



# ANNUAL STATEMENT

## For the Year Ending December 31, 2002

### OF THE CONDITION AND AFFAIRS OF THE

# Paramount Health Care



NAIC Group Code 1212 (Current Period) 1212 (Prior Period) NAIC Company Code 95189 Employer's ID Number 341549926

Organized under the Laws of Ohio State of Domicile or Port of Entry Ohio

Country of Domicile United States of America

Licensed as business type: Life, Accident & Health[ ] Property/Casualty[ ] Hospital, Medical & Dental Service or Indemnity[ ]  
 Dental Service Corporation[ ] Vision Service Corporation[ ] Health Maintenance Organization[X]  
 Other[ ] Is HMO Federally Qualified? Yes[ ] No[X]

Date Incorporated or Organized 04/22/1987 Date Commenced Business 01/01/1988

Statutory Home Office 1901 Indian Wood Circle Maumee, OH 43537  
 (Street and Number) (City, or Town, State and Zip Code)

Main Administrative Office 1901 Indian Wood Circle  
 (Street and Number) Maumee, OH 43537 (419)887-2500  
 (City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 1901 Indian Wood Circle Maumee, OH 43537  
 (Street and Number or P.O. Box) (City, or Town, State and Zip Code)

Primary Location of Books and Records 1901 Indian Wood Circle  
 (Street and Number) Maumee, OH 43537 (419)887-2500  
 (City, or Town, State and Zip Code) (Area Code) (Telephone Number)

Internet Website Address www.paramounthealthcare.com

Statement Contact Jeff William Martin, Mr. (419)887-2959  
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Policyowner Relations Contact 1901 Indian Wood Circle  
 (Street and Number) Maumee, OH 43537 (419)887-2525  
 (City, or Town, State and Zip Code) (Area Code) (Telephone Number)(Extension)

### OFFICERS

President John Charles Randolph Mr.  
 Secretary Jeffrey Craig Kuhn Mr.  
 Treasurer Kathleen S. Hanley Ms.  
 Chairman Frederick Lurcott Yocum Mr.

### VICE PRESIDENTS

Robert James Kolodgy Mr. Neeraj Kumar Kanwal Dr.  
 Mark Henry Moser Mr.

### DIRECTORS OR TRUSTEES

Alan William Brass Mr. Harley Jay Kripke Mr.  
 Ronald Richard Langenderfer Mr. Christopher Kane Smitley Mr.  
 Harold Lee Dunn Mr. Thomas Henry Gross Mr.  
 Robert Henry Hartwig Mr. Jeffrey Ray Lewis Mr.  
 Jane M. Miller Ms. Randall Dean Oostra Mr. #

State of Ohio  
 County of Lucas ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of the said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manuals except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

John Charles Randolph (Signature) Jeffrey Craig Kuhn (Signature) Robert James Kolodgy (Signature)  
 John Charles Randolph (Printed Name) Jeffrey Craig Kuhn (Printed Name) Robert James Kolodgy (Printed Name)  
 President Secretary Senior Vice President

a. Is this an original filing? Yes [ ] No[X]  
 b. If no, 1. State the amendment number 1  
 2. Date filed 04/30/2003  
 3. Number of pages attached 19

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003

\_\_\_\_\_  
 (Notary Public Signature)

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C.I.R.S

**Amended Statement Cover**

The following schedules have been amended since the original filing:

1. Asset, page 2, Line 1, column 2-Statement value was originally reported at fair market value. They have adjusted to reflect amortized cost.
2. Asset, page 2, Line 1, column 2-Statement value was originally reported at fair market value. They have adjusted to reflect cost.
3. Asset, page 2, Line 11, column 2-A portion of Medical advances were originally admitted. They have been subsequently non-admitted.
4. Asset, page 2, Line 20, column 2-Change in admission of EDP due to changes noted above.
5. Liabilities, Capital and Surplus, page 3, Line 2301-Change in non-admitted assets due to bonds being recorded at amortized cost and stocks at cost, medical advances not being admitted and change in admission of EDP.
6. Statement of Revenue and Expenses, page 5, Line 37-Change in non-admitted assets due to bonds being recorded at amortized cost and stocks at medical cost, medical advances not being admitted and change in admission of EDP.
7. Analysis of Operations by Line of Business, page 7-Change in net reinsurance recoveries and general administrative expenses between Medicare, Medicaid and Comprehensive. Total column did not change.
8. Underwriting and Investment Exhibit, Part 2, page 9-Change in payments and current year liability between Medicare, Medicaid and Comprehensive. liability did not change. Total net incurred benefits changed to agree to statement of Revenue and Expenses. Offsets change in total payments.
9. Underwriting and Investment Exhibit, Part2A, page 10-Change in incurred but not reported between Medicare, Medicaid and Comprehensive. Total column did not change.
10. Underwriting and Investment Exhibit, Part 2C, Section B, page 12 Total, page 12 Hospital and Medical-Change in 2002 column due to changes in above schedules.
11. Exhibit 1-Analysis of Nonadmitted assets and related items
12. Notes to the financial statements-Footer number 1C, 13I, 27 changed due to the above noted changes.
13. Summary Investment Schedule, page 26-Change in admitted assets columns 3 and 4 due to bonds being recorded at amortized cost and stocks at cost.
14. Five-Year Historical Data, page 32, Changes based on above
15. Schedule D-Verification Between Years, page 36, Line 10-Change due to bonds being recorded at amortized cost and stocks at cost.
16. Schedule S, Part 6, page 53-Change in total assets and liabilities
17. Overflow page for write-ins, page 58-Change in non-admitted assets and related items
18. Schedule D, Part 2, Section1, page E09-Change in Column 14, NAIC designation
19. Supplemental Investment Risk Interrogatories-SIR1-Change in Column 2 due to bonds being recorded at amortized cost and stocks at cost, SIR 2-SIR were previously marked NONE in original filing.
20. RBC workpapers

## ASSETS

	Current Year			Prior Year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets	4 Net Admitted Assets
1. Bonds	43,384,070	1,880,943	41,503,127	29,899,361
2. Stocks:				
2.1 Preferred stocks	411,200	11,200	400,000	
2.2 Common stocks				
3. Mortgage loans on real estate:				
3.1 First liens				
3.2 Other than first liens				
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$..... encumbrances)			(a)	
4.2 Properties held for the production of income (less \$..... encumbrances)				
4.3 Properties held for sale (less \$..... encumbrances)				
5. Cash (\$..... 25,929,949, Schedule E - Part 1) and short-term investments (\$..... 6,519,914, Schedule DA - Part 2)	32,449,862		32,449,862	41,413,353
6. Other long-term invested assets	25,046,465		25,046,465	27,221,412
7. Receivable for securities				
8. Aggregate write-ins for invested assets	751,436		751,436	751,436
9. Subtotal, cash and invested assets (Lines 1 to 8)	102,043,033	1,892,143	100,150,890	99,285,562
10. Accident and health premiums due and unpaid	3,339,676		3,339,676	3,328,441
11. Health care receivables	3,999,639	3,215,156	784,483	746,023
12. Amounts recoverable from reinsurers	438,176		438,176	670,560
13. Net adjustment in assets and liabilities due to foreign exchange rates				
14. Investment income due and accrued	599,005		599,005	479,581
15. Amounts due from parent, subsidiaries and affiliates	2,684,698	111,741	2,572,957	1,728,088
16. Amounts receivable relating to uninsured accident and health plans	699,387		699,387	850,636
17. Furniture and equipment	646,663	646,663		
18. Amounts due from agents				
19. Federal and foreign income tax recoverable and interest thereon (including \$..... 3,062,518 net deferred tax asset)	3,892,758		3,892,758	2,000,000
20. Electronic data processing equipment and software	1,732,408	546,599	1,185,809	1,049,797
21. Other nonadmitted assets	9,085,877	9,085,877		
22. Aggregate write-ins for other than invested assets	4,476,430		4,476,430	4,566,393
23. Total assets (Lines 9 plus 10 through 22)	133,637,750	15,498,179	118,139,571	114,705,081
<b>DETAILS OF WRITE-INS</b>				
0801. Certificate of Deposit	400,000		400,000	400,000
0802. CD - Allianz Life Insurance Company	351,436		351,436	351,436
0803				
0898. Summary of remaining write-ins for Line 8 from overflow page				
0899. TOTALS (Lines 0801 through 0803 plus 0898) (Line 8 above)	751,436		751,436	751,436
2201. Collateral Receivable	4,466,430		4,466,430	4,230,754
2202. Current Receivables	10,000		10,000	335,639
2203. Other Assets				
2298. Summary of remaining write-ins for Line 22 from overflow page				
2299. TOTALS (Lines 2201 through 2203 plus 2298) (Line 22 above)	4,476,430		4,476,430	4,566,393

(a) \$..... health care delivery assets included in Line 4.1, Column 3.

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....1,027,003 reinsurance ceded) .....	40,020,772		40,020,772	38,462,930
2. Accrued medical incentive pool and bonus payments .....				
3. Unpaid claims adjustment expenses .....	1,850,000		1,850,000	1,850,000
4. Aggregate policy reserves .....				
5. Aggregate claim reserves .....				
6. Premiums received in advance .....	17,172,426		17,172,426	15,478,969
7. General expenses due or accrued .....	289,703		289,703	724,974
8. Federal and foreign income tax payable and interest thereon (including \$..... on realized capital gains (losses)) (including \$..... net deferred tax liability) .....				(500)
9. Amounts withheld or retained for account of others .....	137,361		137,361	(35,971)
10. Borrowed money (including \$..... current) and interest thereon \$..... (including \$..... current) .....				
11. Amounts due to parent, subsidiaries and affiliates .....	8,423,091		8,423,091	12,133,530
12. Payable to securities .....				
13. Funds held under reinsurance treaties with (\$..... authorized reinsurers and \$..... unauthorized reinsurers) .....				
14. Reinsurance in unauthorized companies .....				
15. Net adjustments in assets and liabilities due to foreign exchange rates .....				
16. Liability for amounts held under uninsured accident and health plans .....				
17. Aggregate write-ins for other liabilities (including \$.....7,745,611 current) .....	6,470,915		6,470,915	8,048,107
18. Total liabilities (Lines 1 to 17) .....	74,364,268		74,364,268	76,662,039
19. Common capital stock .....	X X X	X X X	4,700,000	4,700,000
20. Preferred capital stock .....	X X X	X X X		
21. Gross paid in and contributed surplus .....	X X X	X X X	40,619,246	40,619,246
22. Surplus notes .....	X X X	X X X		
23. Aggregate write-ins for other than special surplus funds .....	X X X	X X X	(16,682,654)	(17,249,845)
24. Unassigned funds (surplus) .....	X X X	X X X	15,138,711	9,973,641
25. Less treasury stock, at cost:	X X X	X X X		
25.1 ..... shares common (value included in Line 19 \$.....)	X X X	X X X		
25.2 ..... shares preferred (value included in Line 20 \$.....)	X X X	X X X		
26. Total capital and surplus (Lines 19 to 25) .....	X X X	X X X	43,775,303	38,043,042
27. Total liabilities, capital and surplus (Lines 18 and 26) .....	X X X	X X X	118,139,571	114,705,081
<b>DETAILS OF WRITE-INS</b>				
1701. Collateral Payable .....	4,466,430		4,466,430	4,230,754
1702. Accrued Other .....	416,120		416,120	1,001,359
1703. Deferred Revenue .....				910,000
1798. Summary of remaining write-ins for Line 17 from overflow page .....	1,588,365		1,588,365	1,905,994
1799. TOTALS (Lines 1701 through 1703 plus 1798) (Line 17 above) .....	6,470,915		6,470,915	8,048,107
2301. Nonadmitted Assets .....	X X X	X X X	(15,498,179)	(16,847,004)
2302. Market Value Adjustment .....	X X X	X X X	(1,184,475)	(402,841)
2303. ....	X X X	X X X		
2398. Summary of remaining write-ins for Line 23 from overflow page .....	X X X	X X X		
2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) .....	X X X	X X X	(16,682,654)	(17,249,845)

## STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year	2 Prior Year
<b>CAPITAL &amp; SURPLUS ACCOUNT</b>		
31. Capital and surplus prior reporting year .....	38,043,042	27,651,002
<b>GAINS AND LOSSES TO CAPITAL &amp; SURPLUS</b>		
32. Net income or (loss) from Line 30 .....	8,965,072	8,511,697
33. Change in valuation basis of aggregate policy and claim reserves .....		
34. Net unrealized capital gains and losses .....	(781,636)	
35. Change in net unrealized foreign exchange capital gain or (loss) .....		
36. Change in net deferred income tax .....		
37. Change in nonadmitted assets .....	1,348,825	(2,288,665)
38. Change in unauthorized reinsurance .....		
39. Change in treasury stock .....		
40. Change in surplus notes .....		
41. Cumulative effect of changes in accounting principles .....		
42. Capital Changes:		
42.1 Paid in .....		
42.2 Transferred from surplus (Stock Dividend) .....		
42.3 Transferred to surplus .....		
43. Surplus adjustments:		
43.1 Paid in .....		4,900,000
43.2 Transferred to capital (Stock Dividend) .....		
43.3 Transferred from capital .....		
44. Dividends to stockholders .....	(3,800,000)	
45. Aggregate write-ins for gains or (losses) in surplus .....		(730,990)
46. Net change in capital and surplus (Lines 32 to 45) .....	5,732,261	10,392,042
47. Capital and surplus end of reporting year (Line 31 plus 46) .....	43,775,303	38,043,044
<b>DETAILS OF WRITE-INS</b>		
4501. Change in Market Value .....		(730,990)
4502. Dividend to affiliate .....		
4503 .....		
4598. Summary of remaining write-ins for Line 45 from overflow page .....		
4599. TOTALS (Lines 4501 through 4503 plus 4598) (Line 45 above) .....		(730,990)

# ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

(Gain and Loss Exhibit)

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital & Medical)	Medical Only	Medicare Supplement	Dental Only	Vision Only	Federal Employee Health Benefit Plan	Title XVIII- Medicare	Title XIX- Medicaid	Stop Loss	Disability Income	Long- term Care	Other
1. Net premium income	452,875,828	266,267,452					5,505,644	131,195,926	49,906,806				
2. Change in unearned premium reserves and reserve for rate credit													
3. Fee-for-service (net of \$..... medical expenses)													
4. Risk revenue	17,790	17,790											
5. Aggregate write-ins for other health care related revenues													
6. Total revenues (Lines 1 to 5)	452,893,618	266,285,242					5,505,644	131,195,926	49,906,806				
7. Medical/hospital benefits	335,451,968	185,062,086					3,729,407	111,887,658	34,772,817				
8. Other professional services													
9. Outside referrals													
10. Emergency room and out-of-area	13,773,330	7,673,593											
11. Prescription drugs	60,954,842	46,240,363					1,090,328	3,392,512	2,707,225				
12. Aggregate write-ins for other medical and hospital	(1,788,763)	(1,788,763)						6,378,436	7,245,715				
13. Incentive pool and withhold adjustments													
14. Subtotal (Lines 7 to 13)	408,391,377	237,187,279					4,819,735	121,658,606	44,725,757				
15. Net reinsurance recoveries	1,689,312	879,219						117,113	692,980				
16. Total medical and hospital (Lines 14 minus 15)	406,702,065	236,308,060					4,819,735	121,541,493	44,032,777				
17. Claims adjustment expenses	2,569,456	1,659,155					31,237	544,806	334,258				
18. General administrative expenses	32,630,730	22,779,650					396,694	4,836,871	4,617,515				
19. Increase in reserves for accident and health contracts													
20. Total underwriting deductions (Lines 16 to 19)	441,902,251	260,746,865					5,247,666	126,923,170	48,984,550				
21. Net underwriting gain or (loss) (Line 6 minus Line 20)	10,991,367	5,538,377					257,978	4,272,756	922,256				
<b>DETAILS OF WRITE-INS</b>													
0501													
0502													
0503													
0598													
0599													
1201.	(1,788,763)	(1,788,763)											
1202													
1203													
1298.													
1299.	(1,788,763)	(1,788,763)											

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2 - Claims Incurred During the Year

	1	2	3	4	5	6	7	8	9
	Total	Compre- hensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1. Payments during the year:									
1.1 Direct	407,306,782	236,602,598				4,850,604	122,067,430	43,786,150	
1.2 Reinsurance assumed									
1.3 Reinsurance ceded	2,394,938	1,235,475					383,174	776,289	
1.4 Net	404,911,844	235,367,123				4,850,604	121,684,256	43,009,861	
2. Paid medical incentive pools and bonuses									
3. Claim liability December 31, current year from Part 2A:									
3.1 Direct	41,047,775	23,709,828				441,072	11,328,811	5,568,064	
3.2 Reinsurance assumed									
3.3 Reinsurance ceded	1,027,003	599,831					99,047	328,125	
3.4 Net	40,020,772	23,109,997				441,072	11,229,764	5,239,939	
4. Claim reserve December 31, current year from Part 2D:									
4.1 Direct									
4.2 Reinsurance assumed									
4.3 Reinsurance ceded									
4.4 Net									
5. Accrued medical incentive pools and bonuses, current year									
6. Amounts recoverable from reinsurers December 31, current year	438,176	175,850					31,677	230,649	
7. Claim liability December 31, prior year from Part 2A:									
7.1 Direct	39,963,180	23,125,147				471,941	11,737,635	4,628,457	
7.2 Reinsurance assumed									
7.3 Reinsurance ceded	1,500,249	1,091,994					58,262	349,993	
7.4 Net	38,462,931	22,033,153				471,941	11,679,373	4,278,464	
8. Claim reserve December 31, prior year from Part 2D:									
8.1 Direct									
8.2 Reinsurance assumed									
8.3 Reinsurance ceded									
8.4 Net									
9. Accrued medical incentive pools and bonuses, prior year									
10. Amounts recoverable from reinsurers December 31, prior year	670,556	39,943					338,523	292,090	
11. Incurred benefits:									
11.1 Direct	408,391,377	237,187,279				4,819,735	121,658,606	44,725,757	
11.2 Reinsurance assumed									
11.3 Reinsurance ceded	1,689,312	879,219					117,113	692,980	
11.4 Net	406,702,065	236,308,060				4,819,735	121,541,493	44,032,777	
12. Incurred medical incentive pools and bonuses									

## UNDERWRITING AND INVESTMENT EXHIBIT

### PART 2A - Claims Liability End of Current Year

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Medical & Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan Premium	Title XVIII Medicare	Title XIX Medicaid	Other
1. Reported in Process of Adjustment:									
1.1 Direct	12,209,829	8,365,451				114,430	2,646,599	1,083,349	
1.2 Reinsurance assumed									
1.3 Reinsurance ceded	1,027,003	599,831							
1.4 Net	11,182,826	7,765,620				114,430	2,547,552	328,125	
2. Incurred but Unreported:									
2.1 Direct	28,837,946	15,344,377				326,642	8,682,212	4,484,715	
2.2 Reinsurance assumed									
2.3 Reinsurance ceded									
2.4 Net	28,837,946	15,344,377				326,642	8,682,212	4,484,715	
3. Amounts Withheld from Paid Claims and Capitalizations:									
3.1 Direct									
3.2 Reinsurance assumed									
3.3 Reinsurance ceded									
3.4 Net									
4. TOTALS									
4.1 Direct	41,047,775	23,709,828				441,072	11,328,811	5,568,064	
4.2 Reinsurance assumed									
4.3 Reinsurance ceded	1,027,003	599,831					99,047	328,125	
4.4 Net	40,020,772	23,109,997				441,072	11,229,764	5,239,939	

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS (000 Omitted)**

**Grand Total**

**Section A - Paid Claims**

	Net Amounts Paid				
	1 1998	2 1999	3 2000	4 2001	5 2002
1. Year in Which Losses Were Incurred					
2. Prior	10,714	75	17	1	
3. 1998	110,581	15,916	286	26	
4. 1999	XXX	104,922	23,929	374	65
5. 2000	XXX	XXX	126,217	23,418	911
6. 2001	XXX	XXX	XXX	185,030	83,256
7. 2002	XXX	XXX	XXX	XXX	320,072

**Section B - Incurred Claims**

	Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1998	2 1999	3 2000	4 2001	5 2002
1. Year in Which Losses Were Incurred					
2. Prior	10,714	75	17	1	
3. 1998	128,149	15,916	286	26	
4. 1999	XXX	162,566	24,151	374	65
5. 2000	XXX	XXX	154,954	24,824	911
6. 2001	XXX	XXX	XXX	222,090	83,456
7. 2002	XXX	XXX	XXX	XXX	359,893

**Section C - Incurred Year Claims and Claims Adjustment Expense Ratio**

	1	2	3	4	5	6	7	8	9	10
	Premiums Earned	Claims Payments	Claim Adjustment Expense Payments	(Col. 3/2) Percent	Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	(Col. 5/1) Percent	Claims Unpaid	Unpaid Claims Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	(Col. 9/1) Percent
1. Prior to 1998	XXX	10,805		XXX	10,805	XXX			10,805	XXX
2. 1998	217,117	130,985			130,985	60			130,985	60
3. 1999	318,783	159,290			159,290	50			159,290	50
4. 2000	339,976	150,324			150,324	44			150,324	44
5. 2001	375,274	268,286	2,237	1	270,523	72	199		270,722	72
6. 2002	452,321	320,072	2,569	1	322,641	71	39,821		364,312	81
7. TOTAL (Lines 1 through 6)	XXX	1,039,762	4,806	XXX	1,044,568	XXX	40,020		1,086,438	XXX
8. TOTAL (Lines 2 through 6)	1,703,471	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS (000 Omitted)**  
 Hospital and Medical  
**Section A - Paid Claims**

	Net Amounts Paid				
	1 1998	2 1999	3 2000	4 2001	5 2002
1. Prior					
2. 1998	4,976	7	10	1	
3. 1999	52,136	6,764	135	6	
4. 2000	XXX	74,269	14,689	212	50
5. 2001	XXX	XXX	66,215	12,006	542
6. 2002	XXX	XXX	XXX	99,678	58,427
				XXX	188,928

**Section B - Incurred Claims**

	Sum of Net Amount Paid and Claim Liability and Reserve Outstanding at End of Year				
	1 1998	2 1999	3 2000	4 2001	5 2002
1. Prior					
2. 1998	4,976	7	10	1	
3. 1999	62,662	6,764	135	6	
4. 2000	XXX	91,472	14,816	212	50
5. 2001	XXX	XXX	82,323	12,817	542
6. 2002	XXX	XXX	XXX	120,904	58,534
				XXX	211,931

**Section C - Incurred Year Claims and Claims Adjustment Expense Ratio**

	1	2	3	4	5	6	7	8	9	10
Years in Which Premiums were Earned and Claims were Incurred	Premiums Earned	Claims Payments	Claim Adjustment Expense Payments	(Col. 3/2) Percent	Claim and Expense Payments (Col. 2 + 3)	(Col. 5/1) Percent	Claims Unpaid	Unpaid Claims Adjustment Expenses	Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	(Col. 9/1) Percent
1. Prior to 1998	XXX	4,993		XXX	4,993	XXX			4,993	XXX
2. 1998	103,431	59,042			59,042	57			59,042	57
3. 1999	167,295	89,221			89,221	53			89,221	53
4. 2000	179,644	78,763			78,763	44			78,763	44
5. 2001	224,014	158,105	1,436	1	159,541	71	107		159,648	71
6. 2002	262,755	188,928	1,659	1	190,587	73	23,003	1,850	215,440	82
7. TOTAL (Lines 1 through 6)	XXX	579,052	3,095	XXX	582,147	XXX	23,110	1,850	607,107	XXX
8. TOTAL (Lines 2 through 6)	937,139	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

**EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS**

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) or Decrease
1. Summary of items Page 2, Lines 10 to 13 and 15 to 20, Column 2 .....	4,520,159	7,755,579	3,235,420
2. Other Nonadmitted Assets:			
2.1 Bills receivable .....			
2.2 Leasehold improvements .....	27,824	48,804	20,980
2.3 Cash advanced to or in the hands of officers and agents .....			
2.4 Loans on personal security, endorsed or not .....			
2.5 Commuted commissions .....			
3. Total (Lines 2.1 to 2.5) .....	27,824	48,804	20,980
4. Aggregate write-ins for other assets .....	10,950,196	9,042,621	(1,907,575)
5. TOTAL (Line 1 plus Line 3 and Line 4) .....	15,498,179	16,847,004	1,348,825
<b>DETAILS OF WRITE-INS</b>			
0401. Membership Contracts: THP, MVP (net) .....	8,749,913	8,749,913	
0402. Deferred Deal Cost .....	78,073	151,703	73,630
0403. Prepaid Expenses .....	102,292	69,506	(32,786)
0498. Summary of remaining write-ins for Line 4 from overflow page .....	2,019,918	71,499	(1,948,419)
0499. TOTALS (Lines 0401 through 0403 plus 0498) (Line 4 above) .....	10,950,196	9,042,621	(1,907,575)

## Notes to Financial Statement

### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The financial statements of Paramount Care, Inc. (Company) are presented in accordance with the NAIC Accounting Practices and Procedures manual- the prescribed method of the Ohio Department of Insurance.

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### C. Accounting Policy

1. Short-term investments are stated at Fair Market Value, with a valuation reserve reported as an adjustment to equity.
2. Bonds are stated at amortized cost and preferred stock at cost, with a valuation reserve reported as an adjustment to equity.
3. The Company has no common stock investments.
4. The Company does not invest in mortgage loans.
5. The Company has no investments in loan-backed securities.
6. The Company has no investments in subsidiaries.
7. The Company has no investments in joint ventures.
8. The Company does not invest in derivatives.
9. Unpaid losses and loss adjustment expenses include an amount from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

### 2. Accounting Changes and Corrections of Errors

There were no accounting changes or corrections of errors in fiscal year 2002.

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Ohio. Effective January 1, 2001, the State of Ohio required that insurance companies domiciled in the State of Ohio prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures manual.

As a result of this codification, Paramount changed the useful lives of its EDP equipment and software from 5 years to 3 years. This change went into effect on January 1, 2001 and was prospective in nature. In accordance with NAIC guidelines, the Company also non-admitted its EDP equipment and software, as well as Furniture and Equipment on January 1, 2001, effectively reducing net worth by \$3,291,135.

### 3. Business Combinations and Goodwill

The Company is a wholly owned subsidiary of Paramount Preferred Options, Inc. (PPO). On March 1, 1999, PPO acquired the assets of Medical Value Plan (MVP), a subsidiary of Health Alliance Plan (HAP). In connection with the transaction, HAP transferred the assets of MVP (primarily membership contracts) to PPO in exchange for shares of PPO, which constitute a 20% interest in PPO. Concurrently, PPO transferred MVP's assets to the Company. Effective April 1, 2000, HAP sold its 20% interest in PPO to ProMedica Insurance Corp., Inc (PIC), once again making PIC the sole owner of PPO.

As of December 31, 2002 and 2001 the value of this asset is \$7.9 million. The asset is reported as non-admitted for statutory purposes.

### 4. Discontinued Operations

## Notes to Financial Statement

11. Debt

**-NOT APPLICABLE**

12. Retirement Plans, Deferred Compensation, Postemployment Benefits

A.

Effective July 1, 2002, the System extended the ProMedica pension plan to the eligible employees of Paramount. The pension costs for Paramount are based on a direct calculation of certain cost components and the application of reasonable methodology for other cost components. The liabilities for Paramount are based on an extension of the cost allocation methodology. At December 31, 2002, the company accrued \$100,100 related to the Plan.

B.

The company sponsors a 401 (k) savings plan, whereby eligible employees may voluntarily contribute a percentage of their annual compensation. Under the provisions of the plan, the Company annually matches employees' contributions of up to 3% of compensation. All employees with at least one year of service are eligible for the plan match. If an employee has ten or more years of pension vesting service and is paid at least 1000 hours during the plan year and is employed at December 31 of any year, the company will contribute 2% of the employee's pay to his or her 401 (k) account. For the years ended December 31, 2002 and 2001, contributions by the Company amounted to \$317,277 and \$255,961, respectively.

C.

The company does not participate in a multi-employer plan.

D.

The company participates in a Consolidated/Holding Company Plan. See description at [A] above.

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

A.

The Company has 750 shares authorized and 420 shares issued and outstanding.

B.

The Company has no preferred stock.

C.

Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company's state of incorporation, to an amount less than 10% of admitted capital (including all dividends within the prior 12 month period). Additionally, the Company must obtain prior approval for dividends not paid from earned surplus. During fiscal year 2002 \$3.8 million in dividends were paid to shareholders. No dividends were paid in fiscal year 2001.

D.

Within the limitations of [C] above, there are no restrictions placed on the portion of Company profits that may be paid as ordinary dividends to stockholders.

E.

There were no restrictions placed on the Company's surplus.

F.

The Company did not receive any capital contributions during the year.

G.

There is no stock being held by the Company.

H.

The Company has no special surplus funds.

I.

The portion of unassigned funds (surplus) represented or reduced by each item below is as follows:

Unrealized losses	(\$1,184,475)
Nonadmitted assets	<u>(\$15,498,179)</u>
	<u>(\$16,682,654)</u>

J.

The Company has no surplus debentures or other outstanding obligations.

## **Notes to Financial Statement**

As of December 31, 2002 and 2001, the Company reported 'Total Adjusted Capital' of \$43,775,303 and \$38,043,042, respectively, which is 330% and 390% of Ohio adjusted authorized control level. The minimum requirement for any level of action is 200% of ACL.

In addition, the Company maintains a restricted Certificate of Deposit with Sky Bank of \$400,000.

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities .....	801,328	0.753	753,520	0.752
1.2 U.S. government agency and corporate obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies .....	13,422,330	12.611	12,981,382	12.962
1.22 Issued by U.S. government sponsored agencies .....	573,260	0.539	513,085	0.512
1.3 Foreign government (including Canada, excluding mortgage-backed securities) .....				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations .....	339,710	0.319	330,544	0.330
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations .....	10,879,871	10.222	10,614,151	10.598
1.43 Revenue and assessment obligations .....				
1.44 Industrial development and similar obligations .....	17,367,571	16.318	16,310,445	16.286
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Guaranteed by GNMA .....				
1.512 Issued by FNMA and FHLMC .....				
1.513 Privately issued .....				
1.52 CMOs and REMICs:				
1.521 Issued by FNMA and FHLMC .....				
1.522 Privately issued and collateralized by MBS issued or guaranteed by GNMA, FNMA, or FHLMC .....				
1.523 All other privately issued .....				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO) .....				
2.2 Unaffiliated foreign securities .....				
2.3 Affiliated securities .....				
3. Equity interests:				
3.1 Investments in mutual funds .....				
3.2 Preferred stocks:				
3.21 Affiliated .....				
3.22 Unaffiliated .....	411,200	0.386	400,000	0.399
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated .....				
3.32 Unaffiliated .....				
3.4 Other equity securities:				
3.41 Affiliated .....				
3.42 Unaffiliated .....				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated .....				
3.52 Unaffiliated .....				
4. Mortgage loans:				
4.1 Construction and land development .....				
4.2 Agricultural .....				
4.3 Single family residential properties .....				
4.4 Multifamily residential properties .....				
4.5 Commercial loans .....				
5. Real estate investments:				
5.1 Property occupied by company .....				
5.2 Property held for production of income (includes \$..... of property acquired in satisfaction of debt) .....				
5.3 Property held for sale (\$..... including property acquired in satisfaction of debt) .....				
6. Policy loans .....				
7. Receivables for securities .....	4,388,982	4.124		
8. Cash and short-term investments .....	32,449,862	30.489	32,449,862	32.401
9. Other invested assets .....	25,797,901	24.239	25,797,901	25.759
10. Total invested assets .....	106,432,015	100.000	100,150,890	100.000

## FIVE-YEAR HISTORICAL DATA

	1 2002	2 2001	3 2000	4 1999	5 1998
<b>BALANCE SHEET ITEMS (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 23) .....	118,139,571	114,705,081	90,615,292	64,424,821	35,694,549
2. Total liabilities (Page 3, Line 18) .....	74,364,268	76,662,039	62,964,289	53,901,114	31,303,827
3. Statutory surplus .....					
4. Total capital and surplus (Page 3, Line 26) .....	43,775,303	38,043,042	27,651,002	10,523,707	4,390,722
<b>INCOME STATEMENT ITEMS (Page 4)</b>					
5. Total revenues (Line 7) .....	452,893,618	374,307,840	381,956,527	344,381,226	231,447,975
6. Total medical and hospital expenses (Line 17) .....	406,702,065	334,275,513	349,577,617	328,407,963	216,120,597
7. Total administrative expenses (Line 19) .....	32,630,730	30,948,984	25,787,808	23,539,298	20,829,419
8. Net underwriting gain (loss) (Line 22) .....	10,991,367	9,083,343	6,591,102	(7,566,035)	(5,502,041)
9. Net investment gain (loss) (Line 25) .....	2,419,489	3,491,738	4,044,217	1,807,695	1,551,561
10. Total other income (Lines 26 plus 27) .....	1,023	2,616			
11. Net income or (loss) (Line 30) .....	8,965,072	8,511,697	10,635,319	(5,758,340)	(3,950,480)
<b>RISK-BASED CAPITAL ANALYSIS</b>					
12. Total adjusted capital .....	43,775,303	38,043,042	27,651,002	10,523,707	4,390,722
13. Authorized control level risk-based capital .....	14,731,103	12,155,739	12,485,922	10,617,459	6,229,244
<b>ENROLLMENT (Exhibit 2)</b>					
14. Total members at end of period (Column 5, Line 7) .....	170,991	164,381	160,039	162,309	116,515
15. Total members months (Column 6, Line 7) .....	1,988,065	1,920,197	1,920,853	1,843,483	1,333,255
<b>OPERATING PERCENTAGE (Page 4)</b>					
<b>(Item divided by Page 4, sum of Lines 2, 3 and 5)</b>					
16. Premiums earned (Lines 2 plus 3) .....	100.0	100.0	100.0	100.0	100.0
17. Total medical and hospital (Line 17) .....	89.8	89.3	92.1		
18. Total underwriting deductions (Line 21) .....	97.6	97.6	98.3		
19. Total underwriting gain (loss) (Line 22) .....	2.4	2.4	1.7		
<b>UNPAID CLAIMS ANALYSIS</b>					
<b>(U&amp;I Exhibit, Part 2B)</b>					
20. Total claims incurred for prior years (Line 11, Col. 5) .....	36,628,501	28,790,845	26,384,387	17,693,118	12,452,501
21. Estimated liability of unpaid claims-[prior year (Line 11, Col. 6)] .....	38,462,931	29,296,415	27,663,279	16,676,873	14,002,525

## SCHEDULE D - SUMMARY BY COUNTRY

### Long-term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value (a)	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>					
Governments (Including all obligations guaranteed by governments)	1. United States .....	14,796,918	14,796,918	14,247,987	14,210,671
	2. Canada .....				
	3. Other Countries .....				
	4. Totals .....	14,796,918	14,796,918	14,247,987	14,210,671
States, Territories and Possessions (Direct and Guaranteed)	5. United States .....	339,710	339,710	330,544	325,000
	6. Canada .....				
	7. Other Countries .....				
	8. Totals .....	339,710	339,710	330,544	325,000
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	9. United States .....	10,879,871	10,879,871	10,614,151	10,475,000
	10. Canada .....				
	11. Other Countries .....				
	12. Totals .....	10,879,871	10,879,871	10,614,151	10,475,000
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions	13. United States .....				
	14. Canada .....				
	15. Other Countries .....				
	16. Totals .....				
Public Utilities (unaffiliated)	17. United States .....	1,341,855	1,341,855	1,260,575	1,250,000
	18. Canada .....				
	19. Other Countries .....				
	20. Totals .....	1,341,855	1,341,855	1,260,575	1,250,000
Industrial and Miscellaneous and Credit Tenant Loans (unaffiliated)	21. United States .....	16,025,716	16,025,716	15,049,870	14,856,776
	22. Canada .....				
	23. Other Countries .....				
	24. Totals .....	16,025,716	16,025,716	15,049,870	14,856,776
Parent, Subsidiaries and Affiliates	25. Totals .....				
		26. Total Bonds .....	43,384,070	43,384,070	41,503,127
<b>PREFERRED STOCKS</b>					
Public Utilities (unaffiliated)	27. United States .....				
	28. Canada .....				
	29. Other Countries .....				
	30. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	31. United States .....	411,200	411,200	400,000	
	32. Canada .....				
	33. Other Countries .....				
	34. Totals .....	411,200	411,200	400,000	
Industrial and Miscellaneous (unaffiliated)	35. United States .....				
	36. Canada .....				
	37. Other Countries .....				
	38. Totals .....				
Parent, Subsidiaries and Affiliates	39. Totals .....				
		40. Total Preferred Stocks .....	411,200	411,200	400,000
<b>COMMON STOCKS</b>					
Public Utilities (unaffiliated)	41. United States .....				
	42. Canada .....				
	43. Other Countries .....				
	44. Totals .....				
Banks, Trust and Insurance Companies (unaffiliated)	45. United States .....				
	46. Canada .....				
	47. Other Countries .....				
	48. Totals .....				
Industrial and Miscellaneous (unaffiliated)	49. United States .....				
	50. Canada .....				
	51. Other Countries .....				
	52. Totals .....				
Parent, Subsidiaries and Affiliates	53. Totals .....				
		54. Total Common Stocks .....			
		55. Total Stocks .....	411,200	411,200	400,000
		56. Total Bonds and Stocks .....	43,795,270	43,795,270	41,903,127

(a) The aggregate value of bonds which are valued at other than actual fair value is \$.....

## SCHEDULE D - Verification Between Years

1. Book/adjusted carrying value of bonds and stocks, prior year .....	29,899,361	6. Foreign Exchange Adjustment	
2. Cost of bonds and stocks acquired, Column 6, Part 3 .....	20,697,307	6.1 Column 17, Part 1 .....	
3. Increase (decrease) by adjustment:		6.2 Column 13, Part 2, Section 1 .....	
3.1 Column 16, Part 1 .....	1,065,980	6.3 Column 11, Part 2, Section 2 .....	
3.2 Column 12, Part 2, Section 1 .....	11,200	6.4 Column 11, Part 4 .....	
3.3 Column 10, Part 2, Section 2 .....		7. Book/adjusted carrying value at end of current period .....	43,795,270
3.4 Column 10, Part 4 .....	(58,730)	8. Total valuation allowance .....	
4. Total gain (loss), Column 14, Part 4 .....	(58,136)	9. Subtotal (Lines 7 plus 8) .....	43,795,270
5. Deduct consideration for bonds and stocks disposed of Column 6, Part 4 .....	7,761,712	10. Total nonadmitted assets .....	1,892,143
		11. Statement value of bonds and stocks, current period .....	41,903,127

**SCHEDULE S - PART 6****Restatement of Balance Sheet to Identify Net Credit For Ceded Reinsurance**

	1 As Reported (net of ceded)	2 Restatement Adjustments	3 Restated (gross of ceded)
<b>ASSETS (Page 2, Col. 3)</b>			
1. Cash and invested assets (Line 9)	100,150,890		100,150,890
2. Amounts recoverable from reinsurers (Line 12)	438,176	(438,176)	
3. Accident and health premiums due and unpaid (Line 10)	3,339,676		3,339,676
4. Net credit for ceded reinsurance	X X X	438,176	438,176
5. All other admitted assets (Balance)	14,210,829		14,210,829
6. Total assets (Line 23)	118,139,571		118,139,571
<b>LIABILITIES, CAPITAL AND SURPLUS (Page 3)</b>			
7. Claims unpaid (Line 1)	40,020,772	1,027,003	41,047,775
8. Accrued medical incentive pool and bonus payments (Line 2)			
9. Premiums received in advance (Line 6)	17,172,426		17,172,426
10. Reinsurance in unauthorized companies (Line 14)			
11. All other liabilities (Balance)	17,171,070	(1,027,003)	16,144,067
12. Total liabilities (Line 18)	74,364,268		74,364,268
13. Total capital and surplus (Line 26)	43,775,303	X X X	43,775,303
14. Total liabilities, capital and surplus (Line 27)	118,139,571		118,139,571
<b>NET CREDIT FOR CEDED REINSURANCE</b>			
15. Claims unpaid			
16. Accrued medical incentive pool			
17. Premiums received in advance			
18. Reinsurance recoverable on paid losses	438,176		
19. Other ceded reinsurance recoverables			
20. Total ceded reinsurance recoverables	438,176		
21. Premiums receivable			
22. Unauthorized reinsurance			
23. Other ceded reinsurance payables/offsets			
24. Total ceded reinsurance payables/offsets			
25. Total net credit for ceded reinsurance	438,176		

## OVERFLOW PAGE FOR WRITE-INS

## LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1704. Accrued Compensation .....	534,456		534,456	873,033
1705. Accrued Broker Commissions .....	815,740		815,740	703,990
1706. Security Deposits .....	157,107		157,107	157,107
1707. Accrued Dental .....	23,505		23,505	82,170
1708. Education Grant .....	50,512		50,512	45,163
1709. Accrued Sales Tax .....	7,045		7,045	44,531
1710. 0 .....				
1797. Summary of remaining write-ins for Line 17 (Lines 1704 through 1796) .....	1,588,365		1,588,365	1,905,994

**UNDERWRITING AND INVESTMENT EXHIBIT**  
PART 3 - ANALYSIS OF EXPENSES

	1 Claim Adjustment Expenses	2 General Administrative Expenses	3 Investment Expenses	4 Total
2504. Bad Debt Expense .....		240,000		240,000
2505. Recruitment .....		35,704		35,704
2506. Depreciation: Furniture & Machinery .....		138,145		138,145
2507. Staff Seminar/Conferences .....	9,244	56,630		65,874
2508. Licenses: General .....		102,440		102,440
2509. Community Benefit .....		52,480		52,480
2510. Dues: Non-Association Related .....				
2511. Supplies: Lunchroom .....				
2512. Other .....		341,933		341,933
2513. Member Education .....		43,340		43,340
2597. Summary of overflow write-ins for Line 25 .....	9,244	1,010,671		1,019,915

## EXHIBIT 1 - ANALYSIS OF NONADMITTED ASSETS AND RELATED ITEMS

	1 End of Current Year	2 End of Prior Year	3 Changes for Year (Increase) or Decrease
0404. Other .....	127,775	71,499	(56,276)
0405. Difference between market and cost on fixed income investments .....	1,892,143		(1,892,143)
0497. Summary of remaining write-ins for Line 4 (Lines 0404 through 0496) .....	2,019,918	71,499	(1,948,419)

## SCHEDULE D - PART 2 - SECTION 1

### Showing all PREFERRED STOCKS Owned December 31, Current Year

1 Cusip Identification	2 Description	3 Number of Shares	4 Par Value Per Share	5 Rate Per Share	6 Book/Adjusted Carrying Value	7 Rate Per Share Used to Obtain Fair Value	8 Fair Value	9 Actual Cost	10 Dividends		12 Increase (Decrease) by Adjustment	13 Increase (Decrease) by Foreign Exchange Adjustment	14 NAIC Desig- nation	15 Date Acquired
									Declared but Unpaid	Amount Received During Year				
	<b>Banks, Trust and Insurance Companies (Unaffiliated)</b>													
060505401	BANK OF AMERICA CORP PFD	16,000,000		25.000	411,200	25.700	411,200	400,000			11,200		RP1LZ	10/31/2002
6299999	Subtotal - Banks, Trust and Insurance Companies (Unaffiliated)				411,200	X X X	411,200	400,000			11,200		X X X	X X X
6599999	Total Preferred Stocks				411,200	X X X	411,200	400,000			11,200		X X X	X X X