

Report of Examination of

Paramount Insurance Company
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 Insurance Company

an Ohio domiciled, legal reserve life insurance company, 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 Directors, which was comprised of the following members as of the examination date.

Name	Principal Occupation
Kent E. Bishop, M.D.	OB/GYN, ProMedica Physician Group
Thomas P. Cox, M.D.	Family Physician, ProMedica Physician Group
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.
Richard L. Munk, M.D.	Pediatric Orthopedic Surgeon, ProMedica Physician Group
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 offers a variety of health insurance products that include: point of service ("POS"), out of area, consumer-driven health plans ("CDHP"), administrative services only ("ASO"), Medicare supplement, Medicare Part D, and a stop-loss product for self-funded groups. The Company is licensed in Ohio and Michigan.

Reinsurance

Assumed

The Company does not assume any reinsurance.

Ceded

The Company cedes reinsurance under an excess reinsurance agreement with effective dates of January 1, 2010 through December 31, 2010. The agreement covers hospital and medical services provided to commercial PPO members. The Company retains the first \$400,000 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 \$3,000,000 per agreement period and \$5,000,000 lifetime.

Under a specific and aggregate integrated stop loss quota share reinsurance agreement effective November 1, 2006, the Company cedes a quota share participation in specific and aggregate employer stop loss insurance policies issued or renewed by the Company on or after the effective date. For specific excess policies, the Company cedes a 75% quota share of its net loss per covered person per policy year in excess of the specific self-funded retention, with a minimum retention of \$25,000. The reinsurer's liability related to these claims is limited to its proportionate share of \$1,000,000 net loss per covered person per lifetime. For aggregate excess policies, the Company cedes a 75% quota share of its net loss per policy year in excess of the employer's aggregate retention, with a minimum retention of 125% of the insured's expected original claims. The reinsurer's liability related to these claims is limited to its proportionate share of 75% of a maximum limit of \$1,000,000 net loss per policy year.

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	\$ 350,000
Cash, cash equivalents, and short-term investments	14,239,525
Subtotal, cash and invested assets	14,589,525
Uncollected premiums and agents' balances	200,980
Amounts receivable relating to uninsured plans	80,397
Current federal and foreign income tax recoverable	1,330,910
Receivables from parent, subsidiaries and affiliates	3,340,255
Health care and other amounts receivable	65,615
Total admitted assets	\$ 19,607,682
Claims unpaid	\$ 4,172,877
Unpaid claims adjustment expenses	170,971
Aggregate health policy reserves	1,092,601
Premiums received in advance	584,758
General expenses due or accrued	1,585,590
Total liabilities	7,606,797
Common capital stock	1,000,000
Gross paid in and contributed surplus	26,000,000
Unassigned funds	(14,999,115)
Total capital and surplus	12,000,885
Total liabilities, capital and surplus	\$ 19,607,682

Statement of Revenue and Expenses
As of December 31, 2010

Net premium income	\$ 37,287,327
Total revenues	37,287,327
Hospital/medical benefits	30,085,267
Other professional services	84,893
Emergency room and out-of-area	2,319,092
Prescription drugs	5,642,021
Less: Net reinsurance recoveries	359,941
Total hospital and medical	37,771,332
Claims adjustment expenses	260,719
General administrative expenses	5,014,231
Increase in reserves for life and accident and health contracts	(2,705,137)
Total underwriting deductions	40,341,145
Net underwriting gain	(3,053,818)
Net investment income earned	1,735
Net realized capital gains	-
Net investment gains	1,735
Net income before federal income taxes	(3,052,083)
Federal and foreign income taxes incurred	(2,035,501)
Net income	\$ (1,016,582)

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

	2010	2009	2008	2007	2006
Capital & surplus, December 31, prior year	\$ 6,072	\$ 8,670	\$ 6,921	\$ 5,088	\$ 2,593
Net income (loss)	(1,017)	(7,884)	(4,220)	1,577	(1,458)
Net unrealized capital gains (losses)	-	(4)	-	2	(3)
Change in net deferred income tax	(971)	1,074	159	(257)	94
Change in nonadmitted assets	917	(1,284)	(190)	511	(138)
Surplus adjustments	7,000	5,500	6,000	-	4,000
Net change in capital and surplus	5,929	(2,598)	1,749	1,833	2,495
Capital & surplus, December 31, current year	\$ 12,001	\$ 6,072	\$ 8,670	\$ 6,921	\$ 5,088

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of cash and short-term investments. The investments were in compliance with ORC Section 3907 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

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>\$ 19,607,682</u>
Liabilities	\$ 7,606,797
Capital and Surplus	<u>12,000,885</u>
Total Liabilities, Capital and Surplus	<u>\$ 19,607,682</u>

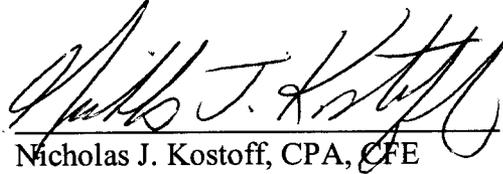
Subsequent Events

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

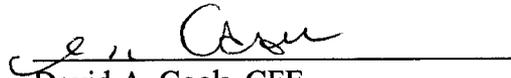
Acknowledgement

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

Elizabeth Chase 9/8/11
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

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