

Report of Examination of

Paramount Advantage
Maumee, Ohio

As of December 31, 2010

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Columbus, Ohio
September 7, 2011

Honorable Mary Taylor
Lt. Governor/Director
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Paramount Advantage

an Ohio domiciled, health insuring corporation, hereinafter referred to as the “Company.”

A report of this examination is hereby respectfully submitted.

Scope of Examination

The Department last examined the Company as of December 31, 2005. The Department’s current full scope examination covers the period of January 1, 2006 through December 31, 2010.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting Firm of Deloitte & Touche LLP (“Deloitte & Touche”) provided an unqualified opinion on the financial statements based on statutory accounting principles. The Deloitte & Touche audit reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Trustees, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Russell L. Dempsey	Partner, Dempsey & Dempsey, P.C.
Harold L. Dunn, Jr.	Chairman, President and CEO, Bank of Maumee
Richard D. Heltzel	Business Banking Market Executive, PNC Financial Services Group
Calvin J. Lawshe	Director, Toledo-Lucas County Planning Commission
Timothy I. Martindale	President, The Kiemle-Hankins Company
Jane M. Miller	President and CEO, Central Travel & Ticket, Inc.
Deborah D. Peters	Owner, CNP of Ohio, LTD
John C. Randolph	President, Paramount Care, Inc.
Garry W. Roberts	Partner, Sobb, Roberts & Pribis, Inc.
James F. Weber	Partner, Weber O'Brien LTD
Steven R. Zirkel	Director of Commercial Building & Strategy, Owens Corning

Officers

As of the examination date, the following officers were serving in the designated position.

Name	Title
Harold L. Dunn	Chairman
John C. Randolph	President
Kathleen S. Hanley	Treasurer
Jeffrey C. Kuhn	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is ultimately controlled by ProMedica Health System, Inc. (PHS). PHS operates acute care hospitals, ancillary facilities and primary care and specialist physician practices in northwest Ohio and southeast Michigan.

Territory and Plan of Operations

The Company was established in 2005 to isolate Paramount Care's Ohio Medicaid business as a separate legal entity due to changes in Ohio's Medicaid program. Eligibility is available to Covered Families and Children Medicaid consumers. The Company's service area includes 18 counties in the northwest region of Ohio.

Reinsurance

Assumed

The Company does not assume any reinsurance.

Ceded

The Company cedes reinsurance under an excess loss reinsurance agreement with effective dates of January 1, 2010 through December 31, 2010. The agreement covers hospital and medical services provided to Medicaid members. The Company retains the first \$350,000 of losses per member per agreement period and is reimbursed 90% of eligible losses (50% for non-approved transplants) in excess of the retention. The maximum amount reimbursable per member is \$2,000,000 per agreement period.

Financial Statements

The financial condition and the results of its operations for the period under examination, as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus
 Statement of Revenue and Expenses
 Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Capital and Surplus December 31, 2010

Bonds	\$ 4,402,901
Cash, cash equivalents, and short-term investments	58,610,226
Subtotal, cash and invested assets	63,013,127
Investment income due and accrued	25,585
Uncollected premiums and agents' balances	3,372,797
Net deferred tax asset	144,255
Receivables from parent, subsidiaries and affiliates	826,346
Health care and other amounts receivable	1,002
Total admitted assets	\$ 67,383,112
Claims unpaid	\$ 20,925,440
Unpaid claims adjustment expenses	525,435
General expenses due or accrued	3,382,989
Current federal and foreign income tax payable	445,537
Amounts due to parent, subsidiaries and affiliates	2,924
Total liabilities	25,282,325
Gross paid in and contributed surplus	31,621,685
Unassigned funds	10,479,102
Total capital and surplus	42,100,787
Total liabilities, capital and surplus	\$ 67,383,112

**Statement of Revenue and Expenses
As of December 31, 2010**

Net premium income	\$ 213,540,190
Total revenues	213,540,190
Hospital/medical benefits	141,744,803
Other professional services	895,167
Emergency room and out-of-area	23,478,644
Prescription drugs	2,968,401
Less: Net reinsurance recoveries	237,705
Total hospital and medical	168,849,310
Claims adjustment expenses	1,104,389
General administrative expenses	29,452,454
Total underwriting deductions	199,406,153
Net underwriting gain	14,134,037
Net investment income earned	68,197
Net realized capital gains	2,008
Net investment gains	70,205
Net income before federal income taxes	14,204,242
Federal and foreign income taxes incurred	4,071,039
Net income	\$ 10,133,203

**Statement of Changes in the Capital and Surplus Account
(in thousands)**

	2010	2009	2008	2007	2006
Capital & surplus, December 31, prior year	\$ 31,886	\$ 26,607	\$ 21,032	\$ 17,644	\$ 2,785
Net income (loss)	10,133	3,602	(6,291)	3,253	46
Net unrealized capital gains (losses)	(1)	(72)	(32)	147	(37)
Change in net deferred income tax	(1,432)	(538)	2,114	-	-
Change in nonadmitted assets	1,515	787	(1,716)	(12)	(250)
Capital changes	-	-	-	-	15,100
Surplus adjustments	-	1,500	11,500	-	-
Net change in capital and surplus	10,215	5,279	5,575	3,388	14,859
Capital & surplus, December 31, current year	\$ 42,101	\$ 31,886	\$ 26,607	\$ 21,032	\$ 17,644

Notes to Financial Statements

Investments

The Company's investments in various securities issued by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Federal Home Bank were not in compliance with ORC 1751. In August 2011, the Company took the necessary steps in order to comply with ORC 1751 which resulted in a net capital loss of \$57.

Claims Unpaid and Unpaid Claims Adjustment Expenses

Timothy Gustafson, FSA, MAAA, a Principal with Deloitte Consulting LLP, analyzed the reserves of the Company and provided an actuarial opinion on the Company's reserves for the year ended December 31, 2010.

Mary Miller, FCAS, MAAA, Assistant Director of Product Regulation and Actuarial Services of the Ohio Department of Insurance, reviewed the work performed by the Company's appointed actuary and determined that the reserves presented in the Company's 2010 Annual Statement are good and sufficient and that any adverse development is highly unlikely.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$ 67,383,112</u>
Liabilities	\$ 25,282,325
Capital and Surplus	<u>42,100,787</u>
Total Liabilities, Capital and Surplus	<u>\$ 67,383,112</u>

Subsequent Events

There are no events subsequent to December 31, 2010 that would have a material impact on the Company's financial position.

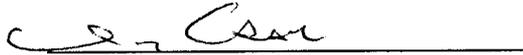
Acknowledgement

In addition to the undersigned, David Finkler, CPA; Ryan Gibson, CFE, FLMI; Jeff Ferris, CFE, CISA, AES; Vicky Hugo, CFE, CPA, CISA, AES; Floyd Meeks, CFE, CPA, CISA, AES; Larry Rice, CFE, CPA, CISA, AES; Mary Miller, FCAS, MAAA; and Brad Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Nicholas J. Kostoff 9/8/11
Examiner-In-Charge Date

[Signature] 9/10/11
Assistant Chief Examiner Date

State of Ohio
County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of September, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires

State of Ohio
County of Franklin

Personally appeared before me the above named David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of September, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires