



Making a Positive Difference in Health Care for **25 YEARS**





In the Beginning



Creating a competitive marketplace for professional liability insurance for California's hospitals was just the beginning of our success story.

If the formation of California Healthcare Insurance Company, Inc., A Risk Retention Group (CHI) in 1988 had provided no other benefit to California's community hospitals than to make the hospital professional liability insurance market a competitive one, that important contribution alone would have saved these vital community resources hundreds of millions of dollars – money that could be better spent on providing health care services.

Before 1988 and the formation of CHI, the professional liability insurance marketplace was monopolized by one dominant carrier leaving hospitals no choice but to pay their exorbitantly high premiums. The formation of policyholder-owned CHI by a bold group of community hospital administrators eventually toppled that monopoly, opening up the California hospital professional liability insurance marketplace to healthy competition from a variety of major carriers. In this vibrant, newly competitive arena, few gave this small and innovative captive – CHI – much chance of survival.

But a funny thing happened in the years that followed, and 25 years later CHI is the longest continually-operating hospital professional liability insurance carrier in California. Other major carriers have come and gone, and even some have come and gone again. But the concept of a policyholder-owned insurance company – one that provides its policyholders or insureds with control over their insurance products, stable pricing, premium holidays/ rebates, proactive risk management programs and aggressive claims management – is the proven model of success.

The innovation that has defined CHI's first 25 years is what will lead to its continued success in the years ahead. As California hospitals face the challenges of the Affordable Care Act, CHI and our owner/insureds will continue to be the driving force for sensible and sustainable initiatives that will lead to new opportunity. CHI salutes these pioneering, visionary hospital leaders and all that they have created as we celebrate our first 25 years.

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A Bold Vision *Nine Hospitals and their Courageous First Steps*

In the 1980s, California's hospitals had few options for professional liability insurance coverage. One major carrier dominated the market and neither the cost of premiums nor the services provided were helping hospitals improve their quality of care and thus reduce their exposure leading to claims. A group of innovative hospital executives knew there was a better way that would lower costs and more aggressively address claims and risk management issues. So they reached out to the California Hospital Association (CHA) who led the process to find this better way.

"The mission of these executives was to provide competition to the traditional marketplace and

devise a more responsive and efficient long-term solution for hospital professional liability coverage," remembers CHA President C. Duane Dauner.

Because an insurance carrier that would be a true partner with hospitals simply did not exist in the marketplace, the hospital executives' vision became to create that kind of insurance company themselves. From this bold thinking, CHI was born.

"Our first hospital executives were true visionaries with incredible courage. They challenged the conventional wisdom at the time which was that hospitals wouldn't be able to create and manage a successful insurance company," says Jeffrey Sousa, CFO when CHI was formed in 1988 and CHI President from 1997-2013.

The hospitals below (listed with their first CHI board members) were the original owner/insureds when the company was incorporated on December 22, 1988. The first policies were issued in April 1989:

- ◀ **Midwood Community Hospital**
(Robert Mawhinney, Administrator)
- ◀ **Riverside Community Hospital**
(Richard Yardley, CFO)
- ◀ **Foothill Presbyterian Hospital**
(Donald Hitt, President)
- ◀ **NorthBay Medical Center**
(Raoul Miranda, VP/Finance, representing Gary Passama, President/CEO)



1988-89

CHI is incorporated and nine hospitals join as owners (Foothill Presbyterian Hospital, Midwood Community Hospital, Mission Hospital Regional Medical Center, NorthBay Medical Center, NorthBay VacaValley Hospital, Riverside Community Hospital, San Antonio Community Hospital, Victor Valley Community Hospital, Verdugo Hills Hospital)



1990

Community Hospital of the Monterey Peninsula and Oroville Hospital join

- ✦ **NorthBay VacaValley Hospital**
(Raoul Miranda, VP/Finance, representing Gary Passama, President/CEO)
- ✦ **San Antonio Community Hospital**
(Ronald Sackett, President/CEO)
- ✦ **Verdugo Hills Hospital**
(Ronald Davey, President)
- ✦ **Victor Valley Community Hospital**
(John Lewis, Marketing Director)
- ✦ **Mission Hospital Regional Medical Center**
(Robert Mann, VP/Finance)

Turning Skeptics into Believers

While the initial CHI owner/insureds were certain this new venture was both a smart and sustainable solution, most of the industry predicted CHI would not survive. Of course, CHI was not without tribulations to face, including securing appropriate capital, strong resistance from a formidable competitor and industry skepticism about hospitals owning and managing a captive. The CHI team overcame all of

these challenges within a few years of the company's existence.

Soon a success story was taking root and CHI did survive through 1989, then through 1990. The company grew even stronger in 1991 and, in 1992, CHI proved it was indeed a successful, sustainable and necessary organization. Hospital professional liability insurance premiums were declining sharply throughout California due to the new competition from CHI, and CHI was now making a profit for its owner/insureds. During this time, CHI achieved its first new sales: Community Hospital of the Monterey Peninsula and Oroville Hospital.

In 1994, CHI fully delivered on its promise to be a long-term solution for hospital professional liability insurance coverage by delivering its historic first premium holiday to its owner/insureds. What the founding hospital executives believed about their upstart venture was true all along — CHI was a smart alternative to traditional hospital professional liability insurance and it was not going away.



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JEFFRY SOUSA | CHI PRESIDENT (1997-2013)

1991

CHI posts first profit; Madera Community Hospital joins



1992

Barton Memorial Hospital, Beverly Hospital and Carson Valley Medical Center join

1993

Owners receive first premium holiday; Lodi Memorial Hospital and Marshall Medical Center join



1994

Fremont-Rideout Health Group joins



1995

CHI earns first secured A.M. Best rating

A Concept Takes Root and Blossoms

Optima Healthcare offers hospitals new insurance solutions

By the mid 1990s CHI was experiencing considerable growth thanks to its fast developing reputation in the health care industry for stabilizing hospital liability expenditures. The CHI model was proving itself a solid one that thrived in good and bad times, and in hard professional liability insurance markets as well as soft ones. This was an organization built for the long haul.

Community hospitals throughout California became increasingly interested in becoming owner/insureds of CHI. Hospitals such as Lodi Memorial Hospital and Barton Hospital joined the CHI program, and very few hospitals returned to the traditional marketplace. Even more hospitals took notice as CHI continued to offer premium

holidays while delivering a stable and competitive pricing structure, and superior claims and risk management services. By the end of the decade, 21 hospitals were owner/insureds of CHI.

In 1995 CHI's growth and reputation was acknowledged with its first secured and positive rating by A.M. Best Company, the insurance industry's premier rating organization. That original rating continues to rise steadily to CHI's current A.M. Best rating of A- (excellent) with a stable outlook.

Optima expands coverage options

After eight years of considerable growth, CHI formed its own brokerage and service company,

Optima Healthcare Insurance Services (Optima), in 1997. Prior to the formation of Optima, CHI was managed by an independent brokerage company that received commissions from CHI owner/insureds. With Optima in the CHI family, commissions on these insurance products are returned back to the company to offset operating expenses.

As a multi-line brokerage company, Optima provides comprehensive coverage for CHI owner/insureds, from D&O to property insurance and other lines of coverage that independent hospitals and health care systems require. Like CHI, Optima is committed to meeting the needs of the CHI owner/insureds through personal, reliable, solution-oriented service.

1996

College Health Enterprises, College Hospital Costa Mesa, College Hospital Cerritos, Enloe Medical Center and Glenn Medical Center join



1997

CHI launches Optima Healthcare Insurance Services; Jeffrey Sousa named President/CEO



1998

Healdsburg District Hospital joins



Thanks to its captive model, CHI and its new subsidiary, Optima, eliminated or greatly reduced operating expenses while enhancing the revenue stream. These savings, in turn, are passed on to CHI owner/insureds. Since Optima's inception 16 years ago, it has saved CHI owner/insureds more than \$20 million in operating costs partly by capturing \$12 million in commissions on Optima brokerage products.

Equally as important, the formation of Optima built a bridge between CHI owner/insureds and their own brokerage company, creating an alignment of values, direction and accountability while finding another way to keep dollars in the health care industry.

By the new millennium, CHI professional liability insurance coverage was also sold through outside brokers for the first time in the company's history. CHI then expanded its market to physician groups and its territory to northern Nevada. In 2005, the Silver State's largest health care system, Renown, became an owner/insured.

CHI is now lauded by industry analysts as "the most influential insurance carrier in the marketplace today" and became the first professional health care liability insurance carrier to offer:

- ✦ Consistent premium holidays/rebates
- ✦ Lower claim loads for claims staff
- ✦ An innovative and targeted risk management program
- ✦ In-house brokerage to serve owners
- ✦ Control of insurance operations and policy terms

CHI also opened the door for today's more competitive professional liability insurance market.

This brings us to where CHI — the company that many said would never survive — is today: the longest operating and most influential health care professional liability insurance company in California.



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1999

CHI professional hospital liability insurance coverage offered through brokers; coverage offered to physician groups; Barton Memorial Hospital MSO (certain members) joins; Pacific Alliance Medical Center, Pomona Valley Hospital Medical Center and Pomona Valley Hospital Medical Center Family Practice Residency Program join



2000

CHI expands territory to Nevada; Eastern Plumas Health Care and Southern Humboldt Community Healthcare District join



2001

Citrus Valley Health Partners, Colusa Regional Medical Center, Dameron Hospital Association, Fairchild Medical Center, Siskiyou Home Health Services and Methodist Hospital of Southern California join

Defining the Standard *CHI delivers unmatched value and strength*

When compared to other hospitals in California, Nevada and nationwide, CHI insured hospitals experience lower frequency and lower cost of claims. This is due to CHI's long track record of success and innovation in:



Risk management



Claims management



**Fostering partnerships
for collective strength**

Risk Management: Creating a win-win for CHI and its owner/insureds

From its inception, CHI worked proactively with each owner/insured to reduce liability by improving clinical outcomes. Obstetrical (OB) claims, for example, once accounted for 62 percent of claims dollars. So CHI became one of the first professional liability insurance carriers to create an initiative aimed at reducing OB risk and improving quality. The results of this cutting-edge initiative were astounding.

Before the obstetrical care initiative, CHI hospitals were paying \$504 per delivery for claims. By 2007, that number plummeted to a historical low of \$28. Today, the cost per delivery is \$33. "We saved money, but more importantly,

we saved lives because of the reduction in medical errors," CHI Past President Jeffrey Sousa says proudly. "That alone makes our risk management program a tremendous success." Analysis of claims data and industry best practices remains a cornerstone of the CHI risk management program today.

CHI also offers owner/insureds broad and flexible learning opportunities, ranging from free educational forums to online courses available 24/7. Mentorship programs and on-site education target clinical and non-clinical areas of risk management to increase competency and strengthen communication. No health care professional liability insurance company today is more committed to the control of risk exposure than CHI.



2002

Eskaton joins



2003

Alhambra Hospital
Medical Center and
Redlands Community
Hospital join



2004

Henry Mayo Newhall
Memorial Hospital and
Temple Community
Hospital join

Claims Management: Tirelessly protecting your reputation

CHI consistently achieves superior claims results because no insurance company defends their owner/insureds better. The aggressive claims management approach includes reducing the caseload of each claims specialist to one of the lowest in the industry.

CHI claims specialists respond quickly to each event, claim or suit and reduce costs through early intervention. When warranted, cases are settled promptly with minimum impact to owner/insureds. CHI is a staunch defender when liability appears to be absent, helping to choose the best defense-minded law firms to strongly defend owner/insureds' interests. NorthBay Healthcare President/CEO Gary Passama has experienced the value of CHI claims management first hand. "They work with you every step along the way when a claim has been filed. They don't simply settle for the sake of settlement."

Creating a culture of partnership and collaboration

Unlike traditional health care professional liability insurance companies, CHI's successes and losses are owned by those it insures. This structure means unprecedented commitment from the leaders of each organization and a culture that fosters:

- ✦ Commitment to common initiatives
- ✦ Pride of ownership
- ✦ A network of shared knowledge and experiences

CHI gives CEOs and other senior leaders an opportunity to partner with their peers and work side by side on issues that are most vital to them. They share their successes and challenges and form friendships that stretch beyond CHI.

"Partnership between hospitals to reduce the frequency and cost of claims is the basis of why CHI was started 25 years ago, and this partnership is why we continue to thrive today," Sousa says. "Creation of a supportive, collaborative culture is perhaps one of our greatest accomplishments."



"We saved money, but more importantly, we saved lives because of the reduction in medical errors. That alone makes our risk management program a tremendous success."

JEFFRY SOUSA | CHI PRESIDENT (1997-2013)



2005

CHI A.M. Best rating rises to A- with a stable outlook; Renown Health and Tahoe Carson Valley Medical Group join

2008

California Hospitalist Physicians joins

2009

Siskiyou Professional Medical Services joins



2011

Carson Valley Medical Center (certain members) joins

2013

Jeffry Sousa announces retirement; Diane Abbett named incoming President/CEO
LifeCenter Holdings, LLC joins

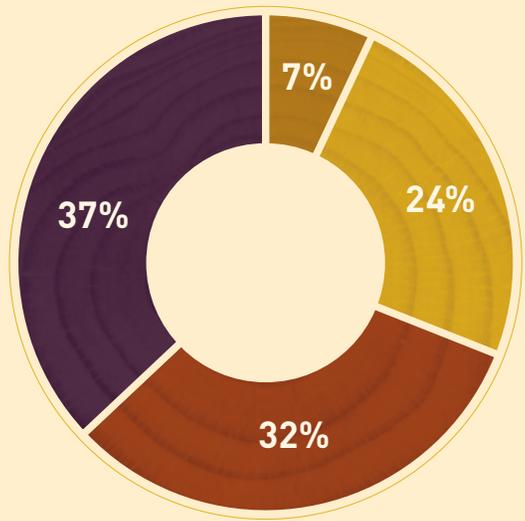
Financial Highlights

California Healthcare Insurance Company, Inc., RRG (Statutory Basis - Unaudited)

	2012	2011	2010	2009	1999	1989
Admitted Assets	\$ 114,392,887	\$ 114,756,199	\$ 112,039,099	\$ 105,682,107	\$ 25,143,043	\$ 3,149,194
Policyholders' Surplus	\$ 45,405,355	\$ 42,939,576	\$ 39,290,113	\$ 34,710,334	\$ 9,392,576	\$ 1,726,015
Loss & LAE Reserves	\$ 52,283,879	\$ 54,015,064	\$ 52,606,068	\$ 52,762,428	\$ 15,452,175	\$ 1,136,060
Total Open Claims/Suits	346	357	326	316	297	31
Net Premiums Earned	\$ 17,642,268	\$ 17,589,459	\$ 15,615,761	\$ 17,283,038	\$ 6,102,924	\$ 1,514,747
Net Income, after taxes	\$ 2,920,765	\$ 4,124,957	\$ 3,947,711	\$ 4,019,400	\$ 944,123	\$ (429,031)
Combined Ratio*	97.9%	86.1%	75.2%	86.4%	101.0%	135.4%
Operating Ratio**	81.6%	73.1%	60.5%	72.5%	83.9%	128.3%
Number of Policyholders	39	42	42	40	30	8
CHI Stock Price Per Share	\$ 22	\$ 20	\$ 17	\$ 15	\$ 6	\$ 1

* Combined Ratio measures a company's overall underwriting profitability. A combined ratio of less than 100% indicates an underwriting profit.

** Operating Ratio measures a company's overall operational profitability from underwriting and investment activities. An operating ratio of less than 100% indicates a company is able to generate profits from its underwriting and investment activities.



CUSTOMER LONGEVITY

- 7%** 0-5 YEARS
- 24%** 5-10 YEARS
- 32%** 10-15 YEARS
- 37%** 15+ YEARS

CHI POLICYHOLDERS' SURPLUS (\$M)



CHI/OPTIMA OFFERS FLEXIBILITY AND ADAPTABILITY

As the needs of independent hospitals and health care systems change and grow, CHI and its subsidiary, Optima, grow right with them. Because CHI is focused on providing insurance solutions to its owner/insureds, Optima now offers a variety of insurance products, from cyber liability to stop-loss coverage for self-funded employee benefits.

Even during this period of growth, expansion and change, CHI continues to offer a stable and long-term solution to hospital professional liability insurance coverage. Each owner/insured is treated personally and coverage is tailored to meet their unique needs.

Board of Directors 2012-2013

Robert Curry

President/CEO, Citrus Valley
Health Partners
Covina, CA

Richard Derby

CFO, Barton Healthcare System
South Lake Tahoe, CA

John Frye

CEO, Madera Community Hospital
Madera, CA

Theresa Hamilton

CEO, Rideout Health
Yuba City, CA

Joseph Harrington

Chairman
President/CEO,
Lodi Memorial Hospital
Lodi, CA

James Holmes

President/CEO, Redlands
Community Hospital
Redlands, CA

Harris Koenig

CEO, San Antonio
Community Hospital
Upland, CA

Leonard LaBella

Secretary
CEO, Verdugo Hills Hospital
Glendale, CA

Tim Nylen

Vice President, Community Hospital
of the Monterey Peninsula
Monterey, CA

Bill Pace

CFO, Eskaton, Inc.
Carmichael, CA

Gary Passama

President/CEO, NorthBay
Healthcare Corporation
Fairfield, CA

Roger Seaver

President/CEO, Henry Mayo
Newhall Memorial Hospital
Valencia, CA

Jeff Sousa

President-CHI
President/CEO, Optima Healthcare
Insurance Services
Roseville, CA

Robert Wentz

Vice Chairman
President/CEO, Oroville Hospital
Oroville, CA

Richard Yochum

Immediate Past Chairman
President/CEO, Pomona Valley
Hospital Medical Center
Pomona, CA

Gerald Yoshida

Director/Officer, Char Hamilton
Campbell & Yoshida
Honolulu, HI

CHI/OPTIMA STAFF

Julie Jackson 1988

Jeff Sousa 1988

Jenny Sula 1988

Robin Mitchell 1990

Hope Thompson 1992

Diane Abbott 1993

Jacquelyn Dreher 1995

Marie Perryman 1998

Crystal Cooper 1999

Bonnie Elder-Garcia 1999

Anne Smith 2000

Margaret Rys 2002

Millie Mastromattei 2003

Regina Vukson 2003

Tamara Dostal 2004

Bob Strader 2004

Jim Williams 2004

Sambo Ou 2005

Anton Damiano 2006

Rachel Lehmkuhl 2006

Susan Bashaw 2007

Brenda Sizemore 2007

Jeff Dueck 2008

Lorie Walton 2008

Shaun Kerr 2013



JEFF SOUSA

President/CEO, Optima Healthcare (1997-2013)

It is with mixed emotions that I leave an organization that has meant so much to me both personally and professionally. The first 25 years of CHI has been a tremendous success as we have delivered value to our owners, made a positive difference in health care and in the lives of those we partner with every day. The next 25 years will surely be as rewarding as the company is well positioned with resources, knowledge and a commitment to meet the changing health care environment. Thank you to the Board of Directors for their support and commitment to me and the organization and to the employees who made the journey memorable.



DIANE ABBETT

President/CEO, Optima Healthcare (2013)

I'm excited and proud to "take the reins" of this amazing organization with the opportunity to lead the team who has delivered 25 years of CHI's success. Being part of CHI since its inception provides me with the foundation to lead this company into the next 25 years. As Optima's President and CEO, I am personally committed to the continued success of each of our owners and to CHI's very bright future. We will continue to make a positive difference in health care!



“One of CHI’s greatest and enduring strengths has been its incredibly loyal and effective management as personified by its CEO, Jeff Sousa. Jeff has a low keyed manner and a rock solid commitment to CHI’s mission of bringing value to its policyholders. He has made sure that board members and the health care providers who own CHI understand that managing risk is an important adjunct to patient care excellence. We have experienced steady growth in CHI because of Jeff’s leadership and vision. We made the right decisions many years ago when Jeff was selected as our CEO.”

GARY PASSAMA | NORTHBAY HEALTHCARE CEO

Boldly Moving into New Health Care Frontiers

The Affordable Care Act brings new challenges and new opportunities to health care providers. With most provisions aimed at lowering reimbursement, independent hospitals and medical groups are exploring new alignments to adapt to changes in the marketplace.

CHI's unique ownership structure provides its insureds with maximum flexibility to meet these challenges and seize new opportunities. Whether it is coverage for a newly affiliated medical group or an Accountable Care Organization (ACO), CHI has the resources, knowledge and commitment to meet changing risk financing needs.

Increasing our Numbers, Building our Strength

Expansion is an important part of the CHI future. By exploring relationships with brokers in other states, CHI is poised to offer services throughout the West Coast.

Expansion into new territories could improve CHI efficiencies and increase the collective strength of its independent health care owners. Through growth, CHI owner/insureds are expanding their sphere of knowledge and influence and are increasing their ability to adapt to whatever changes the future might bring.

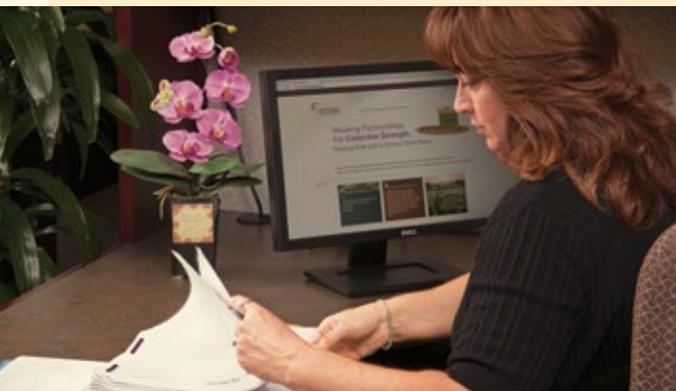


Past Experience is the Key to Future Success

The keys to CHI's future success are what has driven the success of the company in its first 25 years – delivering value and treating owner/insureds as true partners.

The CHI service approach is simple: operate as a department of the health care entity rather than a separate company. This philosophy creates aligned objectives and helps owner/insureds improve quality and grow important revenue streams. Plus, Optima's multi-line insurance product offerings mean that cost-effective insurance is easily available to meet a variety of future needs.

The value CHI provides is helping all health care entities protect their assets in the changing reimbursement market. By conservative estimates, CHI has saved California hospitals \$250 million in the last 25 years through competition and effective claims and risk management. And, owners/insureds can expect continued value and partnership from the CHI of the future.



Through growth, CHI owner/insureds are expanding their sphere of knowledge and influence and are increasing their ability to adapt to whatever changes the future might bring.

The Next 25 Years and Beyond

A message from Diane Abbott

In 1989 I was given a new assignment by my employer, a large public accounting firm. This assignment would prove to be life changing for me. I was sent to conduct an audit of a new and small hospital professional liability insurance company named CHI and its then management company, California Hospitals Affiliated Insurance Services (CHAIS). What I discovered was a company that was innovative with a culture that recognized the importance of a balance between professional and personal life. I was very proud to join CHAIS as the accounting manager a few years later, working for its CFO, Jeffrey Sousa.

As CHI grew in financial strength and stability and established its subsidiary management company, Optima, I have grown as well thanks to the mentorship of Jeff and our owner/insureds. When the CHI Board offered me the opportunity to serve as the next President/CEO, I accepted with enthusiasm and great confidence in the future of our company.

CHI has enjoyed 25 years of success for many reasons, one of which was the establishment of CHI's wholly-owned subsidiary, Optima, to operate with one goal in mind: to make a

positive difference in health care. One of Optima's success stories is employee longevity; the "new guy" in our office has been a part of our team for five years. A second success is the personal service and value we provide our owners.

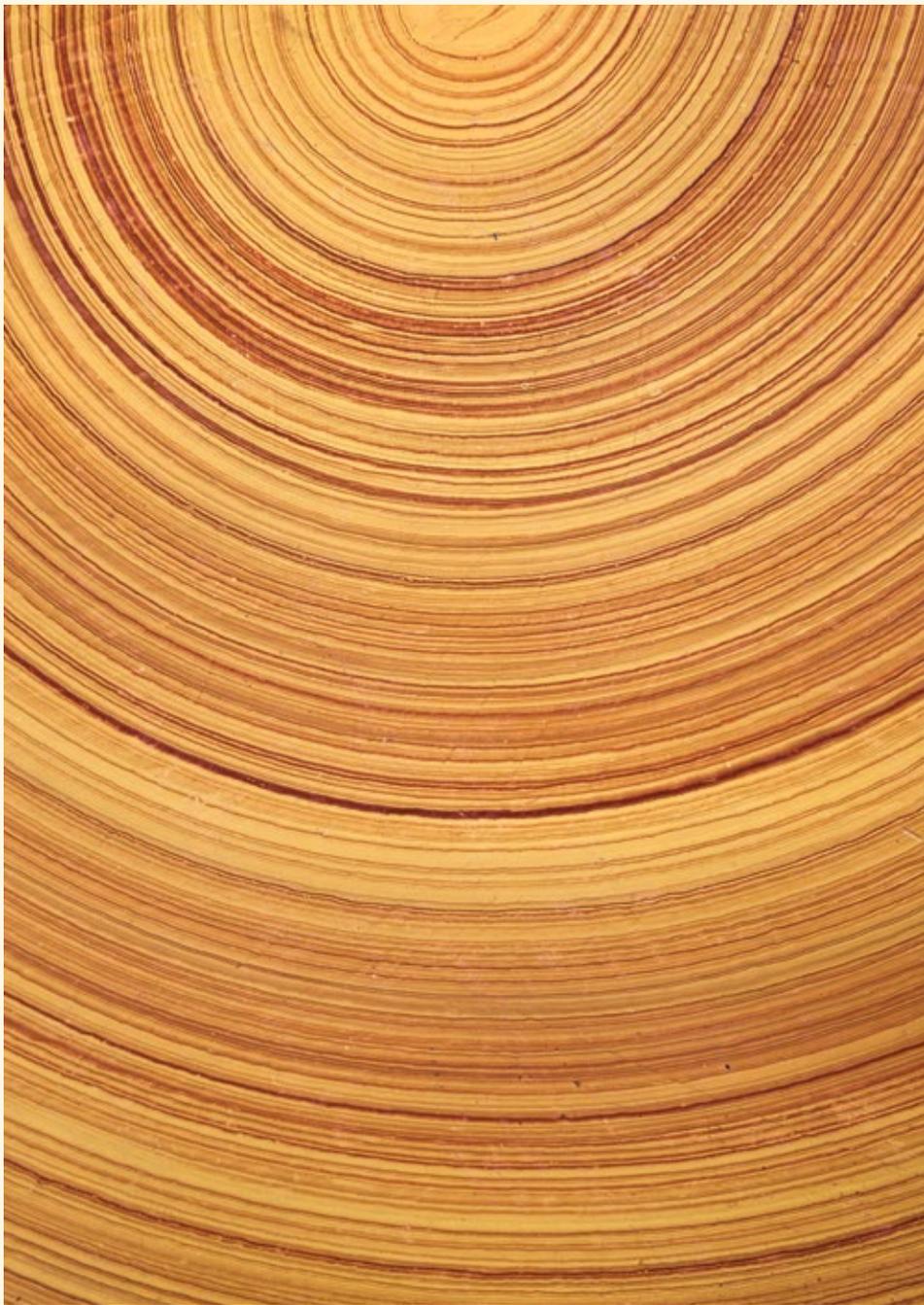
Earlier this year we had the pleasure of delivering \$2 million in premium rebate checks, bringing the total to \$19.5 million over the last 25 years. These checks represent more than money; they represent CHI's commitment to providing a stable and long-term professional liability insurance solution now and in the future.

Thanks to the foundation laid by Jeff, by our amazing employees and by our owner/insureds, CHI will continue to be the most influential company in the health care professional liability insurance market. My confidence comes from what I know to be true of CHI and Optima. Because of our ownership structure, we are flexible, we are creative and above all, we are responsive to the needs of our owners.

At CHI and Optima, we make it easy for our owners to do what they do best: provide excellent medical care. We strive to make risk financing simple and seamless because insurance is what we do best.



PRESIDENT/CEO



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