

Best's Rating Report



OMIC

OPHTHALMIC MUTUAL
INSURANCE COMPANY
(A Risk Retention Group)



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OPHTHALMIC MUTUAL INSURANCE COMPANY (A RISK RETENTION GROUP)

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BEST'S CREDIT RATING

Best's Financial Strength Rating: A Outlook: Stable
Best's Financial Size Category: VIII

RATING RATIONALE

Rating Rationale: The rating of Ophthalmic Mutual Insurance Company (OMIC) (A Risk Retention Group) is reflective of its solid risk-adjusted capitalization, long-term history of overall profitability, sound balance sheet and leadership position as a provider of medical professional liability insurance to ophthalmologists throughout the United States. Further acknowledged in the rating is the company's commitment to pricing and reserving adequacy, along with its conservative investment portfolio and strong policyholder retention rate. These positive rating factors are partially offset by its narrow spread of risk as OMIC operates exclusively in the ophthalmic segment of the medical professional liability market. The rating also considers the inherent market risks associated with the medical professional liability insurance sector as they relate to price competition, loss cost trends, legislative (tort) reform and regulatory challenges. The outlook is

based on the company's solid financial position, prudent cycle management and sound operating fundamentals.

OMIC's strong financial position has been enhanced by management conservatively establishing loss reserves and implementing appropriate rate adjustments. The company's prudent underwriting, effective risk management programs, and aggressive claims handling allow it to obtain a significant boost from the trend of reduced frequency and moderating severity currently occurring in the medical professional liability market. OMIC has provided a stable market, on a national basis, for medical professional liability insurance for ophthalmologists who are members of the American Academy of Ophthalmology (AAO). The company has also continued to grow the number of policyholders that are in national ophthalmic networks and groups. OMIC maintains the exclusive sponsorship of the AAO, which enhances the company's market position and provides additional resources for expansion opportunities.

While the outlook is stable, positive rating action for OMIC could result from a continuation of strong underwriting results, the consistent generation of surplus and maintenance of solid capitalization, as well as careful evaluation of ERM risks and opportunities with appropriate actions executed according to a detailed plan.

In the future, the rating/outlook of the company could be lowered from adverse underwriting results due to the loss of underwriting discipline or unfavorable market conditions and/or an unexpected decline in capital.

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KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2007	39,109	23,456	187,226	80,606	61.5
2008	37,966	22,317	199,132	91,985	63.2
2009	35,289	29,901	202,098	115,207	39.2
2010	43,753	22,379	221,950	132,886	67.2
2011	33,310	9,894	232,983	140,378	94.7

(*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.

BUSINESS PROFILE

Ophthalmic Mutual Insurance Company (OMIC) (A Risk Retention Group) specializes in underwriting professional liability insurance for ophthalmologists in the United States. Its mission is to meet the specific ophthalmic insurance needs of members of the American Academy of Ophthalmology (AAO) by providing long-term, comprehensive medical professional liability coverage and other related insurance products and services. OMIC currently offers coverage in all states and actively insures physician-policyholders in each jurisdiction except Wisconsin, where professional liability coverage is limited to eye banks. OMIC has a 20 percent or greater market share in approximately 70 percent of those states and insures roughly 40 percent of the ophthalmologists in private practice nationwide. The company is licensed in Vermont and operates in other states under the authority of the Risk Retention Act of 1986. Policyholders are required to be members of the sponsoring organization, the AAO. Coverage is marketed to individual practitioners, group practices and networks. OMIC also offers coverage for employed optometrists, employed nurse anesthetists, eye banks and surgery centers that are owned by ophthalmologists. A majority of the business is produced on a direct basis, and all policies are issued on non-assessable claims-made forms. Typical limits are \$1.0 million each medical incident and \$3.0 million in the aggregate, however, limits up to \$5.0 million each medical incident and \$10.0 million in the aggregate are offered. The company provides tail coverage for professional liability policies and provides free tail coverage to qualified policyholders upon death, disability or retirement.

Effective January 1, 2010, the company has incorporated the Broad Regulatory Protection (BRP) coverage into the professional liability policy. The BRP coverage addresses billing errors and omissions proceedings; protected health care information violations; EMTALA, DEA, and STARK Act related claims; eMD network security and privacy risk, customer notification, credit monitoring, and data recovery costs. These coverage provisions are 100 percent reinsured through Lloyd's of London syndicates. The company has arranged several purchasing options for additional coverage to supplement the basic BRP limits of \$50,000, per regulatory proceeding. These excess covers are provided to its insureds through NAS Insurance Services under a separate policy.

In addition, OMIC coordinates the marketing and access of AAO-sponsored insurance programs. Managed care errors and omissions (E&O); directors and officers liability (D&O); employment practices liability coverage (EPLI); and business insurance, including business owners, workers' compensation, umbrella insurance, crime policies and ERISA bonds, eMD liability and regulatory business interruption insurance are offered through NAS Insurance Services. Life and health

insurance is offered by Marsh Affinity Group Services. The policies are underwritten and serviced by several highly rated insurance carriers. OMIC does not assume any risks on these policies.

OMIC continues its long-term educational alliances with most ophthalmic societies across the country. These relationships provide access to multiple service resources, such as practice management and patient care tools.

2011 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & Res. LAE
	Direct	Net			
Med Prof Liab CM . . .	40,671	33,001	99.1	23.8	49,539
Med Prof Liab Occur .	836	678	2.0	13.5	1,324
All Other	-369	-1.1
Totals	41,508	33,310	100.0	23.9	50,863

HISTORY

The company was incorporated under the laws of Colorado on August 27, 1987, as a mutual insurer. It was organized under the Federal Liability Risk Retention Act of 1986 and commenced operations on September 30, 1987. On January 1, 1994, the company was re-domesticated under the captive insurance laws of Vermont as a mutual insurer and risk retention group.

Paid-in surplus of approximately \$1.2 million is comprised of insured capital contributions that are non-interest bearing and are refundable at the discretion of the company. Prior to November 1, 1992, each policyholder upon acceptance by the company was required to make a surplus contribution. The amounts of the surplus contributions were determined by the type of policy issued and were equal to 80 percent to 100 percent of the annual mature claims-made premium. Beginning in 1994, the company has returned contributions based on its operating performance and financial condition. Since 2001, the company has returned surplus contributions to those policyholders that have died, become permanently disabled or retired.

In 2002, the OMIC Board of Directors made modifications to the company's bylaws. This was prompted in anticipation of marketing to and writing major group accounts that operate as part of an academic teaching program in ophthalmology and/or are situated within a health care entity primarily dedicated to providing ophthalmic care and treatment. Additionally, the amended bylaws authorize coverage to non-ophthalmologists who are an integral part of providing medical services exclusively to ophthalmology patients at the facility.

MANAGEMENT

The company is operated by a staff of insurance professionals at its main administrative offices in San Francisco, headed by the president and chief executive officer, Timothy J. Padovese. A small home office in Burlington, Vermont, is maintained through SRS Insurance Services. Since April 1993, all underwriting and claims activities have been performed in-house.

Officers: Chairman of the Board, John W. Shore, M.D.; President and Chief Executive Officer, Timothy J. Padovese; Vice President and Chief Financial Officer, Ricci A. Rascoe; Vice Presidents, Ray Fontenot (Underwriting), Mary P. Kasher (Claims), Mary E. Kelley (Product Management), Paul Weber (Risk Management/Legal),

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Robert J. Widi (Sales and Marketing); Secretaries, Merissa Bushey, Tamara R. Fountain, M.D., Derick A. White, Kimberly K. Wynkoop; Treasurer, George A. Williams.

Directors: Daniel J. Briceland, M.D., Steven V. L. Brown, M.D., Denise Chamblee, M.D., Tamara R. Fountain, M.D., Jeffrey P. Johnson, David W. Parke II, M.D., John W. Shore, M.D. (Chairman), Trexler M. Topping, M.D., Ann A. Warn, M.D., George A. Williams, M.D., Harry A. Zink, M.D.

TERRITORY

The company is licensed in Vermont. It is authorized in all other states under the Federal Liability Risk Retention Act and operates in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI and WY.

Balance Sheet Admitted Assets (\$000)

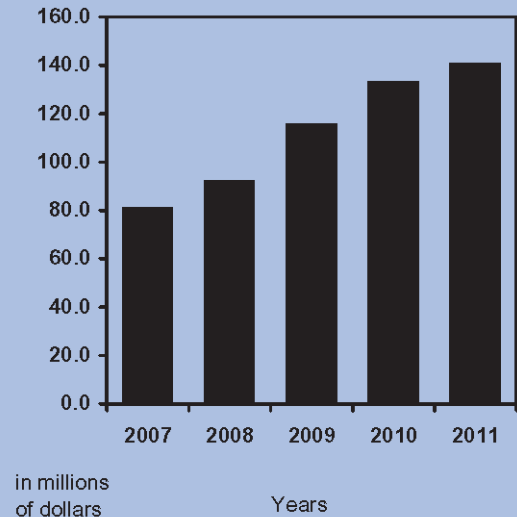
	12/31/2011	%
Bonds	\$190,204	81.6
Common stock	10,938	4.7
Cash & short-term invest	18,192	7.8
Total invested assets	\$219,334	94.1
Premium balances	7,482	3.2
Accrued interest	2,067	0.9
All other assets	4,099	1.8
Total assets	\$232,983	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$ 50,863	21.8
Unearned premiums	22,265	9.6
All other liabilities	19,477	8.4
Total liabilities	\$ 92,605	39.7
Capital & assigned surplus	1,238	0.5
Unassigned surplus	139,140	59.7
Total policyholders' surplus	\$140,378	60.3
Total liabilities & surplus	\$232,983	100.0

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Policyholders' Surplus



FINANCIAL SUMMARY (\$000) as of 12/31/2011

Policyholders' Surplus	\$ 140,378
Direct Premiums Written	\$ 41,508
Combined Ratio	94.7
Net Underwriting Income	\$ 1,870
Net Investment Income	\$ 7,040

Best's Rating Report



Why is this *Best's*® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Best's Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of an insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Financial Strength Rating is assigned after a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Best's Financial Strength Ratings are assigned according to the following scale:

Secure Best's Financial Strength Ratings

A++ and A+	Superior
A and A-	Excellent
B++ and B+	Good

Vulnerable Best's Financial Strength Ratings

B and B-	Fair
C++ and C+	Marginal
C and C-	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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