

Amended Explanation Page

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Adjustment Adjustment to increase due from affiliates and liability for amounts held under uninsured plans.



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2014

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ANNUAL STATEMENT
For the Year Ending DECEMBER 31, 2014
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[<input type="checkbox"/>] Dental Service Corporation[<input type="checkbox"/>] Other[<input type="checkbox"/>] | Property/Casualty[<input type="checkbox"/>] Vision Service Corporation[<input type="checkbox"/>] Is HMO Federally Qualified? Yes[<input type="checkbox"/>] No[X] N/A[<input type="checkbox"/>] | Hospital, Medical & Dental Service or Indemnity[<input type="checkbox"/>] Health Maintenance Organization[X] | | | |
| Incorporated/Organized | 04/22/1987 | | Commenced Business | 01/01/1988 | | |
| Statutory Home Office | 1901 Indian Wood Circle (Street and Number) | | Maumee, OH, US 43537 (City or Town, State, Country and Zip Code) | | | |
| Main Administrative Office | 1901 Indian Wood Circle (Street and Number) | | Maumee, OH, US 43537 (City or Town, State, Country and Zip Code) | | | |
| Primary Location of Books and Records | 1901 Indian Wood Circle (Street and Number) | | Maumee, OH, US 43537 (City or Town, State, Country and Zip Code) | | | |
| Internet Website Address | www.paramounthhealthcare.com | | (Area Code) (Telephone Number) | | | |
| Statutory Statement Contact | Jonathan Burns, Mr. (Name) jonathan.burns@promedica.org (E-Mail Address) | | (419)887-2500 (Area Code) (Telephone Number) (419)887-2909 (Area Code)(Telephone Number)(Extension) (419)887-2020 (Fax Number) | | | |

OFFICERS

| Name | Title |
|----------------------------|-------------|
| Robert William LaClair Mr. | Chairman # |
| John Charles Randolph Mr. | President |
| Alan Michael Sattler Mr. | Treasurer # |
| Jeffrey Craig Kuhn Mr. | Secretary |

OTHERS

Jeffrey William Martin Mr., Vice President, Operations
Stacey Lee Bock Mrs., Vice President, Finance

John David Meier M.D., Vice President, Health Services

DIRECTORS OR TRUSTEES

Garry Walter Roberts Mr.
Dee Ann Bialecki-Haase M.D.
Cynthia Ann Geronimo Ms.
Richard Lawrence Munk M.D.
Timothy Bublick Mr.

Richard Dean Heltzel Mr.
John Charles Randolph Mr.
Calvin Joseph Lawshe Mr.
Deborah Anne Dickenson Peters Ms.
Cathy Lynn Cantor M.D.

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 manual 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. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)
John Charles Randolph

(Printed Name)

1.

President

(Title)

(Signature)
Stacey Lee Bock

(Printed Name)

2.

Vice President, Finance

(Title)

(Signature)
Jeffrey Craig Kuhn

(Printed Name)

3.

Secretary

(Title)

Subscribed and sworn to before me this
day of January, 2015

a. Is this an original filing?
 b. If no, 1. State the amendment number
 2. Date filed
 3. Number of pages attached

Yes[] No[X]

1

25

(Notary Public Signature)

DIRECTORS OR TRUSTEES (continued)

Mark Leslie Ferris Mr.
Daniel Sullivan Murtagh M.D.
Jeffrey William Boersma Mr.

Dale Joseph Seymour Mr.
Julie Anne Bartnik Ms.

ASSETS

| | Current Year | | | Prior Year |
|--|--------------|----------------------------|---|-----------------------------|
| | 1 Assets | 2 Nonadmitted Assets | 3 Net Admitted Assets (Cols.1-2) | 4 Net Admitted Assets |
| 1. Bonds (Schedule D) | 62,524,979 | | 62,524,979 | 57,900,797 |
| 2. Stocks (Schedule D) | | | | |
| 2.1 Preferred stocks | | | | |
| 2.2 Common Stocks | 20,806,327 | | 20,806,327 | 23,707,627 |
| 3. Mortgage loans on real estate (Schedule B): | | | | |
| 3.1 First liens | | | | |
| 3.2 Other than first liens | | | | |
| 4. Real estate (Schedule A): | | | | |
| 4.1 Properties occupied by the company (less \$.....0 encumbrances) | | | | |
| 4.2 Properties held for the production of income (less \$.....0 encumbrances) | | | | |
| 4.3 Properties held for sale (less \$.....0 encumbrances) | | | | |
| 5. Cash (\$.....9,170,522, Schedule E Part 1), cash equivalents (\$.....0, Schedule E Part 2) and short-term investments (\$.....1,306,173, Schedule DA) | 10,476,695 | | 10,476,695 | 14,182,776 |
| 6. Contract loans (including \$.....0 premium notes) | | | | |
| 7. Derivatives (Schedule DB) | | | | |
| 8. Other invested assets (Schedule BA) | 276,857 | 276,857 | | |
| 9. Receivables for securities | 14,816 | | 14,816 | 3,050 |
| 10. Securities Lending Reinvested Collateral Assets (Schedule DL) | | | | |
| 11. Aggregate write-ins for invested assets | | | | |
| 12. Subtotals, cash and invested assets (Lines 1 to 11) | 94,099,674 | 276,857 | 93,822,817 | 95,794,251 |
| 13. Title plants less \$.....0 charged off (for Title insurers only) | | | | |
| 14. Investment income due and accrued | 375,554 | | 375,554 | 367,431 |
| 15. Premiums and considerations: | | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection | 103,941 | 72,147 | 31,794 | 23,108 |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (Including \$.....0 earned but unbilled premiums) | | | | |
| 15.3 Accrued retrospective premiums | 374,049 | | 374,049 | |
| 16. Reinsurance: | | | | |
| 16.1 Amounts recoverable from reinsurers | | | | |
| 16.2 Funds held by or deposited with reinsured companies | | | | |
| 16.3 Other amounts receivable under reinsurance contracts | | | | |
| 17. Amounts receivable relating to uninsured plans | 377,926 | 19,874 | 358,052 | 157,485 |
| 18.1 Current federal and foreign income tax recoverable and interest thereon | 1,842,864 | | 1,842,864 | 465,476 |
| 18.2 Net deferred tax asset | 313,837 | | 313,837 | |
| 19. Guaranty funds receivable or on deposit | | | | |
| 20. Electronic data processing equipment and software | 739,845 | 279,405 | 460,440 | 743,770 |
| 21. Furniture and equipment, including health care delivery assets (\$.....0) | 2,876,878 | 2,876,878 | | |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates | | | | |
| 23. Receivables from parent, subsidiaries and affiliates | 7,278,605 | | 7,278,605 | 474,362 |
| 24. Health care (\$.....267,120) and other amounts receivable | 874,443 | 607,323 | 267,120 | 800,323 |
| 25. Aggregate write-ins for other than invested assets | 433,896 | 433,896 | | |
| 26. TOTAL Assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) | 109,691,512 | 4,566,380 | 105,125,132 | 98,826,206 |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | | |
| 28. TOTAL (Lines 26 and 27) | 109,691,512 | 4,566,380 | 105,125,132 | 98,826,206 |
| DETAILS OF WRITE-INS | | | | |
| 1101. | | | | |
| 1102. | | | | |
| 1103. | | | | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page | | | | |
| 1199. TOTALS (Lines 1101 through 1103 plus 1198) (Line 11 above) | | | | |
| 2501. AR | 143,388 | 143,388 | | |
| 2502. Prepaid | 290,508 | 290,508 | | |
| 2503. | | | | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | | | | |
| 2599. TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above) | 433,896 | 433,896 | | |

LIABILITIES, CAPITAL AND SURPLUS

| | Current Year | | | Prior Year |
|---|--------------|----------------|-------------|------------|
| | 1 Covered | 2 Uncovered | 3 Total | 4 Total |
| 1. Claims unpaid (less \$.....0 reinsurance ceded) | 15,822,293 | | 15,822,293 | 15,216,422 |
| 2. Accrued medical incentive pool and bonus amounts | | | | |
| 3. Unpaid claims adjustment expenses | 370,000 | | 370,000 | 672,000 |
| 4. Aggregate health policy reserves, including the liability of \$.....0 for medical loss ratio rebate per the Public Health Service Act | 1,190,483 | | 1,190,483 | 603,655 |
| 5. Aggregate life policy reserves | | | | |
| 6. Property/casualty unearned premium reserves | | | | |
| 7. Aggregate health claim reserves | | | | |
| 8. Premiums received in advance | 286,285 | | 286,285 | 308,709 |
| 9. General expenses due or accrued | 6,194,878 | | 6,194,878 | 5,166,898 |
| 10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)) | | | | |
| 10.2 Net deferred tax liability | | | | 190,946 |
| 11. Ceded reinsurance premiums payable | | | | |
| 12. Amounts withheld or retained for the account of others | 48,756 | | 48,756 | 33,258 |
| 13. Remittances and items not allocated | | | | |
| 14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current) | | | | |
| 15. Amounts due to parent, subsidiaries and affiliates | 3,605,465 | | 3,605,465 | 4,864,020 |
| 16. Derivatives | | | | |
| 17. Payable for securities | 10,274 | | 10,274 | 118,884 |
| 18. Payable for securities lending | | | | |
| 19. Funds held under reinsurance treaties (with \$.....0 authorized reinsurers, \$.....0 unauthorized reinsurers and \$.....0 certified reinsurers) | | | | |
| 20. Reinsurance in unauthorized and certified (\$.....0) companies | | | | |
| 21. Net adjustments in assets and liabilities due to foreign exchange rates | | | | |
| 22. Liability for amounts held under uninsured plans | 14,843,398 | | 14,843,398 | 7,270,803 |
| 23. Aggregate write-ins for other liabilities (including \$.....0 current) | 7,000,000 | | 7,000,000 | |
| 24. TOTAL Liabilities (Lines 1 to 23) | 49,371,832 | | 49,371,832 | 34,445,595 |
| 25. Aggregate write-ins for special surplus funds | XXX | XXX | | |
| 26. Common capital stock | XXX | XXX | 4,700,000 | 4,700,000 |
| 27. Preferred capital stock | XXX | XXX | | |
| 28. Gross paid in and contributed surplus | XXX | XXX | 40,619,246 | 40,619,246 |
| 29. Surplus notes | XXX | XXX | | |
| 30. Aggregate write-ins for other than special surplus funds | XXX | XXX | | |
| 31. Unassigned funds (surplus) | XXX | XXX | 10,434,054 | 19,061,365 |
| 32. Less treasury stock, at cost: | | | | |
| 32.10 shares common (value included in Line 26 \$.....0) | XXX | XXX | | |
| 32.20 shares preferred (value included in Line 27 \$.....0) | XXX | XXX | | |
| 33. TOTAL Capital and Surplus (Lines 25 to 31 minus Line 32) | XXX | XXX | 55,753,300 | 64,380,611 |
| 34. TOTAL Liabilities, Capital and Surplus (Lines 24 and 33) | XXX | XXX | 105,125,132 | 98,826,206 |
| DETAILS OF WRITE-INS | | | | |
| 2301. Dividend Payable | | 7,000,000 | | 7,000,000 |
| 2302. | | | | |
| 2303. | | | | |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | | | | |
| 2399. TOTALS (Lines 2301 through 2303 plus 2398) (Line 23 above) | | 7,000,000 | | 7,000,000 |
| 2501. | | XXX | XXX | |
| 2502. | | XXX | XXX | |
| 2503. | | XXX | XXX | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | | XXX | XXX | |
| 2599. TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above) | | XXX | XXX | |
| 3001. | | XXX | XXX | |
| 3002. | | XXX | XXX | |
| 3003. | | XXX | XXX | |
| 3098. Summary of remaining write-ins for Line 30 from overflow page | | XXX | XXX | |
| 3099. TOTALS (Lines 3001 through 3003 plus 3098) (Line 30 above) | | XXX | XXX | |

CASH FLOW

| | | 1 Current Year | 2 Prior Year |
|--|---|-------------------|-----------------|
| Cash from Operations | | | |
| 1. | Premiums collected net of reinsurance | 143,216,913 | 210,301,858 |
| 2. | Net investment income | 1,751,284 | 1,681,703 |
| 3. | Miscellaneous income | | |
| 4. | TOTAL (Lines 1 through 3) | 144,968,197 | 211,983,561 |
| 5. | Benefit and loss related payments | 139,264,359 | 208,623,894 |
| 6. | Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts | | |
| 7. | Commissions, expenses paid and aggregate write-ins for deductions | (1,318,400) | 19,410,066 |
| 8. | Dividends paid to policyholders | | |
| 9. | Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses) | 1,380,366 | (6,417,858) |
| 10. | TOTAL (Lines 5 through 9) | 139,326,325 | 221,616,102 |
| 11. | Net cash from operations (Line 4 minus Line 10) | 5,641,872 | (9,632,541) |
| Cash from Investments | | | |
| 12. | Proceeds from investments sold, matured or repaid: | | |
| 12.1 | Bonds | 27,137,316 | 41,758,261 |
| 12.2 | Stocks | 10,938,351 | 20,307,915 |
| 12.3 | Mortgage loans | | |
| 12.4 | Real estate | | |
| 12.5 | Other invested assets | 18,896 | |
| 12.6 | Net gains or (losses) on cash, cash equivalents and short-term investments | | |
| 12.7 | Miscellaneous proceeds | 473,016 | 132,798 |
| 12.8 | TOTAL Investment proceeds (Lines 12.1 to 12.7) | 38,567,579 | 62,198,974 |
| 13. | Cost of investments acquired (long-term only): | | |
| 13.1 | Bonds | 32,358,307 | 36,575,365 |
| 13.2 | Stocks | 6,318,282 | 13,461,798 |
| 13.3 | Mortgage loans | | |
| 13.4 | Real estate | | |
| 13.5 | Other invested assets | 35,179 | 31,803 |
| 13.6 | Miscellaneous applications | 175,038 | 646,441 |
| 13.7 | TOTAL Investments acquired (Lines 13.1 to 13.6) | 38,886,807 | 50,715,408 |
| 14. | Net increase (decrease) in contract loans and premium notes | | |
| 15. | Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14) | (319,228) | 11,483,567 |
| Cash from Financing and Miscellaneous Sources | | | |
| 16. | Cash provided (applied): | | |
| 16.1 | Surplus notes, capital notes | | |
| 16.2 | Capital and paid in surplus, less treasury stock | | |
| 16.3 | Borrowed funds | | |
| 16.4 | Net deposits on deposit-type contracts and other insurance liabilities | | |
| 16.5 | Dividends to stockholders | 7,000,000 | |
| 16.6 | Other cash provided (applied) | (2,028,725) | 866,551 |
| 17. | Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) | (9,028,725) | 866,551 |
| RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS | | | |
| 18. | Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) | (3,706,081) | 2,717,577 |
| 19. | Cash, cash equivalents and short-term investments: | | |
| 19.1 | Beginning of year | 14,182,776 | 11,465,200 |
| 19.2 | End of year (Line 18 plus Line 19.1) | 10,476,695 | 14,182,776 |

Note: Supplemental Disclosures of Cash Flow Information for Non-Cash Transactions:

| | | | |
|---------|-------|-------|-------|
| 20.0001 | | | |
|---------|-------|-------|-------|

Notes to Financial Statements

1. Summary of Significant Accounting Policies

A. Accounting Practices

The financial statements of Paramount Insurance Company (the “Company”) are presented on a basis of accounting practices prescribed by the Ohio Department of Insurance.

The Ohio Department of Insurance recognizes only statutory accounting practices prescribed by the State of Ohio for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Ohio Insurance Law. The National Association of Insurance Commissioners’ (NAIC) Accounting Practices and Procedures Manual, (NAIC SAP) has been adopted as a component of prescribed practices by the State of Ohio.

A reconciliation of the Company’s net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Ohio is shown below:

| | State of Domicile | 2014 | 2013 |
|--|----------------------|------------|------------|
| | Ohio | | |
| NET INCOME | | | |
| Paramount Health Care state basis | | 885,113 | 7,247,888 |
| State Prescribed Practices that increase/(decrease) NAIC SAP | | - | - |
| State Permitted Practices that increase/(decrease) NAIC SAP | | - | - |
| NAIC SAP | | 885,113 | 7,247,888 |
| SURPLUS | | | |
| Paramount Health Care state basis | | 55,753,300 | 64,380,611 |
| State Prescribed Practices that increase/(decrease) NAIC SAP | | - | - |
| State Permitted Practices that increase/(decrease) NAIC SAP | | - | - |
| NAIC SAP | | 55,753,300 | 64,380,611 |

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

Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts. Expenses incurred in connections with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred.

In addition, the company uses the following accounting policies:

1. Short-term investments are stated at amortized cost.
2. Bonds are stated at amortized cost.
3. Common stock investments are stated at Fair Market Value.
4. The Company does not have any preferred stock investments.
5. The Company does not invest in mortgage loans.
6. The Company has no investments in loan-backed securities.
7. The Company has no investments in subsidiaries.
8. The Company has no investments in joint ventures.
9. The Company does not invest in derivatives.

Notes to Financial Statements

10. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 54, Individual and Group Accident and Health Contracts.
11. 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 is continually reviewed and any adjustments are reflected in the period determined.
12. The Company has not modified its capitalization policy from the prior period.
13. The Company estimates its pharmaceutical rebate receivables based on historical cash payment and prescriptions filled.

2. Accounting Changes and Corrections of Errors

-NOT APPLICABLE

3. Business Combinations and Goodwill

-NOT APPLICABLE

4. Discontinued Operations

-NOT APPLICABLE

5. Investments

- A. The company does not have any Mortgage Loan investments.
- B. The company is not a creditor for any Restructured Debt.
- C. The company does not have any reverse mortgages.
- D.
 1. When necessary the Company uses internal estimates in determining prepayment assumptions and whether an other-than-temporary impairment has occurred.
 2. None
 3. None
 4. None
 5. None
- E. The company does not have any re-purchase agreements.
- F. The company does not have any real estate investments.
- G. The company does not have any low-income housing tax credits.
- H. Restricted Assets

Notes to Financial Statements

| Restricted Asset Category | 1 Total Gross Restricted from Current Year | 2 Total Gross Restricted from Prior Year | 3 Increase/(Decrease) | 4 Total Current year admitted Restricted | 5 Percentage Gross Restricted to Total Assets | 6 Percentage Admitted Restricted to Total Admitted Assets |
|--|---|---|--------------------------|---|--|--|
| a. Subject to contractual obligation for which the liability is not shown | | | | | | |
| b. collateral held under security lending agreements | | | | | | |
| c. Subject to repurchase agreements | | | | | | |
| d. Subject to reverse repurchase agreements | | | | | | |
| e. Subject to dollar repurchase agreements | | | | | | |
| f. Subject to dollar reverse repurchase agreements | | | | | | |
| g. Placed under option contracts | | | | | | |
| h. Letter stock or securities restricted as to sale-excluding FHLB capital stock | | | | | | |
| i. FHLB capital stock | | | | | | |
| j. On deposit with states | 401,501 | 400,540 | 961 | 401,501 | 0.4% | 0.4% |
| k. On deposit with other regulatory bodies | | | | | | |
| l. Pledged as collateral to FHLB (including assets backing funding agreements) | | | | | | |
| m. Pledged as collateral not captured in other categories | | | | | | |
| n. Other restricted assets | | | | | | |
| o. Total Restricted Assets | 401,501 | 400,540 | 961 | 401,501 | 0% | 0% |

I. The company does not have any working capital financing investments.
 J. The company does not have any netting of assets and liabilities relating to derivatives, repurchase and reverse repurchase and securities borrowing and lending.

K.

| Structured Notes | | | | Mortgage-Referenced Security |
|------------------|-------------|------------|------------|------------------------------|
| Cusip | Actual Cost | Fair Value | Book Value | |
| 912828C99 | \$ 829,097 | \$ 801,762 | \$ 801,762 | No |
| 912828GX2 | \$ 274,374 | \$ 264,066 | \$ 264,066 | No |

6. Joint ventures, Partnerships and Limited Liability Companies

-NOT APPLICABLE

Notes to Financial Statements

7. Investment Income

The Company does not have any non-admitted accrued investment income.

8. Derivative Instruments

-NOT APPLICABLE

9. Income Taxes

The application of SSAP No. 101 requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized.

Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company considers many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) the timing of reversal; (4) taxable income in prior carry back years as well as projected taxable earnings exclusive of reversing temporary differences and carry forwards; (5) the length of time that carryovers can be used; (6) unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit expiring unused. Although the realization is not assured, the Company believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized. The Company has not recorded a valuation allowance as of December 31, 2014 or 2013.

A. The components of DTAs and DTLs as of December 31 are as follows:

| | December 31, 2014 | | | December 31, 2013 | | | Change | | |
|--|-------------------|----------------|--------------|-------------------|----------------|--------------|-----------|-------------|-----------|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total |
| (a) Gross deferred tax assets | \$ 2,341,041 | \$ 47,256 | \$ 2,388,297 | \$ 2,309,699 | \$ 79,854 | \$ 2,389,553 | \$ 31,342 | \$ (32,598) | \$ (1,25) |
| (b) Statutory valuation allowance | — | — | — | — | — | — | — | — | — |
| (c) Adjusted gross deferred tax assets | 2,341,041 | 47,256 | 2,388,297 | 2,309,699 | 79,854 | 2,389,553 | 31,342 | (32,598) | (1,25) |
| (d) Deferred tax assets nonadmitted | — | — | — | — | — | — | — | — | — |
| (e) Subtotal net admitted deferred tax | 2,341,041 | 47,256 | 2,388,297 | 2,309,699 | 79,854 | 2,389,553 | 31,342 | (32,598) | (1,25) |
| (f) Deferred tax liabilities | 176 | 2,074,284 | 2,074,460 | 1,075 | 2,579,424 | 2,580,499 | (899) | (505,140) | (506.03) |
| (g) Net admitted deferred tax asset | \$ 2,340,865 | \$ (2,027,028) | \$ 313,837 | \$ 2,308,624 | \$ (2,499,570) | \$ (190,946) | \$ 32,241 | \$ 472,542 | \$ 504,78 |

| | 12/31/2014 | | | 12/31/2012 | | | Change | | | |
|---|------------|--------------|------------|--------------|--------------|--------------|--------------|-------------|-------------|------------|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total | |
| Admission Calculation Components SSSAP No. 101 | | | | | | | | | | |
| (a) Federal Income Taxes Paid in Prior Years | | | | | | | | | | |
| Recoverable Through Loss Carrybacks | \$ 987,114 | \$ - | \$ 987,114 | \$ 971,462 | \$ 79,854 | \$ 1,051,316 | \$ 15,652 | \$ (79,854) | \$ (64,202) | |
| (b) Adjusted Gross Deferred Tax Assets | | | | | | | | | | |
| Expected To Be Realized (Excluding The | | | | | | | | | | |
| Amount of Deferred Tax Assets from 2(a) | — | — | — | — | — | — | — | 0 | 0 | |
| above) After Application of the Threshold | | | | | | | | | | |
| Limitation. (The Lesser of 2(b)1 and 2(b)2 | | | | | | | | | | |
| Below) | | | | | | | | | | |
| 1. Adjusted Gross Deferred Tax Assets | | | | | | | | | | |
| Expected to be Realized Following | | | | | | | | | | |
| the Balance Sheet Date. | 568,596 | 47,256 | 615,852 | 247,502 | — | 247,502 | 321,094 | 47,256 | 368,350 | |
| 2. Adjusted Gross Deferred Tax Assets | | | | | | | | | | |
| Allowed per Limitation Threshold. | | | 8,246,853 | | | 9,545,526 | | | (1,298,673) | |
| (c) Adjusted Gross Deferred Tax Assets | | | | | | | | | | |
| (Excluding The Amount of Deferred Tax | 785,331 | — | 785,331 | 1,090,735 | — | 1,090,735 | (305,404) | 0 | (305,404) | |
| Assets from 2(a) and 2(b) above) Offset by | | | | | | | | | | |
| Gross Deferred Tax Liabilities. | | | | | | | | | | |
| (d) Deferred Tax Assets Admitted as the Result of | | | | | | | | | | |
| application of SSAP No. 101. | Total | \$ 2,341,041 | \$ 47,256 | \$ 2,388,297 | \$ 2,309,699 | \$ 79,854 | \$ 2,389,553 | \$ 31,342 | \$ (32,598) | \$ (1,256) |

Notes to Financial Statements

| | <u>2014</u> | <u>2013</u> | | | | | |
|--|---------------------|---------------------|-----------------------|----------------|-----------------|----------------|---------------|
| | <u>Ordinary</u> | <u>Capital</u> | <u>Ordinary</u> | <u>Capital</u> | <u>Ordinary</u> | <u>Capital</u> | <u>Change</u> |
| (a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount | | 869% | | 721% | | | |
| (b) Amount of Adjusted Capital and Surplus Used To Determine Recovery Period And Threshold Limitation in 2(b)2 above | 55,439,463 | | 64,571,557 | | | | |
| Impact of tax planning strategies | | | | | | | |
| Determination of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, by Tax Character as a Percentage | | | | | | | |
| (1) Adjusted gross DTAs from 9A1c | | | | | | | |
| (2) % total adjusted gross DTAs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (3) Net admitted adjusted gross DTAs from 9A1e | | | | | | | |
| (4) % of total net admitted adjusted gross DTAs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| The Company's tax-planning strategies does not include the use of reinsurance. | | | | | | | |
| B. - There are no temporary differences for deferred tax liabilities that are not recognized at December 31, 2014 and 2013. | | | | | | | |
| C. - Current income taxes incurred consisted of the following major components: | | | | | | | |
| 1. Current Income Tax | | | | | | | |
| (a) Federal | \$ (1,502,094) | \$ (370,351) | \$ (1,131,743) | | | | |
| (b) Federal income tax on capital gains | 1,040,451 | 1,460,646 | (420,195) | | | | |
| (c) Other | (45,267) | (97,880) | 52,613 | | | | |
| (d) Federal income taxes incurred | <u>\$ (506,910)</u> | <u>\$ 992,415</u> | <u>\$ (1,499,325)</u> | | | | |
| 2. Deferred tax assets: | | | | | | | |
| (a) Ordinary | | | | | | | |
| (1) Discounting on claims payable | \$ 50,230 | \$ 60,176 | \$ (9,946) | | | | |
| (2) Unearned premiums | 20,040 | 21,610 | (1,570) | | | | |
| (3) Accrued Vacation | 270,779 | 319,734 | (48,955) | | | | |
| (4) Other accruals | 500,057 | 933,203 | (433,146) | | | | |
| (5) Amortization | - | 157,500 | (157,500) | | | | |
| (6) Depreciation | 786,541 | 302,450 | 484,091 | | | | |
| (7) Allowance for doubtful accounts | 244,770 | 162,316 | 82,454 | | | | |
| (9) Other | 468,624 | 352,710 | 115,914 | | | | |
| Subtotal | <u>2,341,041</u> | <u>2,309,699</u> | <u>31,342</u> | | | | |
| (b) Statutory valuation allowance adjustment | - | - | - | | | | |
| (c) Nonadmitted | - | - | - | | | | |
| (d) Admitted ordinary deferred tax assets | <u>2,341,041</u> | <u>2,309,699</u> | <u>31,342</u> | | | | |
| (e) Capital | | | | | | | |
| (1) Impairment of securities | 47,256 | 79,854 | (32,598) | | | | |
| (2) Other | - | - | - | | | | |
| Subtotal | <u>47,256</u> | <u>79,854</u> | <u>(32,598)</u> | | | | |
| (f) Statutory valuation allowance adjustment | - | - | - | | | | |
| (g) Nonadmitted | - | - | - | | | | |
| (h) Admitted capital deferred tax assets | <u>47,256</u> | <u>79,854</u> | <u>(32,598)</u> | | | | |
| (i) Admitted deferred tax assets | <u>2,388,297</u> | <u>2,389,553</u> | <u>(1,256)</u> | | | | |
| 3. Deferred tax liabilities: | | | | | | | |
| (a) Ordinary | | | | | | | |
| (1) Discounted salvage & sub | 176 | 1,075 | (899) | | | | |
| Subtotal | <u>176</u> | <u>1,075</u> | <u>(899)</u> | | | | |
| (b) Capital | | | | | | | |
| (1) Unrealized gain | 2,056,635 | 2,566,522 | (509,887) | | | | |
| (2) Other | 17,649 | 12,902 | 4,747 | | | | |
| Subtotal | <u>2,074,284</u> | <u>2,579,424</u> | <u>(505,140)</u> | | | | |
| (c) Deferred tax liabilities | <u>\$ 2,074,460</u> | <u>\$ 2,580,499</u> | <u>\$ (506,039)</u> | | | | |
| 4. Net deferred tax assets/liabilities | <u>\$ 313,837</u> | <u>\$ (190,946)</u> | <u>\$ 504,783</u> | | | | |

Notes to Financial Statements

D.-Analysis of Actual Income Tax Expense

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

| | 2014 | % | 2013 | % |
|--|---------------------|---------------|---------------------|-------------|
| Provision computed at statutory rate | \$ 132,370 | 35 % | \$ 2,884,105 | 35 % |
| Prior years provision to return adjustment | (634,179) | (168) | (362,507) | (4) |
| Other | | | | |
| Total | \$ (501,809) | (133)% | \$ 2,521,598 | 31 % |
| Federal income taxes incurred | \$ (1,502,094) | (397)% | \$ (370,351) | (4)% |
| Change in net deferred income taxes | 5,104 | 1 | 1,529,183 | 18 |
| Tax on capital gains/(losses) | 1,040,451 | 275 | 1,460,646 | 18 |
| Other | (45,270) | (12) | (97,880) | (1) |
| Total statutory income taxes | \$ (501,809) | (133)% | \$ 2,521,598 | 31 % |

E.-At December 31, 2014 and 2013, the Company had no operating loss carryforwards to utilize in future years.

The following is income tax incurred for 2012, 2013 and 2014 that is available for recoupment in the event of future net losses:

| Year | Ordinary | Capital | Total |
|-------------|-----------------|----------------|--------------|
| 2012 | | | \$ - |
| 2013 | | 1,045,029 | 1,045,029 |
| 2014 | | | - |

F.-The Company is a party to a tax sharing agreement with the parent company, PIC, and the affiliated entities as follows: Paramount Preferred Options (PPO), Paramount Care of Michigan, Inc. (PCM), Paramount Care, Inc. (PCI), Paramount Benefits Agency (PBA) and Paramount Insurance Company (PICO). Tax returns are completed on a consolidated basis. However, allocation is based upon separate return calculations with current credit for net losses. The method of allocation between the companies is subject to a written agreement approved by the Board of Directors. Intercompany tax balances are settled through the holding company, PIC.

G-Accounting for tax contingencies

For the years ended December 31, 2014 and 2013, the Company did not have tax contingencies under the principles of SSAP No. 5, *Liabilities, Contingencies and Impairment of Assets*. This is subject to change but it is not expected to significantly increase in the 12 month period following the balance sheet date. The Company is primarily subject to U.S. federal and various U.S. state and local tax authorities. Tax years subsequent to 2010 remain open to examination by the Internal Revenue Service, and 2009 remains open to other state and local tax authorities. As of December 31, 2014, there are no U.S. federal or state returns under examination.

10. Information Concerning Parent, Subsidiaries and Affiliates

The Company is ultimately controlled by ProMedica Health System, Inc. (“ProMedica”), a nonprofit holding company exempt from federal taxation under Section 501(c)(3) and 509(a)(3) of the Internal Revenue Code. The Company’s

Notes to Financial Statements

affiliates include PCM, PPO, PICO, PBA, PECM and PA. The Company also has many area hospitals as affiliates such as Toledo Hospital, Toledo Children's Hospital, Flower Hospital, Bay Park Hospital, Emma L. Bixby Hospital, Defiance Hospital, Fostoria Hospital, Herrick Memorial Hospital and St. Luke's Hospital. ProMedica Physician Group, a group of physicians owned by ProMedica, is also an affiliate of the Company.

Through management service agreements the company provides administrative support to four of its affiliated entities, PCM, PBA, PICO and PA. The following table shows the amounts allocated to the companies. These amounts were to compensate the Company for administrative support staff in all functional areas. The cost of shared services is allocated between the Company and affiliates based upon the percentage of subscribers at the end of each month.

| | 2014 | 2013 |
|------|------------|------------|
| PCM | 327,363 | 816,279 |
| PBA | - | 5,004 |
| PICO | 6,427,240 | 4,546,580 |
| PA | 23,040,919 | 16,563,564 |

ProMedica allocates corporate overhead to all ProMedica entities pursuant to a Cost Allocation Agreement. The Company was allocated \$3,032,380 and \$5,418,435 of overhead expense in 2014 and 2013, respectively. The amount is to compensate ProMedica for the services provided to the Company for corporate staff primarily in management, legal services, information services and investment management.

Balances outstanding with affiliated entities at December 31, 2014 and 2013

| | 2014 | | 2013 | |
|-----------------------------|---------------------|-----------------------|-------------------|-----------------------|
| | Due from | Due to | Due from | Due to |
| Bay Park | \$ 242,039 | | | (5,761) |
| ProMedica Physicians Group | 633,462 | (8,763) | 54,677 | (9,519) |
| Promedica Continuing Care | 526,823 | | 3,338 | (6,602) |
| ProMedica Health System | 586,224 | | 37,176 | |
| St. Lukes | 536,890 | (88,661) | 286,753 | |
| Bixby Medical Center | 452,826 | | | (3,965) |
| The Toledo Hospital | 2,969,060 | | | (19,400) |
| Defiance Hospital | 230,278 | | | (9,150) |
| Fostoria Hospital | 142,857 | | 4,899 | |
| Flower Hospital | 555,456 | | | (24,648) |
| Fremont Hospital | 344,191 | | | |
| Paramount Care of Michigan | | (315,204) | | (80,518) |
| Health Management Solutions | 25,896 | | 76,444 | |
| Paramount Advantage | | (886,167) | | (4,703,351) |
| Paramount Insurance Co. | | (2,281,002) | 10,658 | |
| Other affiliated entities | 32,603 | (25,668) | 417 | (1,106) |
| | <u>\$ 7,278,605</u> | <u>\$ (3,605,465)</u> | <u>\$ 474,362</u> | <u>\$ (4,864,020)</u> |

Notes to Financial Statements

Claims paid to affiliated entities during fiscal year 2014 and 2013

| | 2014 | 2013 |
|------------------------------------|---------------|---------------|
| | Paid | Paid |
| Bay Park Community Hospital | \$ 4,409,703 | \$ 7,934,949 |
| ProMedica North Region | 6,759 | 135,740 |
| Defiance Hospital | 23,481 | 194,818 |
| Flower Hospital | 10,973,695 | 14,890,588 |
| Fostoria Hospital | 68,228 | 219,467 |
| Lima Memorial Hospital | 29,374 | 22,473 |
| Memorial Hospital | 26,640 | - |
| ProMedica Physicians Group | 7,501,328 | 11,666,905 |
| ProMedica Continuing Care Services | 7,080,247 | 7,163,614 |
| St. Lukes Hospital | 7,119,646 | 9,255,411 |
| The Toledo Hospital | 27,742,462 | 38,473,002 |
| | \$ 64,981,563 | \$ 89,956,967 |

Effective August 1, 2013, the comprehensive line of business of Paramount Care Inc. along with the related assets and liabilities were transferred to Paramount Insurance Company. The transfer was approved by the Ohio Department of Insurance. The following is detail of the assets and liabilities transferred.

| Assets | PHC | PICO |
|------------------------------------|--------------|--------------|
| Investments | (5,015,775) | 5,015,775 |
| Cash | (10,401,569) | 10,401,569 |
| Premiums receivable | (1,122,973) | 1,122,973 |
| Reinsurance receivable | (3,771) | 3,771 |
| Health care receivable | (373,922) | 373,922 |
| Prepaid other | (130,000) | 130,000 |
| Total | (17,048,011) | 17,048,011 |
| Liabilities | | |
| Unpaid claims | 9,870,201 | (9,870,201) |
| Unpaid claims adjustment expenses | 508,000 | (508,000) |
| Premiums received in advance | 3,068,135 | (3,068,135) |
| Current federal income tax payable | 1,857,979 | (1,857,979) |
| General expenses due and accrued | 733,559 | (733,559) |
| Due from PICO/due to PHC | 746,114 | (746,114) |
| Uncertain tax position | 264,023 | (264,023) |
| Total | 17,048,011 | (17,048,011) |

The Company is a party to a tax sharing agreement with the parent company, PIC, and the affiliated entities as follows: Paramount Preferred Options (PPO), Paramount Care of Michigan, Inc. (PCM), Paramount Care, Inc. (PCI), Paramount Benefits Agency (PBA) and Paramount Insurance Company (PICO). Tax returns are completed on a consolidated basis. However, allocation is based upon separate return calculations with current credit for net losses. The method of allocation between the companies is subject to a written agreement approved by the Board of Directors. Intercompany tax balances are settled through the holding company, PIC.

Tax payable/receivable amounts to affiliated entities as of 2014 and 2013:

| | 2014 | 2013 |
|---------------------------------|-------------|--------------|
| Paramount Health Care | \$ 972,387 | \$ 6,299,145 |
| Paramount Care of Michigan | 297,339 | 945,149 |
| Paramount Benefits Agency | (7,884) | (7,087) |
| Paramount Preferred Options | 68,670 | (7,593) |
| Paramount Advantage | (4,866,223) | (8,864,521) |
| Paramount Insurance Company | (4,460,163) | (181,952) |
| Health Management Solutions | (647,386) | (1,051,684) |
| ProMedica Insurance Corporation | 8,643,260 | 2,868,543 |

Notes to Financial Statements

11. Debt

-NOT APPLICABLE

12. Retirement Plans, Deferred Compensation, Postemployment Benefits

- A. The company does not participate in defined benefit plans.
- B. 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. In 2007, the pension asset was transferred to ProMedica Health System. The company did not contribute anything for the year ended December 31, 2014 and 2013.

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. For the years ended December 31, 2014 and 2013, contributions by the Company amounted to \$418,780 and \$686,550 respectively. 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 may contribute 2% of the employee's pay to his or her 401 (k) account. For the years ended December 31, 2014 and 2013, there was no employer contribution to this plan.

- C. The company does not participate in a multi-employer plan.
- D. The company participates in a Consolidated/Holding Company Plan. See description at [B] 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 2014, a \$7,000,000 ordinary dividend was declared to be paid to ProMedica Insurance Corp. During 2013, no dividends were paid to ProMedica Insurance Corp.
- 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.

Notes to Financial Statements

I. The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses is:

Unrealized gains, net of tax (946,931)

J. The Company has no surplus debentures or other outstanding obligations.

K. The Company was not involved in a quasi-reorganization during the year.

14. Contingencies

The Company has been and is currently involved in various governmental investigations, audits, and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of Inspector General (“OIG”), the Office of Personnel Management, the Office of Civil Rights, U.S. Congressional committees, the U.S. Department of Justice, U.S. Attorneys, the SEC, the IRS, the U.S. Department of Labor (“DOL”), the Federal Deposit Insurance Corporation, and other governmental authorities. Examples of audits include the risk adjustment data validation (“RADV”) audits discussed below and a review by the DOL of the Company’s administration of applicable customer employee benefit plans with respect to Employee Retirement Income Security Act of 1974 compliance.

Government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs and could have a material adverse impact on the accompanying statutory basis statements of admitted assets, liabilities, and capital and surplus or statutory basis statements of operations of the Company.

Risk Adjustment Data Validation Audits (“RADV audits”) — CMS adjusts capitation payments to Medicare Advantage and Medicare Part D plans according to the predicted health status of each beneficiary, as supported by data provided by health care providers. The Company collects claim and encounter data from providers, who the Company generally relies on to appropriately code their claim submissions and document their medical records. CMS then determines the risk score and payment amount for each enrolled member based on the health care data submitted and member demographic information.

In February 2012, CMS announced a final RADV audit and payment adjustment methodology and that it will conduct RADV audits beginning with the 2011 payment year. These audits involve a review of medical records maintained by care providers and may result in retrospective adjustments to payments made to health plans. CMS has not communicated how the final payment adjustment under its methodology will be implemented. PIC has been selected for audit by CMS for the 2011 payment year. This audit began in 2014. The impact of potential payment adjustments on the Company’s statutory basis financial statement is unknown.

15. Leases

The Company has entered into lease agreements for office space, furniture, computers, and telephones that expire through 2014. Rental expense charged to operations amounted to \$1,054,757 and \$829,820 in 2014 and 2013, respectively.

At January 1, 2015, the minimum aggregate rental commitments are as follows:

Notes to Financial Statements

| Year Ending December 31 | Operating Leases |
|----------------------------|------------------|
| 2015 | \$1,110,093 |
| 2016 | \$1,110,093 |
| 2017 | \$1,110,093 |
| 2018 | \$954,605 |
| 2019 | \$0 |
| Thereafter | \$0 |
| Total | \$4,284,884 |

The Company is not party to any capital or leveraged lease agreements, nor is it a lessor.

16. Off-Balance Sheet Risk

-NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

-NOT APPLICABLE

18. Gain or loss to the Reporting Entity from Uninsured A&H Plans and the uninsured Portion of partially Insured Plans

The gain from operations from Administrative Services Only (ASO) uninsured plans was as follows during 2014:

| | ASO Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASO |
|--|------------------------|--|--------------------|
| Net reimbursement for administrative Expenses (including admin fees) in excess of actual expenses | \$ 2,551,048 | | \$ 2,551,048 |
| Total net other income or expenses including interest paid to or received from plans | <u>(895,686)</u> | | <u>(895,686)</u> |
| Total gain or (loss) from operations | <u>1,655,362</u> | | <u>1,655,362</u> |
| Claim payments | <u>118,796,760</u> | | <u>118,796,760</u> |

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators.

-NOT APPLICABLE

20. Fair Value Measurements

A1.

| Description for each class of asset or liability | (Level 1) | (Level 2) | (Level 3) | Total |
|---|----------------------|-----------|-----------|----------------------|
| Assets at fair value | | | | |
| Common Stock | | | | |
| Industrial and Misc | \$ 14,827,267 | | | \$ 14,827,267 |
| Mutual Funds | <u>5,979,060</u> | | | <u>5,979,060</u> |
| Total Common Stock | <u>\$ 20,806,327</u> | - | - | <u>\$ 20,806,327</u> |
| | | | | |
| Total Assets at Fair Value | <u>\$ 20,806,327</u> | - | - | <u>\$ 20,806,327</u> |

C.

Notes to Financial Statements

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | (Level 1) | (Level 2) | (Level 3) | Not Practicable (Carrying Value) |
|------------------------------|----------------------|-----------------|------------|------------|-----------|----------------------------------|
| Short Term Investments | 1,306,173 | 1,306,173 | 1,306,173 | | | |
| Bonds | 63,241,722 | 62,524,979 | | 63,241,722 | | |
| Common Stock | 20,806,327 | 20,806,327 | 20,806,327 | | | |

D. NA

21. Other Items

The Company has no extraordinary items, troubled debt restructuring or other unusual disclosures to make.

22. Subsequent Events

There were no Type I or Type II subsequent events at the time of this filing that would materially alter the financial position of the Company.

23. Reinsurance

A. Ceded Reinsurance Report

Section 1

1. None of the reinsurers listed in Schedule S as non-affiliated, are owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee or director of the company.
2. None of the policies issued by the company have been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business.

Section 2

1. The company does not have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit.
2. The company does not have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies.

Section 3

1. The aggregate reduction in surplus for termination of all reinsurance agreements, by either party, as of the date of this statement is \$0.
2. No new agreements have been executed or existing agreements amended since January 1, 2013 to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement.

B. The Company does not have any uncollectible reinsurance recorded on its books.

C. The company had no commutation of reinsurance.

Notes to Financial Statements

24. Retrospectively Rated Contracts

E. Risk Sharing Provisions of the Affordable Care Act

1. PHC writes uninsured non-individual accident and health insurance premium that is subject to the Affordable Care Act.

The company had zero balances for the risk corridors program due a lack of sufficient data to estimate the recoverable amounts.

2. Impact of Risk-sharing provisions of the Affordable Care Act on Admitted Assets, Liabilities and Revenue for the Current Year

| a. Permanent ACA Risk Adjustment Program | | |
|--|--|---------------|
| Assets | | Amount |
| 1. Premiums receivable due to ACA Risk Adjustment | | NA |
| Liabilities | | |
| 2. Risk adjustment user fees payable for ACA Risk Adjustment | | NA |
| 3. Premium adjustments payable due to ACA Risk Adjustment | | NA |
| Operations (Revenue & Expense) | | |
| 4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment | | NA |
| 5. Reported in expenses as ACA Risk adjustment user fees | | NA |
| NA-to uninsured plans | | |
| b. Transitional ACA Reinsurance Program | | |
| Assets | | |
| 1. Amounts recoverable for claims paid due to ACA Reinsurance | | NA |
| 2. Amounts recoverable for claims unpaid due to ACA Reinsurance(Contra Liability) | | NA |
| 3. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance | | \$0 |
| Liabilities | | |
| 4. Liabilities for contributions payable due to ACA Reinsurance -not Reported as ceded Premium | | NA |
| 5. Ceded reinsurance premiums payable due to ACA Reinsurance | | NA |
| 6. Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance | | \$1,308,132 |
| Operations (Revenue & Expense) | | |
| 7. Ceded reinsurance premiums due to ACA Reinsurance | | NA |
| 8. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments | | NA |
| 9. ACA Reinsurance contributions-not reported as ceded premium | | NA |
| NA-to uninsured plans | | |
| c. Temporary ACA Risk Corridors Program | | |
| Assets | | |
| 1. Accrued retrospective premium due to ACA Risk Corridors | | \$0 |
| Liabilities | | |
| 2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors | | \$0 |
| Operations (Revenue & Expense) | | |
| 3. Effect of ACA Risk Corridors on net premium income (paid/received) | | \$0 |
| 4. Effect of ACA Risk Corridors on change in reserves for rate | | \$0 |

3. Rollforward of prior year ACA risk-sharing provisions for the following asset (gross of any nonadmission) and liability balances, along with the reasons for adjustments to prior year balance.

Notes to Financial Statements

| | | | | | Differences | | Adjustments | | Unsettled Balances as of the Reporting Date | |
|--|--|-----|--|-----|--|--|------------------------------|------------------------------|---|-----|
| | | | | | Prior Year Accrued Less Payments Col 1-3 | Prior Year Accrued Less Payments Col 2-4 | To Prior Year Balances | To Prior Year Balances | | |
| | Accrued During the Prior Year on Business Written Before December 31 of the Prior Year | | Received or Paid as of the Current Year on Business written before December 31 of the Prior Year | | | | | | Ref | Ref |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| | Rec | Pay | Rec | Pay | Rec | Pay | Rec | Pay | Rec | Pay |
| a. Permanent ACA Risk Adjustment | | | | | | | | | | |
| Program | | | | | | | | | | |
| 1. Premium Adjustment receivables | - | - | - | - | - | - | - | - | - | - |
| 2. Premium adjustments (payable) | - | - | - | - | - | - | - | - | - | - |
| 3. Subtotal ACA Permanent Risk | - | - | - | - | - | - | - | - | - | - |
| Adjustment Program | | | | | | | | | | |
| b. Transitional ACA Reinsurance Program | | | | | | | | | | |
| 1. Amounts recoverable for claims paid | - | - | - | - | - | - | - | - | - | - |
| 2. Amounts recoverable for claims | - | - | - | - | - | - | - | - | - | - |
| unpaid (contra liability) | | | | | | | | | | |
| 4. Liabilities for contributions payable | - | - | - | - | - | - | - | - | - | - |
| due to ACA reinsurance-not reported | | | | | | | | | | |
| as ceded premium | | | | | | | | | | |
| 5. Ceded reinsurance premiums | - | - | - | - | - | - | - | - | - | - |
| payable | | | | | | | | | | |
| 6. Liability for amounts held under | - | - | - | - | - | - | - | - | - | - |
| uninsured plans | | | | | | | | | | |
| 7. Subtotal ACA Transitional | - | - | - | - | - | - | - | - | - | - |
| Reinsurance Program | | | | | | | | | | |
| c. Temporary ACA Risk Corridors | | | | | | | | | | |
| Program | | | | | | | | | | |
| 1. Accrued retrospective premium | - | - | - | - | - | - | - | - | - | - |
| 2. Reserve for rate credits or policy | - | - | - | - | - | - | - | - | - | - |
| experience rating refunds | | | | | | | | | | |
| 3. Subtotal ACA Risk Corridors | - | - | - | - | - | - | - | - | - | - |
| Program | | | | | | | | | | |
| d. Total for ACA Risk Sharing Provisions | - | - | - | - | - | - | - | - | - | - |

25. Change in Incurred Claims and Claim Adjustment Expenses

Reserves as of December 31, 2013 were \$15,888,422. As of December 31, 2014, \$14,035,784 has been paid for incurred claims and claim adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$79,397 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Commercial and Medicare lines of insurance. Therefore, there has been a \$1,773,241 favorable prior-year development since December 31, 2013 to December 31, 2014. The decrease is generally a result of ongoing analysis of recent development trends. Original estimates are increased or decreased, as additional information becomes known regarding individual claims.

26. Intercompany Pooling Arrangements

-NOT APPLICABLE

27. Structured Settlements

-NOT APPLICABLE

28. Health Care Receivables

Notes to Financial Statements

The Company estimates its pharmaceutical rebate receivables based on historical cash payments.

| Quarter | Estimated | Pharmacy | Actual Rebates | Actual Rebates | Actual Rebates |
|------------|---------------------|----------------------|--|--|---|
| | Pharmacy Rebates | Rebates as Billed | Received within 90 days of billing | Received within 91-180 days of billing | Received More than 180 days after billing |
| 12/31/2014 | 542,875 | 542,875 | - | - | - |
| 9/30/114 | - | - | - | - | - |
| 6/30/2014 | 549,837 | 1,028,039 | - | - | 1,028,039 |
| 3/31/2014 | 1,012,338 | 916,460 | - | - | 916,460 |
| 12/31/2013 | 776,992 | 779,773 | - | - | 779,773 |
| 9/30/2013 | 461,075 | 1,164,105 | - | - | 1,164,105 |
| 6/30/2013 | 910,810 | 1,496,587 | - | - | 1,496,587 |
| 3/31/2013 | 256,805 | 884,978 | - | 140,137 | 744,841 |
| 12/31/2012 | 284,993 | 582,106 | - | 580,496 | 1,609 |
| 9/30/2012 | 350,580 | 622,638 | - | 450,930 | 171,708 |
| 6/30/2012 | 674,145 | 621,282 | - | 440,169 | 181,113 |
| 3/31/2012 | 334,559 | 754,857 | - | 619,940 | 134,917 |

29. Participating Policies

-NOT APPLICABLE

30. Premium Deficiency Reserves

| | |
|--|-----------|
| Liability carried for premium deficiency reserve : | \$0 |
| Date of most recent evaluation of this liability: | 1/22/2015 |
| Was anticipated investment income utilized in the calculation? | Yes |

31. Anticipated Salvage and Subrogation

The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and reduced such liability by \$56,940.

FIVE-YEAR HISTORICAL DATA

| | 1 2014 | 2 2013 | 3 2012 | 4 2011 | 5 2010 |
|--|-------------|-------------|--------------|-------------|--------------|
| BALANCE SHEET (Pages 2 and 3) | | | | | |
| 1. TOTAL Admitted Assets (Page 2, Line 28) | 105,125,132 | 98,826,206 | 111,600,269 | 120,824,586 | 160,671,421 |
| 2. TOTAL Liabilities (Page 3, Line 24) | 49,371,832 | 34,445,595 | 53,434,778 | 55,748,731 | 117,613,501 |
| 3. Statutory surplus | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| 4. TOTAL Capital and Surplus (Page 3, Line 33) | 55,753,300 | 64,380,611 | 58,165,491 | 65,075,855 | 43,057,920 |
| INCOME STATEMENT (Page 4) | | | | | |
| 5. TOTAL Revenues (Line 8) | 143,021,577 | 212,770,047 | 270,343,717 | 277,928,973 | 280,859,301 |
| 6. TOTAL Medical and Hospital Expenses (Line 18) | 140,130,291 | 194,192,035 | 261,243,920 | 252,645,851 | 245,749,778 |
| 7. Claims adjustment expenses (Line 20) | 1,626,890 | 2,985,293 | 5,771,731 | 5,618,205 | 7,491,495 |
| 8. TOTAL Administrative Expenses (Line 21) | 5,124,949 | 13,212,160 | 21,441,828 | (2,916,460) | 44,809,896 |
| 9. Net underwriting gain (loss) (Line 24) | (3,860,553) | 2,380,559 | (18,113,762) | 22,581,377 | (17,191,868) |
| 10. Net investment gain (loss) (Line 27) | 3,206,200 | 4,394,523 | 3,641,540 | 6,783,703 | 5,802,296 |
| 11. TOTAL Other Income (Lines 28 plus 29) | (7,895) | 4,575 | 3,836 | 18,159 | 22,083 |
| 12. Net income or (loss) (Line 32) | 885,113 | 7,247,888 | (8,600,057) | 27,387,592 | (14,174,201) |
| Cash Flow (Page 6) | | | | | |
| 13. Net cash from operations (Line 11) | 5,641,872 | (9,632,541) | (12,412,627) | 3,615,387 | 3,738,322 |
| RISK-BASED CAPITAL ANALYSIS | | | | | |
| 14. TOTAL Adjusted Capital | 55,753,300 | 64,380,611 | 58,165,491 | 65,075,855 | 43,057,920 |
| 15. Authorized control level risk-based capital | 6,389,776 | 8,955,231 | 12,115,525 | 11,496,676 | 12,110,786 |
| ENROLLMENT (Exhibit 1) | | | | | |
| 16. TOTAL Members at End of Period (Column 5, Line 7) | 12,298 | 12,279 | 43,658 | 45,681 | 48,835 |
| 17. TOTAL Members Months (Column 6, Line 7) | 149,295 | 348,136 | 531,236 | 560,987 | 578,004 |
| OPERATING PERCENTAGE (Page 4) | | | | | |
| (Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0 | | | | | |
| 18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 19. TOTAL Hospital and Medical plus other non-health (Lines 18 plus Line 19) | 98.0 | 91.3 | 96.6 | 90.9 | 87.5 |
| 20. Cost containment expenses | 0.7 | 1.0 | 1.5 | 1.4 | 1.8 |
| 21. Other claims adjustment expenses | 0.4 | 0.4 | 0.6 | 0.7 | 0.9 |
| 22. TOTAL Underwriting Deductions (Line 23) | 102.7 | 98.9 | 106.7 | 91.9 | 106.1 |
| 23. TOTAL Underwriting Gain (Loss) (Line 24) | (2.7) | 1.1 | (6.7) | 8.1 | (6.1) |
| UNPAID CLAIMS ANALYSIS | | | | | |
| (U&I Exhibit, Part 2B) | | | | | |
| 24. TOTAL Claims Incurred for Prior Years (Line 13, Column 5) | 13,523,732 | 21,573,197 | 26,773,495 | 21,105,605 | 22,593,804 |
| 25. Estimated liability of unpaid claims-[prior year (Line 13, Column 6)] | 14,081,918 | 28,819,576 | 26,666,011 | 23,460,147 | 28,684,517 |
| INVESTMENTS IN PARENT, SUBSIDIARIES AND AFFILIATES | | | | | |
| 26. Affiliated bonds (Sch. D Summary, Line 12, Column 1) | | | | | |
| 27. Affiliated preferred stocks (Sch. D Summary, Line 18, Column 1) | | | | | |
| 28. Affiliated common stocks (Sch. D Summary, Line 24, Column 1) | | | | | |
| 29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10) | | | | | |
| 30. Affiliated mortgage loans on real estate | | | | | |
| 31. All other affiliated | | | | | |
| 32. TOTAL of Above Lines 26 to 31 | | | | | |
| 33. TOTAL Investment in Parent Included in Lines 26 to 31 above | | | | | |

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [] No [] N/A [X]

If no, please explain::