

Report of Examination of

Summa Insurance Company, Inc.
Akron, Ohio

As of December 31, 2012

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Columbus, Ohio
July 2, 2013

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

Summa Insurance Company, Inc.

an Ohio domiciled, stock, property and casualty 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, 2007. The Department’s current full scope examination covers the period of January 1, 2008 through and including December 31, 2012.

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 Ernst & Young, LLP (“E&Y”) provided an unqualified opinion on the financial statements based on

statutory accounting principles. The E&Y 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 |
|----------------------------------|---|
| Kenneth E. Berkovitz, M.D. | Physician Cardiovascular Disease and Chairman, Summa Hospital Department of Cardiology |
| Bradley H. Crombie, M.D. | Physician Internal Medicine, Private Practice |
| Kathleen T. Geier | Manager KTG Consulting, LLC |
| Martin P. Hauser | President and Chief Executive Officer, The Company |
| Vincent H. Johnson, Jr., M.D. | Retired Physician |
| Thomas G. Knoll | Attorney, Stark & Knoll, L.P.A. |
| Richard H. Marsh | Retired Senior Vice President and Chief Financial Officer, First Energy Corporation |
| Richard A. Merolla | Deputy Mayor of Administration and Chief of Staff, City of Akron |
| Dale P. Murphy, M.D. | Physician, Summa Physicians Inc. and Vice President Medical Affairs of Summa Akron City and St. Thomas Hospitals |
| John B. Silvers, Ph.D. | Professor, Weatherhead School of Management, Case Western Reserve University |
| Thomas J. Strauss | Chief Executive Officer, Summa Health System |

Rajiv V. Taliwal, M.D. Physician, Crystal Clinic Orthopedic Center-North Coast Spine Center

Norman E. Wells, Jr. Partner and Operating Executive, SFW Capital Partners

Jay C. Williamson, M.D. Physician, Chief Medical Officer and Interim President, Summa Physicians Inc.

Officers

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

| Name | Title |
|-----------------------|---------------------------------------|
| Thomas G. Knoll | Chairman |
| Kathleen T. Geier | Vice Chairman |
| Martin P. Hauser | President and Chief Executive Officer |
| William A. Powel, III | Secretary |
| Brian K. Derrick | Treasurer |
| Judith A. Macro | Assistant Secretary |
| James E. McNutt | Assistant Treasurer |

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32 and is a majority-owned subsidiary of Summa Health System (“SHS”). SHS is an Integrated Healthcare Delivery System that provides coordinated, value-based care across the continuum for the people and populations that are served.

Territory and Plan of Operations

The Company offers group Preferred Provider Organization (“PPO”) products through which enrolled members elect to receive care from a Summa Preferred Provider (network provider) or a non-network provider at the member's option. Membership is predominantly located in Northeast Ohio.

Reinsurance

Assumed

The Company does not assume any reinsurance.

Ceded

The Company pays premiums based on membership. The Company is reimbursed a percentage of charges in excess of a deductible for hospital and related services provided to individual members. The Company is at risk up to \$300,000 per year for each PPO member for eligible hospital services. The coverage is subject to certain per diem limits and a lifetime benefit limit of \$5 million per member. The first \$100,000 of eligible commercial reimbursement comes from Middlebury Assurance Corporation which is a wholly owned subsidiary of Summa Health System.

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, 2012**

| | |
|--|----------------------|
| Bonds | \$ 15,043,516 |
| Common Stocks | 52,161,524 |
| Cash, cash equivalents, and short-term investments | <u>21,023,811</u> |
| Subtotal, cash and invested assets | <u>88,228,851</u> |
| Investment income due and accrued | 98,057 |
| Uncollected premiums and agents' balances | 746,025 |
| Amounts recoverable from reinsurers | 350,123 |
| Other amounts receivable under reinsurance contracts | 16,210 |
| Net deferred tax asset | 941,632 |
| Electronic data processing equipment and software | 1,644,917 |
| Health care and other amounts receivable | <u>3,272,571</u> |
| Total admitted assets | <u>\$ 95,298,386</u> |
| | |
| Claims unpaid | \$ 21,157,500 |
| Accrued medical incentive pool and bonus amounts | 128,000 |
| Unpaid claims adjustment expenses | 291,396 |
| Aggregate health policy reserves | 1,128,000 |
| Premiums received in advance | 5,936,530 |
| General expenses due or accrued | 1,976,416 |
| Current federal and foreign income tax payable | 625,554 |
| Amounts due to parent, subsidiaries and affiliates | 4,606,014 |
| Funds held under reinsurance treaties | <u>1,494,001</u> |
| Total liabilities | <u>37,343,411</u> |
| | |
| Common capital stock | 2,500,062 |
| Gross paid in and contributed surplus | 33,589,064 |
| Unassigned funds | 21,919,428 |
| Less treasury stock at cost | <u>53,579</u> |
| Total capital and surplus | <u>57,954,975</u> |
| Total liabilities, capital and surplus | <u>\$ 95,298,386</u> |

Statement of Revenue and Expenses
As of December 31, 2012

| | |
|--|------------------------------|
| Net premium income | \$ 205,246,012 |
| Total revenues | <u>205,246,012</u> |
| Hospital/medical benefits | 155,566,679 |
| Prescription drugs | 28,381,614 |
| Incentive pool, withhold adjustments and bonus amounts | <u>201,106</u> |
| Subtotal | 184,149,399 |
| Net reinsurance recoveries | <u>2,581,103</u> |
| Total hospital and medical | 181,568,296 |
| Claims adjustment expenses | 1,547,276 |
| General administrative expenses | <u>25,435,496</u> |
| Total underwriting deductions | <u>208,551,068</u> |
| Net underwriting loss | <u>(3,305,056)</u> |
| Net investment income earned | <u>326,288</u> |
| Net investment gains | 326,288 |
| Miscellaneous expense | <u>(27,936)</u> |
| Net loss before federal income taxes | (3,006,704) |
| Federal income taxes incurred | <u>(952,475)</u> |
| Net loss | <u><u>\$ (2,054,229)</u></u> |

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

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|------------------|------------------|------------------|------------------|------------------|
| Capital & surplus, December 31, prior year | <u>\$ 53,913</u> | <u>\$ 48,237</u> | <u>\$ 40,767</u> | <u>\$ 22,208</u> | <u>\$ 40,836</u> |
| Net loss | (2,054) | (180) | (774) | (7,358) | (6,807) |
| Net unrealized capital gains (losses) | 3,240 | 4,825 | 7,072 | 1,216 | (7,462) |
| Change in net deferred income tax | 72 | (78) | 948 | (4,123) | 3,508 |
| Change in nonadmitted assets | 2,770 | 1,113 | 195 | 3,981 | (8,328) |
| Surplus adjustments | 0 | 0 | 10 | 24,709 | 58 |
| Agg. write-ins for G/(L) in surplus | 14 | 10 | 25 | (823) | 991 |
| Other | <u>0</u> | <u>(14)</u> | <u>(6)</u> | <u>957</u> | <u>(588)</u> |
| Net change in capital and surplus | <u>4,042</u> | <u>5,676</u> | <u>7,470</u> | <u>18,559</u> | <u>(18,628)</u> |
| Capital & surplus, December 31, current year | <u>\$ 57,955</u> | <u>\$ 53,913</u> | <u>\$ 48,237</u> | <u>\$ 40,767</u> | <u>\$ 22,208</u> |

Notes to Financial Statements

Investments

The Company's investment portfolio consists primarily of investment grade bonds, common stock, short-term investments, and cash. The investments were in compliance with ORC Section 3925.08 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

Michael J. Cellini, FCA, ASA, MAAA, Principal & Consulting Actuary with Ernst & Young, LLP, analyzed the reserves of the Company and provided an actuarial opinion on the Company's reserves for the year ended December 31, 2012.

Daniel L. Moore, ASA, MAAA, Chief Health Actuary with the Office of Product Regulation and Actuarial Services of the Department, reviewed the report by the Company's appointed actuary and based on the results presented in the Company's 2012 Annual Statement determined that the reserves 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, 2012, and is summarized as follows:

| | |
|--|----------------------|
| Total Admitted Assets | <u>\$ 95,298,386</u> |
| Liabilities | \$ 37,343,411 |
| Capital and Surplus | <u>57,954,975</u> |
| Total Liabilities, Capital and Surplus | <u>\$ 95,298,386</u> |

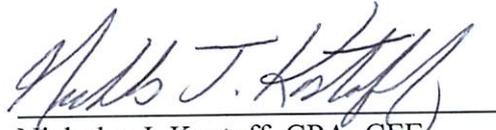
Subsequent Events

In early 2013, the Summa Health System Board of Directors approved a letter of intent with Cincinnati based Catholic Health Partners to create a strategic partnership.

Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: David T. Finkler CPA, CFE, CISA, AES; Louis F. Radecky, CPA (inactive), CFE and Jeffrey J. Ferris, CFE, CISA, AES.

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, 2012.

Nicholas J. Kostoff 7/23/13
Examiner-In-Charge Date

Elizabeth Chase 7/29/13
Assistant Chief Examiner Date

State of Oh. O

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 23 day of July, 2013.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

State of Oh. O

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 29 day of July, 2013.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017