	505,241
Unpaid losses and loss adjustment expenses	1,528,854	2,136,300
Unearned advanced premiums	284,511	291,083
Postretirement benefits payable	899,950	942,115
Pension liability	3,051,034	43,109
Other liabilities	216,744	252,803
	11,224,512	9,959,270
Members' equity	2,814,904	4,651,870
	\$ 14,039,416	\$ 14,611,140

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

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Statutory Statements of Operations and Members' Equity

For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Underwriting:		
Premiums earned	\$ 10,859,814	\$ 12,216,500
Less:		
Losses incurred	4,479,998	5,265,187
Loss adjustment expenses incurred	996,773	1,304,791
Underwriting and other expenses incurred	<u>4,153,614</u>	<u>4,423,870</u>
	<u>9,630,385</u>	<u>10,993,848</u>
Net underwriting gain	<u>1,229,429</u>	<u>1,222,652</u>
Investment income	<u>369,637</u>	<u>571,917</u>
Other income (expense):		
Premiums receivable charged off	(1,998)	(2,702)
Other income (expense)	<u>7,054</u>	<u>(2,815)</u>
Other expense, net	<u>5,056</u>	<u>(5,517)</u>
Net income	1,604,122	1,789,052
Members' equity, beginning of year	4,651,870	2,518,127
Change in nonadmitted assets	(398,108)	(10,281)
Change in additional minimum pension liability	(3,051,034)	318,154
Refunds/assessments charged-off	<u>8,054</u>	<u>36,818</u>
Members' equity, end of year	<u>\$ 2,814,904</u>	<u>\$ 4,651,870</u>

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

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Statutory 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, net	\$ 10,149,219	\$ 11,438,876
Net investment income	369,637	571,917
Miscellaneous income (expense)	5,054	(5,518)
Benefit and loss related payments	(4,976,774)	(5,250,340)
Commissions, expenses paid and aggregate write-ins for deductions	<u>(5,272,100)</u>	<u>(5,613,377)</u>
Net cash provided by operating activities	<u>275,036</u>	<u>1,141,558</u>
Cash flows from financing and other miscellaneous activities:		
Other cash applied	<u>(982,670)</u>	<u>(727,469)</u>
Net cash used in financing and other miscellaneous activities	<u>(982,670)</u>	<u>(727,469)</u>
Net (decrease) increase in cash, cash equivalents and short-term investments	(707,634)	414,089
Cash, cash equivalents and short-term investments, beginning of year	<u>14,455,722</u>	<u>14,041,633</u>
Cash, cash equivalents and short-term investments, end of year	<u><u>\$ 13,748,088</u></u>	<u><u>\$ 14,455,722</u></u>

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

## INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements

For the years ended December 31, 2008 and 2007

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### 1. Summary of Significant Accounting Policies:

The statutory financial statements of Insurance Placement Facility of Pennsylvania (the "Facility") have been prepared on the basis of accounting practices prescribed or permitted by the National Association of Insurance Commissioners ("NAIC") and the Insurance Department of the Commonwealth of Pennsylvania.

The more significant accounting policies are as follows:

#### Premiums:

Premiums are recognized as revenues ratably over the terms of the policies. Unearned premiums are computed on the monthly pro rata basis.

#### Commissions:

Commissions and other costs of acquiring business are charged to operations as incurred.

#### Nonadmitted Assets:

Certain assets designated as "nonadmitted" are not reflected in the statutory statements of admitted assets, liabilities, and members' equity. Nonadmitted assets include furniture, fixtures, and leasehold improvements and are charged directly against members' equity.

#### Unpaid Losses and Loss Adjustment Expenses:

Unpaid losses and loss adjustment expenses are estimated based on losses reported and the Facility's past experience for losses incurred but not yet reported. Management believes that such provisions are adequate to cover the ultimate liability. However, such estimates could differ from the amounts ultimately paid when claims are settled. Subsequent changes in estimates are reflected in earnings currently.

#### Use of Estimates:

The preparation of statutory financial statements in conformity with statutory accounting principles 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 statutory financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Invested Assets:

Bonds are carried at values prescribed by the Securities Valuation Office ("SVO") of the NAIC, which generally approximates amortized cost. Estimated fair value of bonds is determined using values prescribed by the SVO that approximate quoted market values. Charges associated with investments that are other than temporarily impaired are reflected within the statutory statements of operations. Realized investment gains or losses are determined using the specific-identification method.

## INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

### 1. Summary of Significant Accounting Policies, continued:

#### Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and other highly liquid temporary investments. The carrying value of cash equivalents approximates fair value. Interest and dividend income from cash and cash equivalents is included in investment income on the statutory statements of operations.

#### Variances from Generally Accepted Accounting Principles:

Certain of the prescribed or permitted insurance accounting practices followed by the Facility differ from accounting principles generally accepted in the United States of America. The principal differences are as follows:

- Commissions and other acquisition costs, if recoverable from future operations, would be deferred and charged against operations on the same basis that related premiums are recognized as revenues.;
- Certain assets designated as “nonadmitted” would be reflected in the statutory statements of admitted assets, liabilities, and members’ equity.
- Fixed income securities are carried at amortized cost regardless of their classification.
- Calculation of the pension obligation excludes non-vested employees.

The effects on the statutory financial statements of these differences have not been determined.

#### Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation.

### 2. General:

The Facility was created by an act of the General Assembly of the Commonwealth of Pennsylvania (The Pennsylvania Fair Plan Act) to make available basic property insurance against fire and other perils for residential and business properties located in the Commonwealth. Each authorized insurance company (“Member Company”) in the Commonwealth participates in the profits and losses of the Facility in the proportion that certain premiums written in the Commonwealth by each company during the second preceding calendar year bear to the aggregate of such premiums written by all authorized companies and is subject to future cash assessments, if required.

During 2008, the Facility approved a closeout assessment of 2003 and 2004 policy years in the amount of \$(2,718,529) with an offset against 2008 policy year assessment in the amount of \$2,718,529.

The Facility shares office space and the service of certain employees with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association, both of which pay the Facility a portion of such joint expenses based on estimates of actual usage.

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

3. Federal Income Taxes:

The Facility files as a partnership for federal income tax purposes. Consequently, the Facility provides each Member Company with an annual statement of its relative share of the Facility's annual results of operations for inclusion in each participating member's tax return.

4. Investments:

Short-term investments as of December 31, 2007, the amortized cost and NAIC market value of short-term investments in fixed maturities are as follows. NAIC market value approximates estimated fair value.

<u>2007</u>	<u>NAIC carrying value</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>NAIC market value</u>
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 3,549,177	\$ -	\$ 13,038	\$ 3,536,139
Commercial paper	6,851,328	-	30,068	6,821,260
Total short-term investments	<u>\$10,400,505</u>	<u>\$ -</u>	<u>\$ 43,106</u>	<u>\$10,357,399</u>

Proceeds from the sales of short-term investments during the year ended December 31, 2008 were \$14,175,270. Gross gains of \$42,963 were realized on those sales during 2008.

The components of net investment income earned for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Short-term investments	\$ 167,322	\$ 476,056
Cash and cash equivalents	202,315	95,861
Investment income	<u>\$ 369,637</u>	<u>\$ 571,917</u>

5. Employee Benefits:

The Facility, in conjunction with the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association and other unaffiliated organizations, is a participant in the Prudential Retirement Insurance and Annuity Company Pension Plan, which covers all of its employees. The pension plan qualifies under the provisions of Section 501(a) of the Internal Revenue Code and is exempt from federal income taxes. The pension plan is funded through the trustee by contributions to group annuity contracts.

The Facility uses a December 31 measurement date for its pension plan. Assets, liabilities and expenses of the plan are allocated to the Facility based on its underwriting activity. The allocation percentage used for the Facility was 88.43% in 2008 and 89.36% in 2007.



**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Employee Benefits, continued:

The following table sets forth the year-end status of the plan:

	2008	2007
Change in projected benefit obligation:		
Benefit obligation at January 1	\$ 9,197,161	\$ 9,024,042
Service cost	164,883	183,858
Interest cost	583,355	541,984
Actuarial loss (gain)	383,768	(285,803)
Benefits paid	(245,753)	(266,920)
Benefit obligation at December 31	10,083,414	9,197,161
Change in plan assets:		
Fair value of plan assets at January 1	7,882,023	7,050,733
Actual return on plan assets	(2,463,025)	532,751
Employer contributions	569,844	565,459
Benefits paid	(245,753)	(266,920)
Fair value of plan assets at December 31	5,743,089	7,882,023
Funded status	(4,340,325)	(1,315,138)
Unrecognized net actuarial loss	4,718,320	1,266,896
Prepaid (accrued) benefit cost	\$ 377,995	\$ (48,242)
Weighted average assumptions used to determine benefit obligations at December 31:		
	2008	2007
Discount rate	6.00%	6.50%
Rate of compensation increase	3.50%	4.00%

The net periodic pension cost for the plan includes the following components:

	2008	2007
Components of net periodic pension cost:		
Service cost	\$ 164,883	\$ 183,858
Interest cost	583,355	541,984
Expected return on plan assets	(639,950)	(576,172)
Amount of loss recognized	35,319	98,945
Net periodic pension cost	\$ 143,607	\$ 248,615

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Employee Benefits, continued:

Weighted average assumptions used to determine the net periodic pension cost:

	2008	2007
Discount rate	6.50%	6.00%
Expected long-term rate of return	8.00%	8.00%
Weighted average rate of compensation increase	4.00%	3.50%

The accumulated benefit obligation for the plan was \$8,815,319 and \$7,850,949 at December 31, 2008 and 2007, respectively.

Prepaid benefit cost was \$377,995 and accrued benefit cost was \$48,242 at December 31, 2008 and 2007, respectively.

An additional minimum pension liability (“AML”) is required when the actuarial present value of the accumulated plan benefit obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2008 and 2007, the plan had an AML of \$3,450,225 and \$-0-, respectively. Pursuant to the requirements of SSAP No. 89, changes to the AML are recorded directly to members’ equity. The (increase) decrease in the AML during 2008 and 2007, respectively, was \$(3,450,225) and \$355,122.

The benefit obligation excludes liabilities for nonvested employees, which were \$50,473 and \$27,871 at December 31, 2008 and 2007, respectively.

The expected long-term rate of return on assets assumption is 8.00%. As defined in Financial Accounting Standards (“FAS 87”), this assumption represents the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the investment portfolio, with consideration given to the distribution of investments by asset class and historical rates of return for each individual asset class.

The plan’s weighted average asset allocations at December 31, 2008 and 2007, by asset category are as follows:

	2008	2007
Asset category:		
Equity securities	50.6%	62.0%
Debt securities	45.9%	36.4%
Cash	3.5%	1.6%

The primary investment objective for the pension plan assets is to achieve maximum rates of return commensurate with safety of principal, given the asset mix, credit quality and diversification guidelines and restrictions approved by the plan administrator’s board of directors. The pension asset allocation is reviewed quarterly to determine whether the portfolio mix is within an acceptable range of target allocation. Target asset allocations are based on asset and liability studies with the goal to enhance the expected return of the pension portfolio while maintaining acceptable levels of risk. The target asset allocation is 60% equity securities and 40% debt securities.

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Employee Benefits, continued:

Contributions to the plan are expected to be \$444,763 in 2009.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2009	\$ 330,000
2010	375,000
2011	456,000
2012	527,000
2013	585,000
2014-2018	3,680,000

The Facility provides life insurance for active employees upon the date of hire. The amount of insurance provided is equal to two times the employee's basic annual salary. For employees who are under age 65 at retirement, the Facility continues to pay the full cost of life insurance until the employee reaches age 65, at which time coverage is reduced to \$5,000. For employees who retire at age 65 or older, the Facility pays the full cost of life insurance with coverage limited to \$5,000.

Retired employees of the Facility are provided Medicare HMO coverage. The HMO provides coverage for certain hospital, surgical, and medical costs not covered by Medicare. To be eligible for the HMO, a retiree must be 65 years of age or older and have at least five years of service with the Facility.

The Facility uses a December 31 measurement date for its postretirement benefit plan.

The following table sets forth the postretirement health care and life insurance benefit plan's funded status as of December 31, 2008 and 2007:

	2008	2007
Accumulated postretirement benefit obligation:		
Postretirement benefit obligation for retirees and fully vested plan participants	\$ 354,035	\$ 266,723
Accumulated postretirement benefit obligation in excess of plan assets	354,035	266,723
Unrecognized gain	561,785	653,444
Unrecognized prior service	101,878	134,125
Accrued postretirement benefit cost	\$ 1,017,698	\$ 1,054,292

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Employee Benefits, continued:

The following table represents a reconciliation of postretirement benefit cost for the years ended December 31, 2008 and 2007:

	2008	2007
Accrued postretirement benefit cost at January 1	\$ 1,054,292	\$ 1,151,378
Benefit income for year	(11,528)	(70,015)
Benefits paid during year	(25,066)	(27,071)
Accrued postretirement benefit cost at December 31	\$ 1,017,698	\$ 1,054,292

Weighted average assumptions used to determine benefit obligations at December 31:

	2008	2007
Discount rate	6.00%	6.50%
Rate of compensation increase	3.50%	4.00%

Net periodic postretirement benefit cost for 2008 and 2007 includes the following components:

	2008	2007
Service cost/eligibility cost	\$ 57,662	\$ -
Interest cost	16,415	16,433
Amortization of prior service cost	(32,247)	(32,247)
Amortization of gain	(53,358)	(54,201)
Net periodic postretirement benefit cost	\$ (11,528)	\$ (70,015)

Weighted average assumptions used to determine the net periodic postretirement cost:

	2008	2007
Discount rate	6.50%	6.00%
Weighted average rate of compensation increase	4.00%	3.50%

For measurement purposes, for participants younger than age 65, healthcare cost trend increases of 11% and 12% were assumed for 2008 and 2007, respectively. These rate increases were assumed to decrease through 2020 and later when they level off at 5%. The healthcare cost trend rate assumption has an effect on the amounts reported. For example, increasing the assumed healthcare cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2008 by \$27,608 and net periodic postretirement benefit cost for the year ended December 31, 2008 by \$6,810.

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

5. Employee Benefits, continued:

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2009	\$ 31,858
2010	28,541
2011	32,929
2012	34,953
2013	36,960
2014-2018	214,597

The employees of the Facility are eligible to participate in the Benefits Connection Group 401(k) Savings Plan, a defined contribution plan. The plan is administered by the Administration Committee for Benefits Connection Group Savings Plan. Participation in the plan is voluntary. Employees are vested in employer contributions upon participation. Employees may contribute 1% to 16% of their annual compensation on a before-tax basis and/or 1% to 16% of their annual compensation on an after-tax basis for a total of 16%. The Facility matches employee contributions up to a maximum of 6% of an employee's annual compensation. Contributions by the Facility amounted to \$103,268 and \$104,804 in 2008 and 2007, respectively.

6. Liability for Unpaid Losses and Loss Adjustment Expenses:

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

	<u>2008</u>	<u>2007</u>
Balance, January 1	\$ 2,136,300	\$ 2,071,323
Incurred related to:		
Current year	5,908,236	6,537,401
Prior years	(431,465)	32,577
Total incurred	<u>5,476,771</u>	<u>6,569,978</u>
Paid related to:		
Current year	4,440,724	4,601,863
Prior years	1,643,493	1,903,138
Total paid	<u>6,084,217</u>	<u>6,505,001</u>
Balance, December 31	<u>\$ 1,528,854</u>	<u>\$ 2,136,300</u>

As a result of changes in estimates for anticipated losses and loss adjustment expenses to insured events of prior years, the liability for losses and loss adjustment expenses (decreased) increased by \$(431,465) and \$32,577 in 2008 and 2007, respectively.

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**

Notes to Statutory Financial Statements, continued

For the years ended December 31, 2008 and 2007

7. Lease Commitments:

The Facility conducts its operations in leased premises under a lease that will expire April 30, 2015. At December 31, 2008, minimum rental commitments under this noncancelable lease are as follows:

Year ending December 31:

2009	\$ 301,721
2010	308,051
2011	314,381
2012	320,711
2013 and thereafter	772,238
Total payments	\$ 2,017,102

Total rental expense was \$279,288 and \$276,909 in 2008 and 2007, respectively.

Rentals included above are net of amounts allocated to the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association for common facilities.

8. Related Party Transactions:

The Facility issues all checks for claims and other payables for the Insurance Placement Facility of Delaware and the West Virginia Essential Property Insurance Association, and is then reimbursed by these facilities. Throughout 2008 and 2007, \$906,336 and \$722,991, respectively, was paid on behalf of the Insurance Placement Facility of Delaware and \$562,650 and \$469,499, respectively, was paid on behalf of the West Virginia Essential Property Insurance Association. At December 31, 2008 and 2007, \$35,339 and \$72,344, respectively, is due from the Insurance Placement Facility of Delaware and \$59,248 and \$50,255, respectively, is due from the West Virginia Essential Property Insurance Association.

9. Annual Statement Reconciliation:

There are no material differences between net income and capital and surplus as reported herein and the Annual Statement as previously filed with the Department for the years ended December 31, 2008.

The following is a reconciliation between the accompanying statutory financial statements and the Annual Statement for the years ended December 31, 2007:

	2007	
	Net income	Members' deficit
As reported in the Annual Statement	\$ 1,860,911	\$ 4,695,069
2007 underwriting and other expense adjustment	(71,859)	(43,199)
As reported herein	\$ 1,789,052	\$ 4,651,870

The underwriting and other expense adjustment relates to the accounting for other post retirement benefits discussed in Note 5.

**SUPPLEMENTAL SCHEDULES**

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**  
 Supplemental Investment Risk Interrogatories  
 December 31, 2008

Total admitted assets at December 31, 2008 \$ 14,039,416

1. State by investment category the 10 largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt; (ii) property occupied by the Company; and (iii) policy loans.

Investment category	Amount	Percentage of total admitted assets
None	\$ -	0.00%

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

Bonds			Preferred stocks		
None	\$ -	0.00%	None	\$ -	0.00%

3. The Company holds no foreign investments.  
 4. The Company holds no Canadian investments.  
 5. The Company holds no investments with contractual sales restrictions.  
 6. State the amounts and percentages of admitted assets held in the largest 10 equity interests (including investments in shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities, and excluding money market and bond mutual funds listed in the Appendix to the SVO Practices and Procedures Manual as exempt or Class 1).

Investment category	Amount	Percentage of total admitted assets
None	\$ -	0.00%

7. The Company holds no nonaffiliated, privately placed equities.  
 8. The Company holds no general partnership interests.  
 9. The Company holds no mortgage loans.  
 10. The Company holds no real estate.  
 11. The Company has no repurchase agreements.  
 12. The Company does not hold warrants.  
 13. The Company does not have exposure to collars, swaps, or forwards.  
 14. The Company does not have exposure for futures contracts.  
 15. The Company does not have amounts in the Write-Ins for Invested Assets category on the Summary Investment Schedule.

*See accompanying independent auditors' report.*



## INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA

## Summary of Investments

December 31, 2008

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
Cash and cash equivalents	<u>\$ 13,748,088</u>	100.00%	<u>\$ 13,748,088</u>	100.00%
Total invested assets	<u>\$ 13,748,088</u>	<u>100.00%</u>	<u>\$ 13,748,088</u>	<u>100.00%</u>

\*Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual.

*See accompanying independent auditors' report.*

**INSURANCE PLACEMENT FACILITY OF PENNSYLVANIA**  
 Reinsurance Interrogatories  
 December 31, 2008

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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 noncancelable 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) An unconditional or 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 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 )