LETTER FROM THE CEO

In PLICO’s history, 2014 will be marked as a year of great innovation and change.

One year ago, I reported that PLICO experienced a significant level of growth in new business and a retention rate of renewals at 95%, both of which marked our best performance in a decade. With great diligence and the efforts of many in 2014, I am proud to report that PLICO was able to raise the standard yet again. We had a retention rate of 97% on our January 1 policy renewals coming into 2015, and we welcomed back business lost in earlier years. These retention numbers continue to significantly exceed the industry average of approximately 90% reported by our peer insurance carriers across the country.

PLICO’s diversification efforts continued in 2014 by adding more Oklahoma community hospitals to our list of clients. We greatly enhanced the coverages, services and risk management resources in PLICO Protect+, our Cyber Liability policy, through a change to a London-based underwriter, providing us the most advanced product in the market for what is a very important coverage in today’s world. We also developed a new product for PLICO physicians at the request of many of our current insureds. This coverage provides the necessary protection for physicians serving as Medical Directors or performing administrative or consulting services, which are activities typically not covered in medical professional liability policies. This very important product has been approved and is ready for the market in 2015.

In August of 2014, PLICO hosted the third annual EXPLORE: Oklahoma Healthcare Summit, PLICO’s premier annual event for healthcare professionals. A resounding success, this event highlighted the quality of risk management services and leadership that PLICO has built a reputation upon within Oklahoma’s medical community. Lastly, I am pleased to announce that PLICO found, acquired and began a complete restoration of a historic building across I-235 from the OU Research Park at the intersection of NE 5th and Harrison Streets. We expect a completion date of late summer 2015, at which time PLICO will assume occupancy of its first owned offices in our thirty-five year existence. Our new corporate headquarters will stand as a focal landmark at the gateway into downtown Oklahoma City and will provide a firm statement that PLICO remains accessible and relevant to our insureds in this ever-changing environment of the healthcare delivery system, both today and beyond. I am excited about where PLICO is growing and am proud that we were again able to maintain our continued stringent underwriting and excellent management of risk and claims, allowing PLICO to increase our financial strength for the tenth consecutive year.

Carl T. Hook, M.D., F.A.C.S.
President and CEO
PLICO
NAVIGATING THE RISKS OF MEDICINE

PLICO Risk Management had another successful year, highlighted by the third annual EXPLORE: Oklahoma Healthcare Summit, of which PLICO again served as the presenting sponsor. This comprehensive and cutting-edge statewide healthcare conference attracted over 400 attendees, ranging from physicians and practice managers to hospital administrators and ancillary providers. Over the two-day event, attendees enjoyed addresses from timely keynote speakers, including:

- Captain Richard Phillips—real-life inspiration for the movie Captain Phillips.
- John Nance—author and international advocate of crew resource management.
- Beck Weathers, MD—physician and survivor of the 1996 Mount Everest disaster.
- Linda Worley, MD—President of the Academy of Psychosomatic Medicine.

Relevant breakout sessions, a state-of-the-art exposition and first-class evening networking receptions allowed PLICO to continue providing valuable information in an engaging forum for both insureds and other healthcare professionals in the Oklahoma medical community. We want to gratefully acknowledge our premier sponsors of EXPLORE, specifically the Chickasaw Nation, BancFirst, St. Anthony and OPUBCO. We are pleased to announce that the 2015 conference will be held August 13–14, 2015, at the Embassy Suites Hotel and Convention Center in Norman, Oklahoma.

Beyond EXPLORE, PLICO Risk Management continued to offer a variety of additional educational opportunities, including premier events, ancillary training, office assessments, specialty-specific seminars and online CME. Additionally, we presented 11 sessions of Evening Rounds, our series of regional risk management trainings held in Oklahoma City, Norman and Tulsa. These seminars featured PLICO defense attorneys John Wiggins, Esq. discussing Current Litigation Issues for Healthcare Providers, as well as Malinda Matlock, Esq. and Roger Hurt, Esq. presenting Prescription Medications: High Risk for Physicians and Their Patients.

The Risk Management department also completed 189 ancillary trainings and office assessments, reaching over 500 physicians and their staff. As such, over 50% of insureds received premium credit through their participation in PLICO Risk Management in 2014.

This last year also brought new opportunities in developing risk management services to PLICO-insured hospitals. Our risk management department worked diligently to construct relevant programs that address the unique risks presented by the complex hospital environment. Initial visits were made to discuss our services, along with assessments to evaluate the current risk management status of each facility. We look forward to working with our hospital insureds to build programs that address common issues and improve the overall care to patients in both quality and experience.

Moving into 2015, PLICO will continue to meet the needs of its insureds as the healthcare environment evolves, and the risk management department stands ready to help navigate the risks of medicine through these changing times.
PROTECTING OUR POLICYHOLDERS

PLICO has long been an advocate of tort reform that would fairly protect healthcare professionals, compensate injured parties and reduce the cost of treatment while assuring access to quality healthcare for Oklahomans. We strive to maintain a presence within the legislative process as it relates to sound healthcare policies and the professional liability insurance industry. This continuous effort has helped maintain lower insurance rates and reduce claims for healthcare professionals across the state. In 2014, PLICO experienced fewer claims reported, largely due to these very efforts.

Continuing the success of 2013 into 2014, PLICO once again won 100% of the cases we took to trial. The strength of a professional liability carrier is found in its ability to defend insureds, and we are pleased to again lead our competition in this vital area.

Furthermore, PLICO continues to offer expanded services around our core of claims defense, such as providing legal guidance to mitigate risk in situations where a claim has not yet been reported but risk is identified. By providing this extra service, we avoid having a physician later named in a lawsuit and prevent other covered issues from arising. This is a significant service in the medical professional liability insurance industry that protects both the insured and PLICO.

We trust such strong service and performance will continue to yield confidence from our insureds and the broader healthcare community.
At PLICO, we believe growth is best earned by increasing value for our insureds. We are proud of our results of continuing to write new business and raise levels of retention as we continue to develop products and services that meet emerging needs within healthcare. Much of this is due to our consistent standard of high performance and quality, the work of our leadership and staff and the much-appreciated efforts of our brokers who represent us so well in the marketplace.

There is much to celebrate. PLICO continues to offer the most active and tailored risk management program in the market. We again successfully hosted the largest and most innovative healthcare conference in the state. For the second year in a row, PLICO won 100% of cases brought to trial. We continue to advocate for patient safety and tort reform across the state and in the halls of the Capitol. We have been, and continue to be, very proud of our contribution to Oklahoma healthcare. Having accomplished all of the above, we still believe we can do more.

PLICO spent much of 2014 in research and development of new products and services that better meet the needs of healthcare providers in today’s evolving marketplace. Our insureds have increasingly been asking questions about coverage for medical directorships, as well as coverage for those performing independent evaluations, consulting and administrative services for outside entities. Such work does not involve direct patient care and is typically not covered by medical professional liability policies. As such, we made this gap in protection for our insureds our primary focus to address. Late in 2014, we announced an exclusive Medical Director and Administrative Services E&O product for PLICO insureds that would be available beginning January 1, 2015. Offering flexibility with limits and structure, combined with a robust set of coverages, we brought to market a product that is truly unique within Oklahoma healthcare.

Also in 2014, we significantly enhanced PLICO Protect+, a specially constructed policy that combines Medical Billing E&O with comprehensive privacy and network security coverage for exposures resulting from HIPAA data legislation. Through a partnership with London-based Ascent Underwriting, we are able to provide superior coverage, service and risk management solutions customized for our insureds. With the evolution of PLICO Protect+, our insureds benefit from a new suite of identity and data risk management, resolution and education resources, including consulting and other services provided by live, experienced specialists who understand how to quickly assess and mitigate risk in response to a crisis situation.

Additionally, PLICO began offering 0% in-house financing for our insureds in 2014, a decision that increased administrative ease and financial savings for our insureds. This was received with appreciation within the marketplace, and at the end of the year, we announced another significant enhancement for premium payments: new monthly and quarterly premium payment options with no down payment required. In doing so, PLICO has become the first and only carrier in the market with this leading-edge solution. Through this option, PLICO insureds can better manage their cash flow and resources, further increasing their financial savings.

Lastly, we believe that successful innovation often demands the acquisition and utilization of new thought leaders. As such, PLICO made significant enhancements to their leadership with the hiring of Jeff Weigl, CPCU, ARM as Vice President over Underwriting & Regulatory Compliance. PLICO continues its efforts to increase market share in Oklahoma and the contiguous states, and Mr. Weigl will serve in a key role, leveraging impressive experience in achieving growth and expansion. Additionally, PLICO promoted both Scott Potter, PLICO’s CFO, and Sherry Haworth to Senior Vice President positions, adding to the expertise and experience at the top executive and decision-making levels. These moves are expected to serve PLICO and benefit its insureds for years to come.

In 2014, we produced continued success in the ability to write and retain business as well as develop groundbreaking new products and services, while significantly bolstering internal leadership. Through all of this, PLICO has redefined the marketplace standard in the quality of coverage and service available to healthcare professionals.
In 2014, PLICO increased stockholders' equity to $72.1 million, the highest total in the history of the company. This demonstrated an increase of $6.2 million, which stood as another strong year for PLICO, again maintaining its Financial Stability Rating® of A, Exceptional.

For the fifth year in a row, PLICO finished near the top of our peer group for investment performance with a return of over 6% for the year. We are pleased with our continued focus on diversification and quality within our investment strategy. Strong returns allow us to reduce the volatility of rates for our insureds and increase stability during times of variations within underwriting performance or broader legislative or judicial decisions.

Looking to 2015, challenges are expected in the investment environment. However, we are confident in the construction of our portfolio and our ability to limit downside risk while still participating in any market gains.

PLICO maintains its position as the dominant carrier for professional liability insurance for physicians and hospitals in Oklahoma. We have set new records for policyholder retention and are continuing to increase value to our insureds through high-quality risk and claims management, customer support and fair pricing. As we do this, we are always mindful of our duty to maintain the necessary financial strength and flexibility to meet obligations on behalf of our policyholders.

We appreciate the confidence placed in us by Oklahoma’s healthcare marketplace and continue in our commitment to serve our policyholders with strength and stability.

Scott Potter, C.P.A.
Chief Financial Officer
PLICO
CONSORTIUM BALANCE SHEETS
PLICO AND SUBSIDIARIES

2014  2013

Assets
Cash and cash equivalents  13,044,109  16,476,727
Investments, available for sale  139,287,165  137,120,038
Investments, held-to-maturity  2,600,000  2,600,000
Premiums receivable  2,421,618  2,611,101
Reinsurance and premium adjustment receivables  7,358,455  5,175,576
Reinsurance receivable  7,300,780  6,976,987
Accrued investment income  969,931  945,907
Other assets  2,675,101  1,504,990
TOTAL ASSETS  $173,657,155  $173,489,306

Liabilities and Stockholders’ Equity
Losses:
  Professional Liability  55,368,946  54,230,400
  Other  78,805  94,385
Loss adjustment  20,495,176  22,416,411
Funds held for others  2,122,020  2,312,020
Advance and unearned premiums  14,330,773  18,524,685
Reinsurance premium adjustment payable  7,760,656  4,733,027
Federal income tax payable  485,794  2,140,759
Other liabilities  5,605,955  3,392,539
TOTAL LIABILITIES  $103,586,105  $107,494,206

Stockholder Equity:
Common capital stock, $2.00 par value at December 31, 2014 and 2013. Authorized 2,000,000 shares; issued and outstanding 1,500,000 shares
3,000,000  3,000,000
Accumulated other comprehensive income, net of taxes  10,845,909  10,277,886
Retained earnings  46,419,194  40,831,267
TOTAL STOCKHOLDERS’ EQUITY  $72,071,050  $65,915,100

TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY  $175,657,155  $173,409,306

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PLICO AND SUBSIDIARIES

2014  2013

Revenues
Premiums earned (net of reinsurance premiums ceded of approximately $4,088,000 and $1,606,000 in 2014 and 2013, respectively)  26,675,648  21,223,481
Investment income:
  Net investment income  599,380  1,362,207
  Net realized capital gains  9,309,828  4,607,336
  Other income  208,508  238,767
TOTAL REVENUES  $36,793,364  $37,431,791

Expenses
Losses incurred:
  Professional Liability (net of losses ceded to reinsurers of approximately $1,628,000 and $2,657,000 in 2014 and 2013, respectively)  10,279,478  9,283,787
  Other  (13,120)  3,484
Loss adjustment expenses and other expenses (net of loss adjustment expenses ceded to reinsurers of approximately ($161,000) and ($159,000) in 2014 and 2013, respectively)  17,838,570  16,543,587
TOTAL EXPENSES  $28,104,928  $25,830,858

Federal income taxes  3,100,509  3,714,373
NET EARNINGS  $5,587,927  $7,886,560

CONSOLIDATED STATEMENT OF CASH FLOWS
PLICO AND SUBSIDIARIES

2014  2013

Cash Flows From Operating Activities
Net earnings  5,587,927  7,886,560
Adjustments to reconcile net earnings to net cash used in operating activities:
  Net Amortization of bond discount and premium on investments  3,206,260  2,062,252
  Net (gain) loss on sale of investments (9,309,828) (4,607,336)
  Deferred income tax expense  1,255,475  318,786
  Depreciation  279,281  496,670
Changes in operating assets and liabilities:
  Premiums receivable  189,483  (2,519,110)
  Reinsurance and premium adjustment receivables  1,004,752  (3,122,682)
  Reinsurance receivable  (325,793)  6,319,145
  Accrued investment income (24,024) (7,380)
  Federal income tax receivable and deferred income taxes (1,854,965)  1,001,606
  Other assets (206,487) (368,251)
  Losses and loss adjustment expenses (798,269) (16,352,786)
  Unearned and advance premiums (4,193,912)  788,612
  Other Liabilities (1,981,558)  1,448,513
Net cash used in operating activities (7,171,658) (6,655,401)

Cash Flows From Investing Activities
Net Acquisition of investments  4,810,305  4,719,409
Purchase of furniture, fixtures, and equipment  1,071,265  (61,106)
Net cash provided by investing activities  3,739,040  4,658,303

Net change in cash and cash equivalents (3,432,618) (1,997,098)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR  $16,476,727  $18,473,825
CASH AND CASH EQUIVALENTS, END OF THE YEAR  $13,044,109  $16,476,727

79.3% Investments, available for sale
7.4% Cash and cash equivalents
1.4% Investments, held-to-maturity
1.4% Premiums receivable
4.2% Reinsurance and premium adjustment receivables
4.2% Reinsurance receivable
0.6% Accrued investment income
1.5% Other assets

2014 ASSETS
LEADERSHIP

BOARD OF DIRECTORS (ABOVE)

Top Row (From L to R)
Lee Schoeffler, M.D.
Mukesh Parekh, M.D.
Jack Beller, M.D.
Joe Shockley, Jr.
Steve Mueller, M.D.
Todd Brockman, M.D.
Scott Dunitz, M.D.
Kenneth King, C.A.E.

Bottom Row (From L to R)
Theresa Shavney, M.D.
Gary Strebel, M.D.
Carl T. Hook, M.D., F.A.C.S.
Gary Paddock, M.D.
Lara Mashek, M.D.

"PLICO CONTINUES TO EXPAND OUR VISION IN MEETING THE NEEDS OF THE HEALTHCARE MARKETPLACE, BOTH FOR TODAY AND TOMORROW."
- CARL T. HOOK, M.D., F.A.C.S., PRESIDENT AND CEO

MANAGEMENT (LEFT)
Carl T. Hook, M.D., F.A.C.S,
President and CEO
Samuel J. Glover, Esq., Vice President,
Claims/General Counsel
Sherry Haworth, Senior Vice President,
Human Resources
Becky Meares, Vice President, IT
Matthew J. Moore, Vice President,
Business Development
Shari Moore, R.N., B.S.N., Vice President,
Risk Management
Dale Neikirk, Chief Operating Officer
Scott Potter, C.P.A., Senior Vice President,
Chief Financial Officer
Jeff Weigl, Vice President, Underwriting

$72,100,000
Stockholders’ equity

100%
Trial win rate of claims defended
PLICO is the endorsed professional liability carrier of the Oklahoma State Medical Association and the Oklahoma Hospital Association, and education partner of the Osteopathic Founders Foundation.