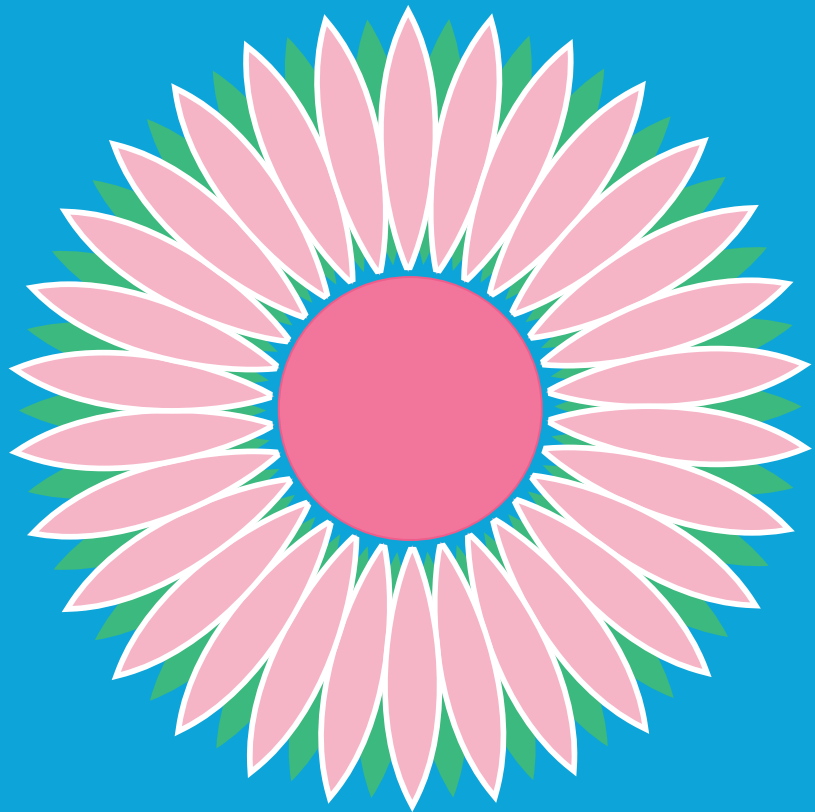


CHI

Exploring New Depths
THROUGH OWNERSHIP



ON THE COVER:

Who is this creature?

This adorable cephalopod captivated us and it has become our mascot....read more about why on our website chi30.com.

Thirty Years, and Still Making a Positive Difference in Health Care

DIANE ABBETT | President/CEO, Optima

Back in the 1980s, the stormy seas of the health care professional liability market were ruled by one dominant predator. Then, a new species emerged.

In 1988, California Healthcare Insurance Company, Inc., A Risk Retention Group (CHI) was formed to disrupt the insurance industry, with the goal of creating a competitive marketplace for California hospital professional liability insurance. Now, with 30 years of proven success, CHI has become an industry leader. Still, our vision for making a positive difference in health care is no less revolutionary today than it was back then. Policyholder ownership has been the backbone of CHI's strength and the source of its fierce loyalty among our owners. Now that same source of strength is leading us to explore new depths in health care provider coverage and opportunities for growth in our marketplace.



Reflecting back on our 30 years in business, CHI's story as the industry disruptor actually plays out quite conservatively, with steady but continual growth while providing a trusted and stable source of health care professional liability insurance for our owners. An industry, once skeptical of our business model, has come to accept and ultimately admire what we have achieved. CHI's AM Best rating of A- is testimony to that respect. Deservedly, our owners have benefited most of all, receiving over \$33 million in premium holidays and rebates.

As we begin our next 30 years serving our owners, CHI maintains a policyholders' surplus of over \$58 million. We plan to leverage this financial strength to continue our outstanding services as well as providing greater flexibility and options. We will weigh the advantages of taking a greater share of risk and offering higher policy limits as well as the introduction of new CHI-branded optional liability products. All of these initiatives will be done with the goal of providing ever-increasing value to our owners.

Our 30-year anniversary is certainly a time for reflection and celebration. But we believe the decades ahead hold even more exciting potential. We enter this new period in a position of strength and leadership. We will build on CORE and values that have proven successful over the past 30 years. Most importantly, we will continue our mission of making a positive difference in health care.



OUR HISTORY

Thirty years ago, a new species was introduced into the waters of the California hospital professional liability insurance marketplace.

Before 1988 and the formation of California Healthcare Insurance Company, Inc., A Risk Retention Group (CHI), independent and community hospitals were adrift when it came to professional liability insurance. The marketplace was monopolized by one dominant carrier leaving independent hospitals floundering, with no choice but to pay their exorbitantly high premiums.

A group of innovative hospital executives set off to find a better way that would lower costs and more aggressively address claims and risk management issues. They reached out to the California Hospital Association (CHA) who led the process to find this new course.

The formation of policyholder-owned CHI by a bold group of community hospital administrators eventually sank that monopoly, opening up the

California hospital professional liability insurance marketplace to healthy competition from a variety of major carriers. Yet, in this vibrant, newly competitive arena, few gave this small and innovative captive — CHI — much chance of survival.

The Right Concept, Well-executed, Takes Hold and Thrives

While the initial CHI owners were certain this new venture was both a smart and sustainable solution, most of the industry predicted CHI could not endure the rough waters ahead. Yet a success story began emerging and CHI not only survived, but thrived. Through the late 80s and early 90s CHI proved it was indeed a successful, sustainable and necessary organization. Hospital professional liability insurance premiums declined sharply in California due to the new competition from CHI, and the company was now making a profit for its owners. During this

time, CHI achieved its first new owners: Community Hospital of the Monterey Peninsula and Oroville Hospital.

“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.”

— **JEFFRY SOUSA** | CFO when CHI was formed in 1988 and CHI President from 1997–2013

1988

Original formation of CHI by nine California hospitals

1989

First CHI policies written

1991

First year of profitability

1992

First Risk Management Leadership Retreat is held

1994

First premium holiday distributed; First A.M. Best rating (B+)



In 1994, CHI fully delivered on its promise to be a long-term solution for hospital professional liability insurance by issuing its historic first premium holiday to its owners. 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 here to stay.

“Transparency is a key difference between CHI and a traditional insurance company. CHI is very open in reviewing your organization’s risk profile and how it figures into your premium calculation. A traditional insurance company would not be so open. They also wouldn’t reward you with premium holidays or rebates for reducing losses. Instead, a significant portion of the gain would become additional profits.”

— HARRIS KOENIG | President/CEO,
San Antonio Regional Hospital

Gripping Tight and Spreading Its Reach

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

In 1995, CHI’s growth, financial stability and reputation was acknowledged with its first secured and positive rating by A.M. Best Company, the insurance industry’s premier rating organization. Today, CHI’s A.M. Best rating is A- (excellent)

with a stable outlook and the company’s surplus has grown to a Financial Size Category (FSC) of VII.

By the end of the decade, 21 hospitals were owners of CHI. The fledgling species that was CHI was now a force to be reckoned with.

1997

Optima Healthcare Insurance Services (Optima) formed as wholly-owned management and brokerage company subsidiary; A.M. Best rating increased to B++

1999

Registered to do business in Nevada; name changed to California Healthcare Insurance Company, Inc.; RRG; Risk Management Obstetrics initiative started

2000

Expanded coverage options to include Employment Practices Liability (EPL)

2001

Optima website is developed; monthly Risk Management Filter e-publication launched via website

2002

Expanded ownership base to include long term care entities



OUR HISTORY CONTINUED



The Creation of Optima Helps CHI Grow Additional Arms

After nine years of considerable growth, CHI formed its own brokerage and service company, Optima Healthcare Insurance Services (Optima), in 1997.

With Optima in the CHI family, commissions on brokered insurance products are used to offset operating expenses. The formation of Optima built a bridge between CHI owners and their own brokerage company, creating an alignment of values, direction and accountability in addition to keeping commission dollars in the health care industry.

“Moving to CHI in 1999 from our previous carrier was like night and day. Incredibly better. From the very first day, you knew the people you were talking to on the other end of the phone and knew that they were working on your behalf in every way.”

— RICHARD E. YOCHUM | FACHE, President/CEO, Pomona Valley Hospital Medical Center

As a multi-line brokerage company, Optima provides comprehensive services for CHI owners through its exclusive programs for health care entities' insurance requirements. Optima is committed to meeting and exceeding the needs of its owners through personal, relatable, solution-oriented service.

Thanks to its captive model, CHI and its subsidiary, Optima, eliminate or greatly reduce operating expenses while enhancing the revenue stream. These savings, in turn, are passed on to CHI owners. Since Optima's inception 21 years ago, it has saved CHI owners more than \$5 million in operating costs by capturing commissions on Optima brokerage products.

Exploring New Environments

By the new millennium, CHI health care professional liability insurance 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 Health, became an owner.

In 2007, CHI owners were again rewarded with their first ever premium rebate checks. “Premium rebates checks are always a blessing.” Says Dr. Steven Packer. “First because they are an indication that our organization is performing well in our risk management efforts and providing excellent health care outcomes. But, also because those dollars can definitely be put to more direct use within our facility.”

2005

First Nevada owner joins; A.M. Best rating increased to A-

2007

First premium rebate distributed

2008

Purchase of corporate office building in Roseville, CA; CHI recognized in Captive Review magazine article on the 50 “most influential” RRGs as #6

2010

Developed first annual Professional Liability Claims Benchmark Report in collaboration with Aon

2013

Registered to do business in Oregon; Lessons Learned publication developed

A winning concept knows no boundaries. Hospitals, physician groups and long-term care entities throughout the western United States have expressed interest in joining CHI. CHI has achieved the necessary registration and is currently exploring new relationships in Washington, Oregon, Idaho, and Alaska.

CHI became the first health care professional 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 and control of insurance operations and policy terms.

Survival of the Fittest Provider

Thirty years later CHI rules the health care professional liability insurance waters, as the longest continually-operating carrier in California.

Other major carriers have come and gone, and some have even 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 now the dominant species in the marketplace.

The innovation that has defined CHI's first 30 years is what will lead to its continued success in the years ahead. As California hospitals face the challenges of national health care reform, CHI and our owners will continue to be the driving force for sensible and sustainable initiatives that will lead to new opportunity. As we celebrate our first 30 years, CHI salutes the pioneering, visionary hospital leaders and willingness to go against industry norms to create a successful, financially stable health care professional liability insurance company.

“At the very beginning of CHI, when we considered joining, the question was: Why? Now after 30 years of outstanding results, the only question anyone should be asking is: Why not?”

— **B. KONARD JONES** | President/CEO, NorthBay Healthcare Corporation

2014

Registered to do business in Alaska & Washington; surplus exceeds \$50M (Financial Size Category of VII)

2015

Owners Retreat with integrated enterprise-wide risk management focus; produced the first Employment Practices Liability Claims Benchmark Report for owners with EPL coverage

2016

Risk Management EPL initiative started; CHI won the annual “Award of Excellence” from the Hawaii Captive Insurance Council for its “commitment and contributions to Hawaii’s captive industry”

2017

Registered to do business in Idaho



THE HEART OF CHI

Relentless effort to reduce risk, improve quality of care and effectively manage claims is at the heart of CHI.

RISK MANAGEMENT

Creating a Win-Win in Clinical Outcomes and Loss Prevention



From its inception, CHI has worked proactively with each owner to reduce liability by improving clinical outcomes. Obstetrical (OB) claims, for example, once accounted for 62 percent of claims dollars. CHI became one of the first health care 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. Analysis of claims data and industry best practices remains a cornerstone of the CHI risk management program today. “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.” says Jeffry Sousa, past CHI president (1997–2013.)

Expanding on its effective clinical risk management efforts, CHI has incorporated Enterprise Risk Management (ERM) into its risk management focus for owner organizations. ERM encompasses CHI owners’ entire organizations and looks to establish best risk management practices in all areas of operation.

B. Konard Jones, President/CEO of NorthBay Healthcare, appreciates this support: “As a fairly small health care organization, we have to maximize every angle. We can’t employ our own risk management staff like many larger providers do. Having CHI as a partner, however, we have the very best experts in risk management on our team, allowing us to exercise the best practices in health care. We embrace CHI as our risk management partner and feel we have an advantage over the bigger guys in that department.”

“When you focus on risk mitigation, you inherently improve patient outcomes. CHI’s risk management initiatives over the years have continually resulted in our owners showing, on average, better loss profiles than the average California hospital.”

— HARRIS KOENIG | President/CEO,
San Antonio Regional Hospital

CLAIMS MANAGEMENT

Tirelessly Protecting Your Reputation

When compared to other hospitals in California, Nevada and nationwide, CHI hospitals experience lower frequency and lower cost of claims. This is due to CHI's long track record of success and innovation. CHI consistently achieves superior claims results because no insurance company defends their owners 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 owners. CHI is a staunch defender when liability appears to be absent, involving each owner throughout the claims process and helping to choose the best defense-minded law firms to strongly defend owners' interests.

“CHI listens to our input, keeps us informed and gives us continual reports on the status. If we are wrong, they settle fairly. If not, they defend as strongly as possible. I have never felt like they were forcing a settlement. They have **always represented our best interests.**”

— TOM HAYES | CEO, Eastern Plumas Health Care



THE HEART OF CHI CONTINUED

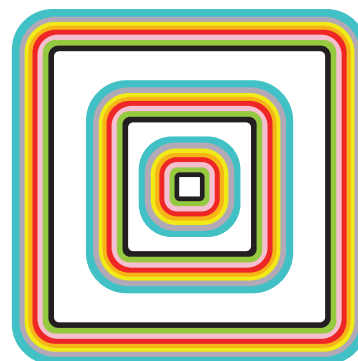
OWNERS RETREATS

Creating a Culture of Community 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 owner organization. To foster that commitment, CHI holds an owners' retreat every two years providing relevant ERM education and fostering an environment where industry leaders can create a network of shared knowledge and experiences.

The owners' retreats give 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 CHI's formation 30 years ago, and this partnership is why it continues to thrive today. Creation of this supportive, collaborative culture is perhaps one of CHI's greatest accomplishments.



"We always make sure our organization is well represented at the CHI owners' retreats. CHI is comprised of a community of like-minded hospitals and the opportunity to meet and share ideas is tremendously rewarding."

— **DR. STEVEN PACKER, MD** | President/CEO,
Community Hospital of the Monterey Peninsula

EDUCATIONAL INITIATIVES

Optimizing Best Practices and Reducing Risk

CHI proactively introduces educational initiatives aimed at optimizing best practices and reducing risk. These initiatives come in the form of live, on-site training; online tools; exclusive publications and webinars. The topics are critical to the issues of the day. Currently, health care entities are experiencing a spike in employment practices liability (EPL) claims. To address this increase, Optima has created an EPL claims benchmarking report to show their owners how they are doing as compared to their peers. In addition, the CHI Board adopted an EPL risk management initiative, aimed at reducing the frequency and severity of employment practices claims. Best practices information, webinars, educational resources and publications are available to support efforts to manage this growing risk.

“The CHI team continually evolves to meet our needs and is always rolling out new products and initiatives to rein in losses.” adds Richard Yochum, President/CEO, Pomona Valley Hospital Medical Center. “Their work helped us establish best practices in our OB department and that was a huge win/win for patients and our organization. Now they are teaming with us in the same way with educational initiatives on opiate issues and employment practice liability.”

“CHI’s educational programs go far beyond issues in malpractice. They continue with a holistic approach to all issues facing a health care organization, including hot topics such as employee practice liability.”

— TOM HAYES | CEO,
Eastern Plumas Health Care





AN EYE TO THE FUTURE

Leveraging our strength, while protecting our unique character

As CHI moves into future decades, it does so from a position of strength. CHI has a unique culture and approach to the industry that has proven successful for over 30 years. CHI's loyal ownership base is a distinctive source of its strength.

Strong and stable financial results have built the foundation of an excellent reputation within the industry. The opportunity for continued success and growth is certainly at hand.

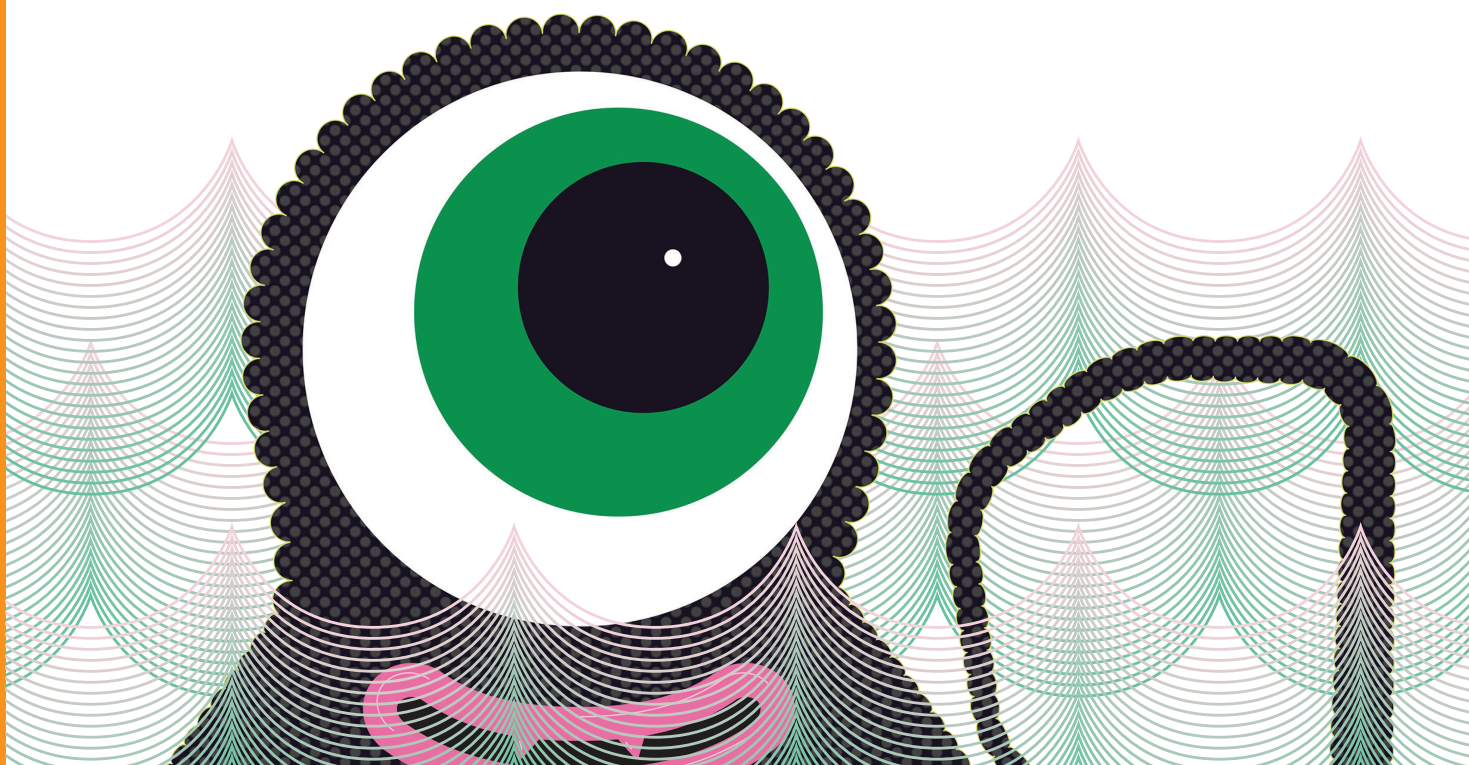
Such opportunities for growth, however, will be focused through the lens of CHI's core mission — Making a Positive Difference in Health Care — by delivering value and treating owners as true partners.

From a long term strategic perspective, CHI will explore offering larger professional liability policies with higher limits and retaining more of the risk per claim. Done in conjunction with best practices in Enterprise Risk Management (ERM) and claims

Such opportunities for growth, however, will be focused through the lens of CHI's core mission — Making a Positive Difference in Health Care — by delivering value and treating owners as true partners.

management, these changes could bring additional earnings and, thus, a bigger return to CHI's owners.

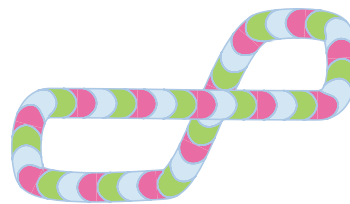
Additionally, CHI is in the process of developing an integrated liability policy that will ultimately include expanded liability coverages such as directors and officers liability (D&O), fiduciary liability, pollution liability and cyber liability insurance. Again, providing additional optional liability coverages on the CHI policy will keep profits in-house, simplify insurance requirements for owners and provide another source of returns for owners.



Externally, CHI is looking beyond California's borders to find new and like-minded health care entities to grow its base. CHI already does business in Nevada and has registered in Oregon, Washington, Idaho, and Alaska. Expansion into new territories could improve CHI efficiencies and increase the collective strength of its owners. Growth in other states will allow CHI owners to expand their sphere of knowledge, increasing their ability to adapt to whatever changes the future might bring.

The value CHI provides helps health care entities protect their assets in the changing reimbursement market. By conservative estimates, CHI has saved its owners hundreds of

millions of dollars in the last 30 years through competition and effective claims and risk management. And, owners can expect continued value from the CHI of the future.



*“This has been a remarkable journey for the last 30 years. This is **not a fly-by-night organization**, but one that set a course and **has remained steadfast** in holding that course. Those of us who were there at the beginning, and those who have joined since, have embraced this mission and benefited greatly from it. Those who choose to join in the future will **benefit equally from the collective knowledge and shared experience.**”*

— **B. KONARD JONES** | President/CEO,
NorthBay Healthcare Corporation



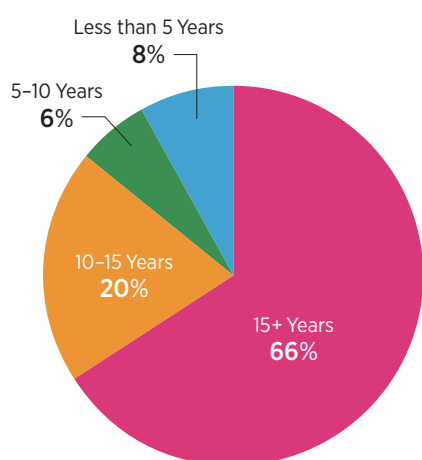
FINANCIAL HIGHLIGHTS

California Healthcare Insurance Company, Inc., RRG | Statutory Basis (unaudited)

	2017	2016	2015	2014	2013
Admitted Assets	\$127,178,729	\$124,362,141	\$120,724,745	\$124,828,470	\$118,060,396
Policyholders' Surplus	\$58,339,105	\$55,340,643	\$52,919,592	\$51,201,822	\$47,710,982
Loss & LAE Reserves	\$50,052,000	\$50,245,049	\$51,264,706	\$51,785,196	\$54,754,582
Total Open Claims/Suits	316	318	337	317	340
Net Premiums Earned	\$15,303,468	\$14,350,331	\$16,998,163	\$12,832,581	\$16,451,744
Net Income, after Taxes	\$2,672,753	\$1,233,966	\$3,839,748	\$2,389,830	\$2,356,626
Combined Ratio*	98.1%	98.4%	98.2%	81.9%	98.1%
Operating Ratio**	86.8%	82.9%	80.6%	62.0%	81.7%
Number of Policyholders	36	35	36	37	38
CHI Stock Price per share	\$34	\$32	\$31	\$29	\$24

* 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.



Renewal Retention

CONSISTENT
95%+
RETENTION RATIO

83%

of all CHI owners have been part of the program for **more than 10 years**

"Our hospital was one of the original CHI founders. My predecessors made one heck of an investment."

— HARRIS KOENIG | President/CEO
San Antonio Regional Hospital



\$33 MILLION

RETURNED TO OUR OWNERS

OUR PEOPLE

Board of Directors | 2017–2018

Diane Abbett

President/CEO | Optima Healthcare Insurance Services

Jonathon Andrus

CEO | Fairchild Medical Center

Lorraine P. Auerbach

President & CEO | Dameron Hospital Association

Dan F. Ausman

President/CEO | Methodist Hospital of Southern California

Robert Curry

President/CEO | Citrus Valley Health Partners

Mark Foote

VP-Finance/CFO | Madera Community Hospital

James Holmes

President/CEO | Redlands Community Hospital

B. Konard Jones

President/CEO | NorthBay Healthcare Corporation

Harris Koenig

President/CEO | San Antonio Regional Hospital

Tim Nylan

Vice President | Community Hospital of the Monterey Peninsula

Bill Pace

Senior Vice President | CFO Eskaton

Clint Purvance, MD

President/CEO | Barton Healthcare System

Roger Seaver

President & CEO | Henry Mayo Newhall Hospital

Robert J. Wentz

President/CEO | Oroville Hospital

Mike Wiltermood

President/CEO | Enloe Medical Center

Richard Yochum

President/CEO | Pomona Valley Hospital Medical Center

Staff

1988 ■ Julie Jackson

1988 ■ Jenny Sula

1990 ■ Robin Mitchell

1993 ■ Diane Abbett

1998 ■ Marie Perryman

1999 ■ Crystal Cooper

1999 ■ Bonnie Elder-Garcia

2000 ■ Anne Smith

2003 ■ Millie Mastromattei

2003 ■ Regina Vukson

2004 ■ Tamara Dostal

2004 ■ Jim Williams

2005 ■ Sambo Ou

2006 ■ Anton Damiano

2008 ■ Jeff Dueck

2008 ■ Lorie Walton

2013 ■ Shaun Kerr

2013 ■ Andrea Estes

2013 ■ Daleen Murray

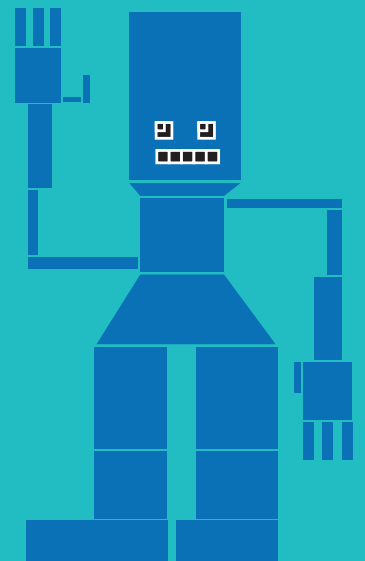
2015 ■ Robert White

2016 ■ Michelle Higgins

2017 ■ Kramer Sutey

“The management and staff are the reasons for CHI’s continued success. Their long-tenured stability, continued strength and great service make it seem like they are an extension of our own team.”

— RICHARD E. YOCHUM | FACHE, President/CEO,
Pomona Valley Hospital Medical Center





CALIFORNIA HEALTHCARE INSURANCE COMPANY, INC.,
A RISK RETENTION GROUP — SINCE 1988

.....
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916-773-3992 | OptimaHealthcare.com

