

OMIC MEMBERS REPORT 2008

OMIC OPHTHALMIC MUTUAL INSURANCE COMPANY
(A Risk Retention Group)

THE CLEAR CHOICE FOR OPHTHALMOLOGISTS

OMIC

OPHTHALMIC MUTUAL
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Sponsored by the

 **AMERICAN ACADEMY
OF OPHTHALMOLOGY**
The Eye M.D. Association

*Phacoemulsification. Removal of cataract through corneal
incision viewed from angle area into anterior chamber.*

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2007/2008 HIGHLIGHTS

- * 10% increase in net admitted assets to \$187.2 million.
- * 27% increase in policyholder surplus to \$80.6 million.
- * Net after-tax income of \$16.9 million.
- * Policyholder growth of 5% to 3,820 insureds in mid-2008, representing 37% of the eligible national ophthalmology market.
- * Overall malpractice costs decrease by a combined average of 57% since 2005 as a result of rate decreases and paid dividends by OMIC.
- * OMIC continues to lead all other med-mal carriers in overall underwriting profitability and financial ratios.
- * A.M. Best reaffirms OMIC's A (Excellent) rating and stable financial outlook in 2008.

MESSAGE FROM THE CHAIRMAN



Often the most influential individuals among us go unrecognized until years after their contributions. Take, for example, the early visionary of space exploration, Nicolaus Copernicus, who boldly challenged conventional beliefs by championing a revolutionary sun-centered model of the universe. Copernicus altered the course of celestial theory forever, yet among his contemporaries, he evoked whispers of insanity and even shouts of heresy. Fortunately, true visionaries rarely submit to the limitations of prevailing thought, and the pioneering work of Copernicus set in motion a great scientific journey that formed the foundation for many of today's technological advances.

Drawing from that same transformative spirit, OMIC's founding members defied conventional wisdom two decades ago, persevering through enormous challenges and industry naysayers to create a malpractice insurance program exclusively for ophthalmologists. With the creation of OMIC, ophthalmologists gained control over their destiny and were no longer subject to the whims of a fickle or disloyal insurance market. As OMIC grew to become the largest insurer of ophthalmologists in the United States, those industry naysayers recognized that the paradigm had shifted, positioning OMIC squarely in the center of a new universe as the undisputed leader in ophthalmic liability insurance.

OMIC's sphere of influence revolves around its unparalleled and uncompromising commitment to providing ophthalmologists with the highest quality, most comprehensive insurance coverage available in the market today. There are four major areas in which OMIC excels and exceeds the performance of multispecialty insurance carriers, four guiding principles which clarify why OMIC is the clear choice for ophthalmologists, and four reasons why we have so much to gain by joining together as ophthalmologists.

OMIC INSURED OPHTHALMOLOGISTS



Panoramic Eyescapes by
Ophthalmic Artist & Medical
Illustrator Stephen F. Gordon.

2008 Members Report Prepared
by Linda Radigan.

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Insurance Company.

*Lasik. Stylized, dynamic representation of
ablation of corneal stroma under corneal flap.*

MESSAGE FROM THE CEO

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Intraocular lens implantation as viewed from anterior chamber.

OMIC SUPPORTS OPHTHALMOLOGY

OMIC has the exclusive endorsement of the American Academy of Ophthalmology and maintains educational alliances with 30 state and subspecialty ophthalmic societies to provide risk management and improve the malpractice climate for their members.

OMIC PROTECTS OPHTHALMOLOGISTS

OMIC is the only carrier that collects ophthalmic-specific claims data and uses it to develop a comprehensive risk management program that protects us as ophthalmologists.

OMIC DEFENDS OPHTHALMOLOGY

OMIC defends and wins more ophthalmic claims than multispecialty carriers because we bring specialty-specific expertise to the negotiating table and courtroom.

OMIC REWARDS OPHTHALMOLOGISTS

OMIC's premiums are based solely on the better loss experience of ophthalmologists and profits are passed on to policyholders in the form of rate decreases and dividend credits

As surgical specialists, ophthalmologists are often on the frontier of change. New technologies push our practices in different directions, creating opportunities but also presenting risks.

Consider the protection afforded by having an all-ophthalmologist insurance carrier by your side. Don't fall victim to the mistaken belief that malpractice insurance is simply a commodity to be purchased at the lowest price; it is not. One mishandled claim by a company that doesn't understand ophthalmology can put your entire career at risk. Fortunately for OMIC policyholders, we *do* understand the risks of ophthalmology. We know what a case is worth and when to settle or go to trial.

It is with a sense of satisfaction mixed with sadness that I mark this year as my last as your chairman. I first became involved in OMIC's governance in 1989 when the company was still in its infancy. From the beginning, OMIC has worked tirelessly for the benefit of ophthalmology. Many of OMIC's early visionaries are no longer practicing, but their enormous influence on our specialty will continue to be felt for decades to come.

I am proud of OMIC's accomplishments and honored to have played a role in the company's success. I thank you, our policyholders, for the opportunity to serve you for so many years, and I encourage you to continue supporting what I sincerely believe is the best malpractice insurance program available today.

JOE R. MCFARLANE JR., MD, JD
CHAIRMAN OF THE BOARD
OCTOBER 1, 2008

Few carriers emerged from the upheavals in the medical malpractice market during the first half of this decade as financially sound and operationally strong as OMIC. Due in large part to our favorable risk pool of ophthalmologists and history of conservative pricing and spending, OMIC continued to enjoy profitable operations and policyholder growth at a time when many of our competitors suffered staggering losses.

It was during this crisis, in spring 2002, that I was brought in to serve as OMIC's chief executive officer and charged with directing our board and staff to take the necessary steps to ensure the company's continued viability in a volatile market. I am proud to say we took those crucial, sometimes difficult steps, and OMIC is a stronger company as a result. Between 2002 and 2007, we met and, in many cases, exceeded our financial and operational goals for the company in all major industry benchmarks:

- * Assets doubled from \$88.0 million to \$187.2 million.
- * Loss reserves increased 56% to \$67.8 million.
- * Policyholder count rose 27% to 3,756.
- * Surplus increased threefold to \$80.6 million.
- * Net after-tax income grew from \$0.9 million to \$16.9 million.

At the same time, we upgraded our financial and operating systems, improved staff efficiency, and reduced overall costs. We put the resulting savings back in to expanding our educational programs so our policyholders would have the risk management tools they need to reduce their malpractice exposure and practice better ophthalmology.

OMIC policyholders can feel confident that they are well protected now and for many years to come. OMIC's financial performance stands at or near the top of physician-owned carriers year after year. We have sufficient surplus reserves to cover future

claims and we continue to improve our financial ratios by adhering to the same principals of underwriting profitability and conservative management adopted by OMIC's founding members 21 years ago.

For the fourth consecutive year, OMIC policyholders will reap the benefits of a well-run company in the form of lower malpractice costs. I am very pleased to announce that your board has approved another state-by-state rate decrease averaging 8.5% plus a 20% dividend credit for all policyholders who renew in 2009. This combined average 28.5% decrease follows other recent savings applied to your premium, which have reduced malpractice costs for OMIC policyholders an average of 57% since 2005.

Clearly, an organization is only as good as its leadership. OMIC benefits from the insight provided by the insured ophthalmologists who make up our board and committees and the continuity and commitment of management and staff, many of whom have been with OMIC since its early years.

I would, therefore, like to acknowledge the tremendous contributions of our chairman, Joe R. McFarlane Jr., MD, JD, who is rotating off the board this year as required by our bylaws. Dr. McFarlane has devoted many years of service to OMIC and exemplifies the qualities that make OMIC the tremendous success it is. We are fortunate to have another excellent ophthalmologist and board member ready to assume the position of chairman of the board in 2009. Richard L. Abbott, MD, has been a member of OMIC's underwriting committee since 1993 and its chairman since 1999. His expertise will be an asset to OMIC's governance in the years ahead.

TIMOTHY J. PADOVESE
PRESIDENT AND CEO



THE CLEAR CHOICE FOR OPHTHALMOLOGISTS

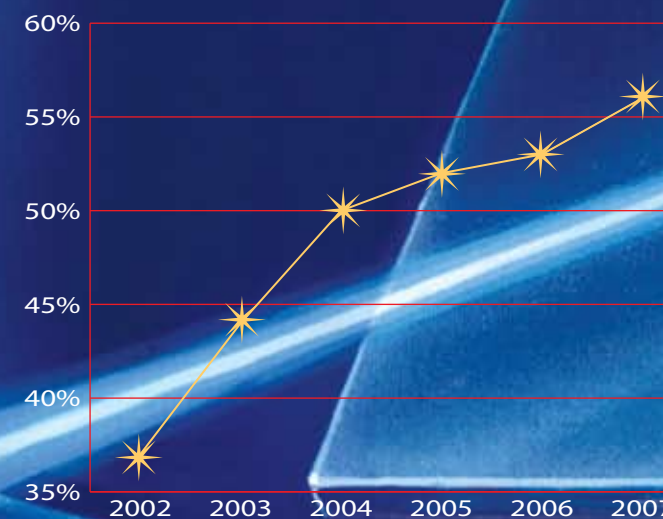
The story of OMIC's ascendancy in the insurance industry is interwoven with past malpractice crises and the treatment of ophthalmologists by traditional multispecialty carriers. Ophthalmologists comprise only a small fraction of policyholders at multispecialty carriers, and for years they lacked the clout to demand fairness and consistency in the premiums they were charged. Even when rate increases could be justified by claims data, it was difficult to determine ophthalmology's fair share because many specialties were grouped together in a single coverage "class" for rating purposes. Furthermore, carriers failed to offer benefits that might appeal to an ophthalmologist. Risk management programs targeted general practitioners or riskier specialties, while risk reduction for ophthalmic procedures was largely ignored. Clearly, the "one size fits all" approach was not working to the benefit of ophthalmologists.

This all changed in 1987 when OMIC entered the market with an insurance product tailored specifically to ophthalmologists. OMIC soon became the industry leader in ophthalmic liability, and today it defends more ophthalmologists than any of the other 40 malpractice carriers in the United States. OMIC is the only carrier that partners with ophthalmic societies across the nation to provide financial support and comprehensive ophthalmic-specific risk management education to their members. The American Academy of Ophthalmology stands alone among medical associations in providing its members with a sponsored insurance program that works solely on their behalf.

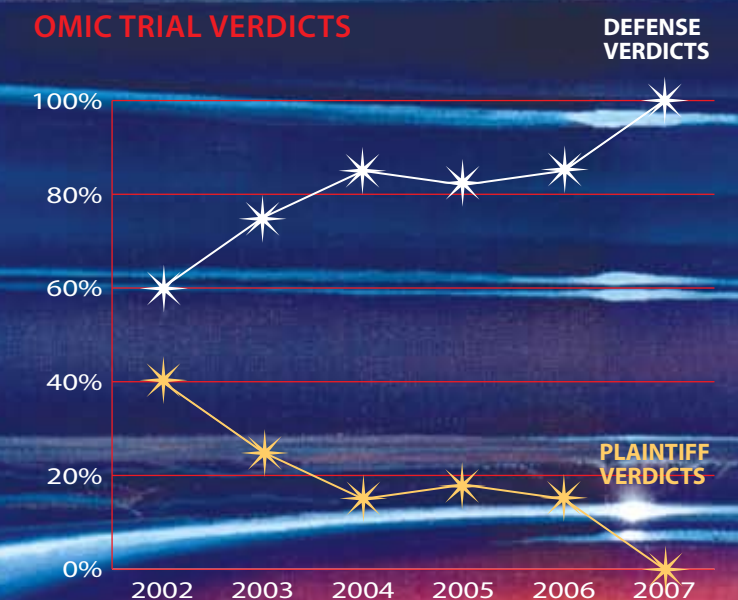
OMIC welcomes new member-insureds from every ophthalmic subspecialty and every region of the country, adding more than 400 new policyholders since 2007. By consistently outperforming multispecialty carriers over a twenty year period, OMIC has proven that an ophthalmologist owned and operated insurance company can succeed. By any measure, OMIC is the best all around malpractice program for ophthalmologists.

Laser Trabeculoplasty viewed from inside anterior chamber, with laser application striking mirror and directed to angle area.

POLICYHOLDER PARTICIPATION IN AN OMIC RISK MANAGEMENT EVENT



OMIC TRIAL VERDICTS



4 REASONS OMIC EXCELS

- * SUPPORT OF SPECIALTY
- * OPHTHALMIC EXPERTISE
- * VIGOROUS DEFENSE
- * FINANCIAL STRENGTH

OMIC SUPPORTS OPHTHALMOLOGY

OMIC is endorsed by more ophthalmic organizations than any other carrier, including the exclusive endorsement of the American Academy of Ophthalmology.

Currently, more than 30 state and subspecialty ophthalmic societies have entered into a cooperative educational alliance with OMIC to have us provide risk management programs to their members. OMIC returns more than \$1 million per year to policyholders through preferred risk management discounts and incentives available exclusively for participation in jointly sponsored events.

OMIC is frequently the only insurance carrier attending local, state, regional, and national ophthalmic meetings.

OMIC makes many of its risk management resources and consent documents available online in the hope of reducing risk for all ophthalmologists.

Ophthalmologists have one reliable source for ophthalmic claims and risk management data, including case studies, forms, documents, guidelines, and recommendations. OMIC's web site is the premier resource for ophthalmic consent forms, with more than 5,000 downloads each month.

OMIC PROTECTS OPHTHALMOLOGISTS

Twenty years of collecting and analyzing ophthalmic claims data has enabled OMIC to create the first and only risk management program of its kind.

OMIC's unique ophthalmic expertise allows us to thoroughly underwrite risks at the time of application, which is often the best time to address risk management concerns. OMIC's innovative underwriting tools help applicants put in place time-tested risk management procedures that can strengthen the defense of claims that might arise in the future. We win cases because we prepare for claims before they're filed.

A year-end claims review allows us to identify loss trends and develop recommendations, which are posted on www.omic.com, discussed at seminars and courses, and published in the quarterly *OMIC Digest*.

Since 2000, 16,000 ophthalmologists and related health care providers have attended OMIC seminars, audio conferences, and online courses. More than \$12 million in premium credits have been returned to policyholders for participation in OMIC risk management events during that same period.

OMIC's confidential *Hotline* provides policyholders with unlimited consultative pre-claims advice on how to implement OMIC-recommended procedures and protocols.

OMIC DEFENDS OPHTHALMOLOGY

OMIC's record of defending claims, including the percentage of claims we settle without making any payment and the average indemnity when a payment is made, beats the record of multispecialty carriers for ophthalmic claims by a significant margin.

OMIC wins 85% of cases at trial, and we don't just try the easy cases. In a precedent-setting ROP case filed in Texas, OMIC spent hundreds of thousands of dollars over the course of 7 years to defend our insured. After losing the first round, the multispecialty carriers for the other two defendants in the case quickly settled and paid the claim. OMIC, knowing that the ophthalmic standard of care had been satisfied, fought on and subsequently won a reversal that withstood multiple appeals all the way to the state's Supreme Court.

In a 2007 case of an undiagnosed impending CVA, our experts were so knowledgeable about the disease process during pre-trial discussions that the plaintiff attorney realized his experts were no match for ours, and the case was dismissed.

This type of perseverance by OMIC dampens the momentum of plaintiff attorneys and discourages similar cases from being brought to trial in the future. And while settlement is sometimes the best decision in a case, only OMIC has the commitment to so vigorously defend our specialty.

OMIC REWARDS OPHTHALMOLOGISTS

Despite difficult market conditions, OMIC's specialty-specific expertise has helped us outperform traditional insurance carriers by a wide margin.

For years, OMIC has been at or near the top of the list of 40 physician-owned insurance carriers in comparisons of common industry financial benchmarks, such as combined, operating, and premium to surplus ratios.

Unlike many other carriers that rely heavily on unpredictable investment returns to mask shortsighted business decisions and fund operations, OMIC's profit margin comes first and foremost from prudent underwriting of ophthalmic risk.

OMIC's superior financial performance translates into lower average premiums for our policyholders (12% lower on a national basis when compared to our competitors) and consistent issuance of dividend credits (15 of the past 21 years).

OMIC provides a high quality alternative to multispecialty carriers that subsidize higher risk specialties with higher premiums collected from lower risk specialties, such as ophthalmology. At OMIC, you will never be penalized for the losses of other specialties. OMIC premiums are based solely on the loss experience of ophthalmologists.

4 OMIC INITIATIVES

- * 30 OPHTHALMIC SOCIETY EDUCATIONAL ALLIANCES
- * ROP TASK FORCE TO ELIMINATE LARGE LOSS EXPOSURE
- * COLLABORATIVE WRONG SITE/WRONG IOL CAMPAIGN WITH THE AAO AND OTHER OPHTHALMIC ORGANIZATIONS
- * ONLINE RISK MANAGEMENT SERIES WITH JCAHPO FOR OPHTHALMIC PERSONNEL

FINANCIAL HIGHLIGHTS 2003/2007

OPHTHALMIC MUTUAL INSURANCE COMPANY
STATUTORY BASIS — Unaudited

	2007	2006	2005	2004	2003
Net Admitted Assets	\$ 187,226,481	\$ 169,833,662	\$ 147,426,905	\$ 128,817,016	\$ 104,483,960
Loss Reserves	\$ 67,751,328	\$ 70,077,652	\$ 67,541,107	\$ 63,110,337	\$ 51,055,131
Direct Premium Written	\$ 45,932,256	\$ 47,707,046	\$ 48,882,127	\$ 44,514,007	\$ 38,034,331
Net Premiums Earned	\$ 39,182,949	\$ 40,175,652	\$ 37,361,304	\$ 33,525,659	\$ 25,145,093
Net Income	\$ 16,948,673	\$ 18,305,226	\$ 10,825,581	\$ 6,623,141	\$ 2,025,437
Policyholders' Surplus	\$ 80,605,736	\$ 63,320,533	\$ 43,585,701	\$ 32,293,982	\$ 25,285,677
Number of Insured Ophthalmologists	3,756	3,658	3,609	3,476	3,174
Total Open Claims	459	468	464	528	512
Loss & Loss Expense Ratio	29.9%	36.7%	54.8%	73.4%	79.5%
Combined Ratio	61.5%	55.0%	77.5%	90.4%	100.5%
Operating Ratio	43.5%	39.0%	63.1%	76.2%	84.1%
Net Written Premium to Surplus Ratio	48.5%	62.3%	89.4%	111.2%	116.3%

Loss and Loss Expense Ratio measures a company's loss experience in relation to its earned premium.

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

Operating Ratio measures a company's overall profitability from underwriting and investment activity (pretax).

Net Written Premium to Surplus Ratio is a leverage test that attempts to measure the adequacy of an insurer's surplus. A ratio of less than 300% (3:1) indicates acceptable financial health.

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