

006637 - Life Insurance Company of Alabama

Report Revision Date: 03/16/2017

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 03/09/2017 Rating Rationale: 03/09/2017 Report Commentary: 03/16/2017	Time Period: 1st Quarter - 2017 Last Updated: 05/16/2017 Status: As Received	Corporate Structure: N/A States Licensed: 05/21/2003 Officers and Directors: 08/17/2016

¹ The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

² The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

³ The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Life Insurance Company of Alabama

302 Broad Street, Gadsden, Alabama, United States 35901
Mailing Address: P.O. Box 349, Gadsden, Alabama, United States 35901

Tel.: 256-543-2022

Web: www.licoa.com

Fax: 256-543-0019

AMB #: 006637

Ultimate Parent #: N/A

NAIC #: 65412

FEIN#: 63-0321291

Publicly Traded Corporation: Life Insurance Company of Alabama
OTC: LINS.PK OTC: LINS.A.PK

Best's Credit Ratings

Best's Financial Strength Rating: B++

Outlook: Stable

Best's Issuer Credit Rating: bbb

Outlook: Stable

Rating Effective Date: 03/09/2017

Financial Size Category: VI

Report Revision Date: 03/16/2017

Rating Rationale

Rating Rationale: The ratings of Life Insurance Company of Alabama (LICOA) reflect consistent capital growth and strong risk-adjusted capitalization measures, favorable net operating results and its well-established regional market niche. Offsetting factors include a declining trend of premium, a trend of underwriting losses, exposure to below investment grade bonds and concentration risks.

LICOA has experienced consistent capital growth over the last several years with a five-year CAGR of 11.2% and overall capital growth of 58.6% from 2011 to 2015 supported by consistent net income, which has been partially offset by stockholders' dividends. The company's level of risk-adjusted capital is considered strong for its business risks. Earnings have been favorable over the last several years, excluding 2014 when earnings were boosted by one-time realized gains. Consistent favorable net investment income has offset underwriting losses over the period. LICOA has a well-established brand that markets accident, health and life insurance products, primarily to rural areas in the southeastern section of the U.S.

In 2015, net premium revenue began to decline driven by a reduction in new premium. This has continued through 2016 as new policies were reinsured while terminating policies were not, decreasing premium volume on a net basis. The supplemental accident and health and life benefits markets are highly competitive with many carriers vying for business. LICOA has reported underwriting losses four of the last five years in part due to some large claims from its unlimited cancer business as well as increased expenses driven by a new policy administration system conversion. While approximately 83% of the bond portfolio is investment grade, some existing holdings have been downgraded increasing LICOA's exposure to below investment grade bonds to more than 17% of the bond portfolio at third-quarter 2016 compared to 7% the prior year. A concentration of business in cancer insurance exposes LICOA to a certain level of market and regulatory risks. A.M. Best also believes the company is exposed to geographic risk as over three-quarters of direct premium revenue is derived from four states.

Positive rating action could occur if LICOA experiences profitable premium growth, reduces exposure to cancer business or increases geographic diversification. Conversely, negative rating action could occur if LICOA experiences a material decline in overall net premium revenue, a further decline in the quality of the investment portfolio or reports significant net losses.

Five Year Rating History

Date	BEST'S	
	FSR	ICR
03/09/2017	B++	bbb
03/11/2016	B++	bbb
02/27/2015	B++	bbb
02/26/2014	B++	bbb
02/27/2013	B+	bbb-

Key Financial Indicators

Statutory Data (\$000)						
Year	Assets	Total Capital		Net Premiums Written	Net Investment Income	Net Income
		Capital Surplus Funds	Asset Valuation Reserve			
2016	120,838	40,629	2,274	36,013	5,271	2,200
2015	116,623	38,740	1,779	36,313	4,941	2,835
2014	113,481	37,253	1,696	37,398	4,269	7,026
2013	107,972	33,032	1,938	37,162	4,061	2,665
2012	102,594	29,355	1,215	37,959	4,069	3,017
03/2017	121,643	40,665	2,552	9,306	1,301	65
03/2016	118,692	39,812	2,169	8,992	1,308	1,154

(*) Within several financial tables of this report, this company is compared against the Individual Accident & Health Composite.
 (*) Data reflected within all tables of this report has been compiled from the company-filed statutory statement.
 (*) The most recent data contained in this report is "As Received" indicating that this financial data was recorded as it was received from the company. While the data provided were obtained from sources believed to be reliable, their accuracy cannot be guaranteed.

Business Profile

Life Insurance Company of Alabama (LICOA), established in 1952 and based in Gadsden, AL, is a closely-held, public company primarily owned by the Daugette family. The company wholly-owns LICOA Brokerage Service, Inc., an entity which serves as a broker and agent for its products.

Scope of Operations

Scope of Operations: LICOA markets supplemental accident & health and life insurance products primarily via worksite sales chiefly to small and mid-size employer groups in rural areas and towns. The company also markets individual products directly to families. The company primarily markets supplemental accident & health products, which include cancer, accident, hospital indemnity and intensive care, critical illness, dental, vision, hearing and disability and major expense lump sum cancer/heart and heart/stroke expense. Its life product offerings include whole and term life with small face amounts.

Cancer insurance, its primary line of business, comprises over 50% of total net premium revenue. Limited benefit and unlimited benefit cancer products comprise 85% and 15%, respectively, of total cancer business. To offset historically high claims experience in its unlimited benefit products, the company has introduced a variety of limited benefit indemnity products, which include Limited benefit indemnity products with larger benefits.

LICOA's ancillary supplemental accident & health products represent 29% of total net premium revenue. Accident products are simplified issued to qualifying individuals and employer groups and provide 24-hour on or off-the-job coverage or off-the-job coverage only. Hospital indemnity products pay for each day as a hospital inpatient and for outpatient office visits, in addition to paying up-front, lump sum cash upon hospital admission to assist in defraying major medical deductible expenses. Intensive care coverage is issued as either a policy or as a rider to another supplemental accident & health policy. The dental business entails voluntary group products. Disability products, short-term in duration, are guaranteed renewable and issued to qualifying worksite employer groups. Major expense cancer/heart products pay a lump sum benefit up to \$50,000 for cancer and heart illnesses, while heart/stroke products pay benefits for the prevention and treatment of heart disease, heart attack and stroke. The company also offers a critical illness product. This product, offered as a stand-alone product and as a rider to a life insurance policy, is available on both a worksite and individual basis. LICOA began selling a vision and hearing product in mid-2013 which is offered either as a rider to its worksite dental policy or as a stand-alone policy. In 2015, the company introduced a new individual accident product with two benefit options.

Life products comprise approximately 17% of total net premium revenue. Whole life products, primarily the Protector II Whole Life product that offers a guaranteed value as well as a \$15,000 rider on all children, comprises over half of the life business. Term life products, comprising the remaining life business, consist of 10 or 20 Year Level Term Renewable and Convertible coverage. LICOA has been modifying its life products over that past few years. Changes include four term life products consisting of 10, 15, 20 and 30 Year Level Term coverage as well as new whole and term life products. LICOA's goal is to increase its new life premium revenue production to one-quarter of total new premium revenue.

Approximately 1400 active general agents market LICOA's products. Although the company's agents are not captive, certain ones sell only for LICOA. Over 75% of its direct premium revenue is derived from Alabama, Tennessee, Georgia and Mississippi. Future sales growth is expected from further penetration of its current eleven state marketing territories.

Scope of Operations (Continued...)

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written & Deposits	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2016	36,754	-0.4	4	1.6	745	23.3	36,028	-0.8
2015	36,914	-2.6	4	...	604	15.5	36,329	-2.9
2014	37,917	0.7	4	-4.8	523	7.5	37,416	0.6
2013	37,645	-1.9	4	-4.9	486	13.5	37,181	-2.1
2012	38,383	-3.2	4	-1.9	428	-1.5	37,979	-3.2
5-Yr CAGR	XX	-1.5	XX	-2.0	XX	11.3	XX	-1.7
03/2017	9,506	2.4	XX	XX	XX	XX	XX	XX
03/2016	9,285	-3.7	XX	XX	XX	XX	XX	XX

Territory

The company is licensed in AL, AR, FL, GA, KY, LA, MS, NC, OK, SC and TN.

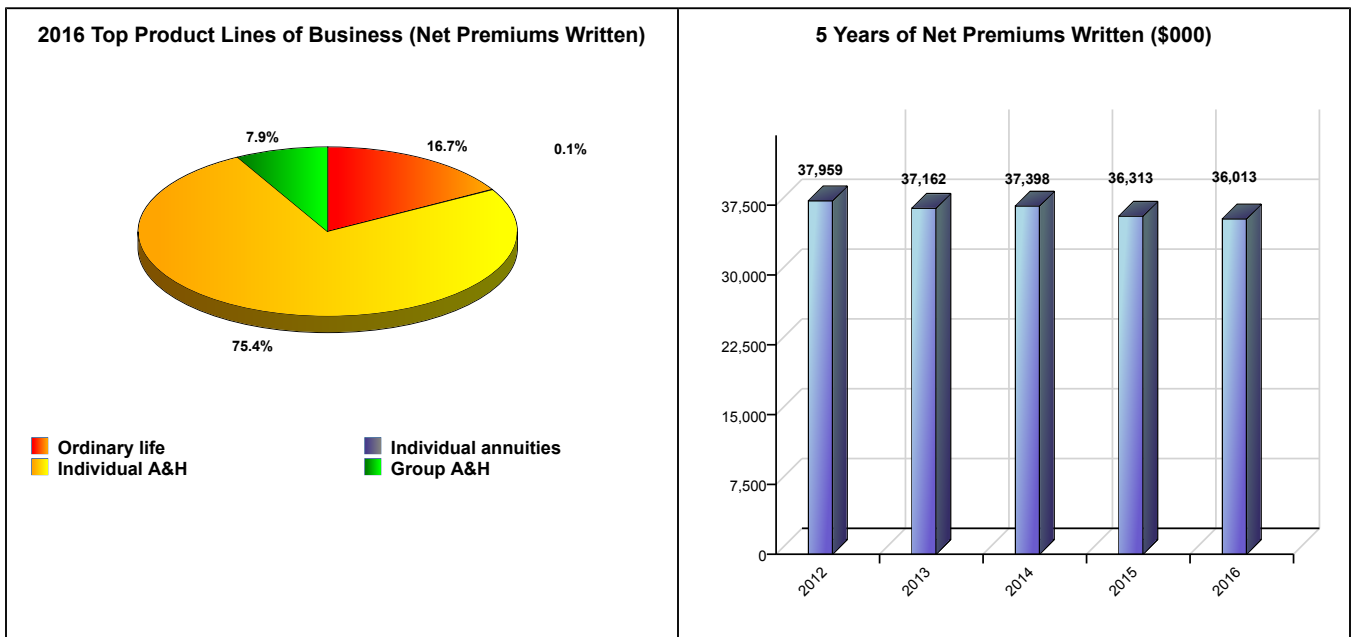
Business Trends

Business Trends: LICOA's net premium revenue declined in 2015 after remaining flat for several years. In 2015, net premium revenue decreased primarily due a decrease in sales. In 2016, net premium revenue continued to decline in part due sales not overcoming the drop in premiums in 2015, but also an increase in life premiums being reinsured. LICOA's products and associated premium revenue are not subject to the Patient Protection and Affordable Care Act (ACA).

2016 By-Line Business (\$000)

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)
Ordinary life	6,746	18.4	...	...	745	100.0	6,002	16.7
Group life	1	...	4	100.0	...	...	5	...
Individual annuities	27	0.1	...	...	...	...	27	0.1
Individual A&H	27,137	73.8	...	...	...	...	27,137	75.4
Group A&H	2,842	7.7	...	...	...	...	2,842	7.9
Total	36,754	100.0	4	100.0	745	100.0	36,013	100.0

Business Trends (Continued...)



By-Line Reserves (\$000)

Product Line	2016	2015	2014	2013	2012
Ordinary life	41,715	39,851	38,348	36,528	35,191
Group life	4	4	4	4	4
Individual annuities	1,597	1,675	1,777	1,986	2,128
Deposit type contracts	1,203	1,347	1,325	1,343	1,426
Individual A&H	21,310	21,768	21,693	21,628	20,145
Group A&H	1,184	1,112	1,010	919	959
Total	67,012	65,758	64,157	62,408	59,853

Life Policies Statistics

Year	Ordinary Policies		Group Policies		Group Certificates	
	Issued	In Force	Issued	In Force	Issued	In Force
2016	2,042	21,150	...	4	...	6,523
2015	2,102	21,242	...	4	...	6,525
2014	2,181	21,431	...	4	...	6,706
2013	2,666	21,551	...	4	...	7,217
2012	2,278	21,548	...	4	...	7,845

Business Trends (Continued...)

Life Insurance In Force (\$000)

Year	Whole Life & Endowment & Additions	Term	Credit	Group	Industrial	Total Insurance In Force
2016	406,420	452,768	...	1,190,770	...	2,049,958
2015	459,954	382,640	...	1,185,628	...	2,028,222
2014	393,770	429,941	...	1,216,140	...	2,039,851
2013	388,292	423,139	...	1,310,100	...	2,121,531
2012	382,150	398,243	...	1,411,360	...	2,191,753

New Life Business Issued

Year	Whole Life & Endowment & Additions	Term	Credit	Group	Industrial	Total Insurance Issued	Non-Particpt. (%)	Particpt. (%)
2016	54,216	78,339	...	...	...	132,555	100.0	...
2015	51,745	91,774	...	...	...	143,519	100.0	...
2014	51,816	85,510	...	...	...	137,327	100.0	...
2013	54,949	108,361	...	...	...	163,310	100.0	...
2012	51,049	95,634	...	...	...	146,683	100.0	...

Ordinary Life Statistics

Year	Ordinary Lapse Ratio (%)	Renewal Premium Persistency (%)	Average Ordinary Policy (In Dollars)		# of Policies		Average Premium (\$/M)
			Issued	In Force	Issued	In Force	
2016	10.0	88.7	64,914	40,624	2,042	21,150	7.85
2015	10.8	94.1	68,277	39,666	2,102	21,242	8.13
2014	10.7	90.3	62,965	38,435	2,181	21,431	7.89
2013	12.2	91.3	61,257	37,652	2,666	21,551	7.86
2012	11.7	90.0	64,391	36,216	2,278	21,548	7.80

Year	1st Year Premium (\$000)	1st Year Premium / Total Premium	1st Year Commission / 1st Year Premium	General Expenses / Policies In Force	General Expenses / Reserves (%)	Return on Reserves (%)
2016	673	10.0	94.6	97.89	4.84	0.37
2015	729	10.6	90.8	85.84	4.45	0.76
2014	740	11.4	100.0	90.74	4.93	0.75
2013	823	12.9	94.0	79.55	4.56	1.17
2012	713	11.7	96.2	61.56	3.65	3.45

Business Trends (Continued...)

Individual Annuity Statistics

Year	Net Premiums Written (\$000)	Total Reserves (\$000)	Expenses to Reserves (%)	Commissions & Expenses to Net Premiums Written (%)	Benefits & Withdrawals to Net Premiums Written (%)	Benefits & Withdrawals to Reserves (%)
2016	27	1,597	...	...	695.2	11.9
2015	41	1,675	1.1	42.9	540.3	13.3
2014	39	1,777	1.0	46.1	831.8	18.3
2013	42	1,986	0.6	26.5	633.2	13.5
2012	56	2,128	0.6	22.1	319.6	8.4

Total Annuity Actuarial Reserves By Withdrawal Characteristics

Year	Total Annuity Reserves (\$000)	Minimum or No Surrender Charge (%)	With Surrender Charge 5% or More (%)	With Market Value Adjustment (%)	No Surrender Charge Allowed (%)
2016	1,597	100.0	...	...	...
2015	1,675	100.0	...	...	...
2014	1,777	...	100.0	...	...
2013	1,986	...	100.0	...	...
2012	2,128	...	100.0	...	...

Market Share / Market Presence

LICOA is a regional insurance company licensed in 10 southeastern states and Oklahoma.

Geographical Breakdown By Direct Premium Writings (\$000)

	2016	2015	2014	2013	2012
Alabama	11,551	11,393	11,386	11,135	11,302
Mississippi	5,804	5,591	5,660	5,652	5,746
Georgia	5,527	5,564	5,682	5,601	5,538
Tennessee	5,403	5,721	6,137	6,158	6,264
Kentucky	2,890	2,918	2,973	2,985	3,103
South Carolina	2,433	2,473	2,531	2,592	2,584
Arkansas	1,151	1,138	1,387	1,438	1,500
North Carolina	896	1,050	1,114	1,162	1,229
Florida	396	412	427	444	433
Louisiana	373	354	350	350	350
All Other	100	104	113	130	133
Total	36,523	36,716	37,760	37,645	38,182

Risk Management

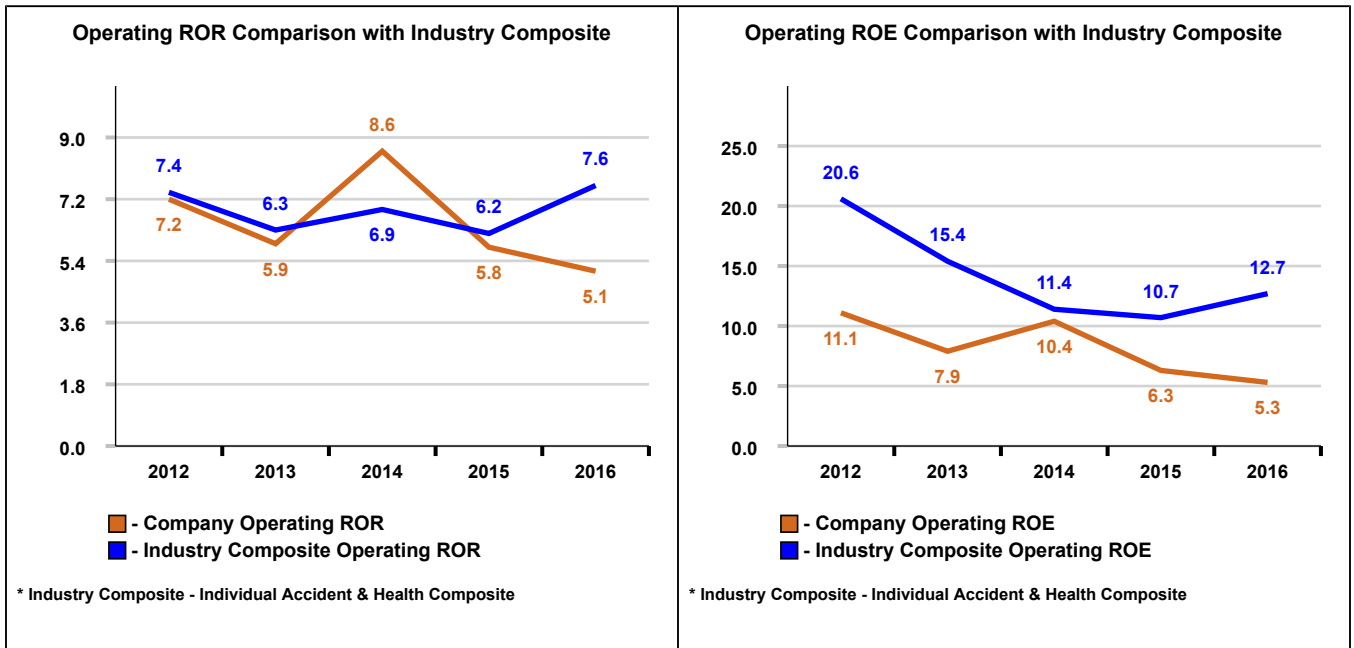
LICOA, due to its relatively small size, does not maintain a formal risk management program. However, the company has recently appointed two risk officers and executives to closely supervise managers. There is an unwritten succession plan with replacements identified for each departmental manager. Committees of the Board of Directors include Executive, Audit, Compensation and Loan & Investment. Investment management is outsourced to one lead external asset management firm and four other external asset management firms. A written policy governs investments and LICOA's external asset management firms invest in accordance with the parameters documented in the policy. The Chief Operating Officer is now developing a written business plan and is documenting all operating policies and procedures. Although LICOA does not maintain policies and procedures for the prevention, detection and elimination of fraud and records retention, it does maintain a number of marketing manuals and training programs for its agents. Internal auditing is outsourced to Willis, Boatner and Whiteside. The company maintains a disaster recovery plan and an offsite storage area located approximately 15 miles from the company. LICOA has several policies and practices in place to address cyber security.

Operating Performance

Operating Results: LICOA has reported generally stable net income in recent years due to relatively consistent investment income partially offset by underwriting losses. Net income declined in 2016 primarily as a result of decrease in realized capital gains. Earnings returned to normal levels in 2015 after a spike in 2014 primarily from a capital gain realized on the sale of the majority of the company's common stock holding in Protective Life Insurance Company and lower health claims paid. LICOA's investment income, despite lower interest rates, has remained relatively stable over the last five years.

Profitability Analysis

Period Ending	Company						Industry Composite	
	Pre-tax Net Operating Income (\$000)	Net Operating Gain (\$000)	Net Income (\$000)	Total Return (\$000)	Operating ROR (%)	Operating ROE (%)	Operating ROR (%)	Operating ROE (%)
2016	2,379	2,114	2,200	2,564	5.1	5.3	7.6	12.7
2015	2,531	2,386	2,835	1,834	5.8	6.3	6.2	10.7
2014	4,656	3,638	7,026	4,173	8.6	10.4	6.9	11.4
2013	2,700	2,457	2,665	4,887	5.9	7.9	6.3	15.4
2012	3,295	3,031	3,017	3,716	7.2	11.1	7.4	20.6
5-Yr Avg/Tot	15,560	13,625	17,743	17,174	6.5	8.0	6.9	14.1
03/2017	43	48	65	235	0.4	2.5	XX	XX
03/2016	1,335	1,149	1,154	1,294	10.8	8.1	XX	XX



Underwriting Results

Profitability Tests (%)

Year	Benefits Paid to NPW & Deposits	Commissions & Expenses to NPW & Deposits	NOG to Total Assets	NOG to Total Revenues	Operating Return on Equity	Net Yield	Pre-tax Invest Total Return
2016	53.4	49.7	1.8	5.1	5.3	4.84	5.39
2015	56.5	46.1	2.1	5.8	6.3	4.68	5.23
2014	48.8	46.7	3.3	8.6	10.4	4.18	5.72
2013	51.0	45.9	2.3	5.9	7.9	4.18	7.08
2012	53.0	44.0	3.1	7.2	11.1	4.46	6.68
5-Yr Avg/Tot	52.5	46.4	2.5	6.5	8.0	4.48	5.98
03/2017	XX	XX	0.8	0.4	2.5	4.79	1.33
03/2016	XX	XX	2.7	10.8	8.1	4.75	1.33

(*) Pre-Tax Invest Total Return quarterly calculation based on more limited quarterly data - see Calculation Specifications

Net Operating Gain

Product Line	2016	2015	2014	2013	2012
Ordinary life	157	310	297	440	1,252
Group life	-1	-1	...	1	1
Supplementary contracts	53	43	29	-7	-5
Individual annuities	4	12	-9	-12	-60
Individual A&H	1,913	2,026	3,202	1,954	1,668
Group A&H	-12	-4	118	81	174
Total	2,114	2,386	3,638	2,457	3,031

Accident & Health Statistics

Year	Net Premiums Written (\$000)	Net Premiums Earned (\$000)	Loss Ratio	Expense Ratio	Underwriting Results (\$000)
2016	29,979	29,989	50.0	48.6	423
2015	30,023	30,091	54.7	45.5	-5
2014	31,375	31,363	48.2	45.3	2,041
2013	31,224	31,267	54.0	44.6	451
2012	32,206	32,259	55.6	43.9	191

Current Year Experience

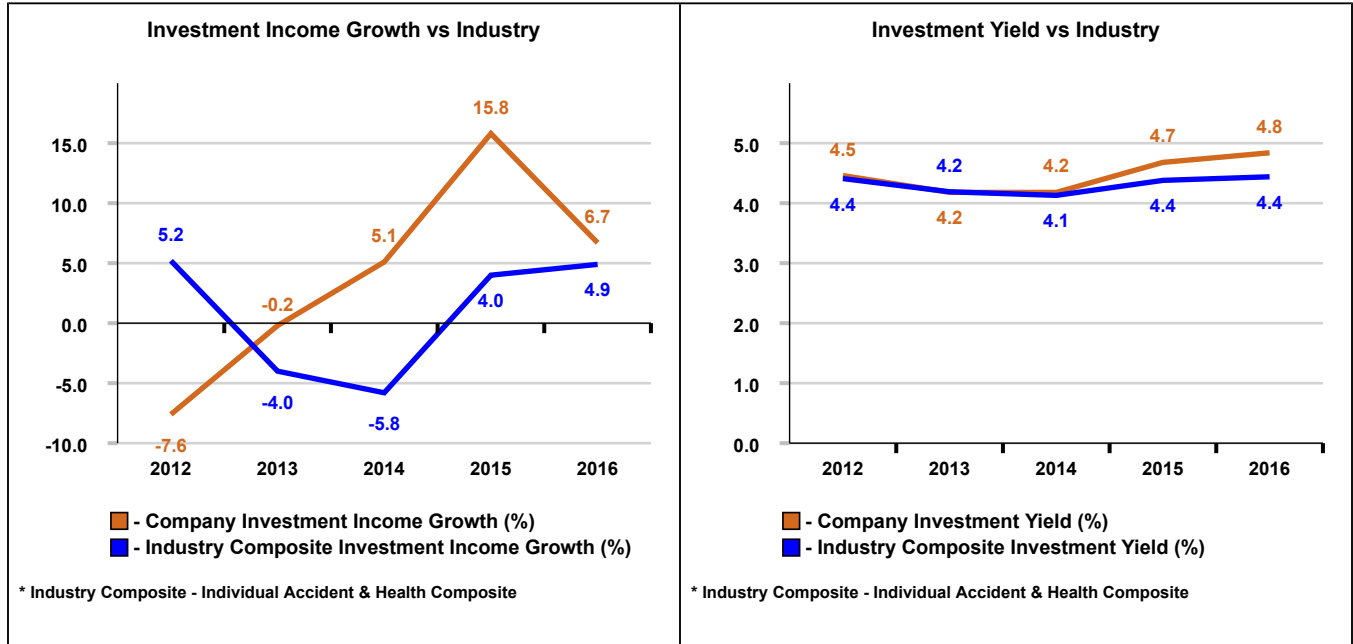
	Net Premiums Written (\$000)	Net Premiums Earned (\$000)	Loss Ratio	Expense Ratio	Underwriting Results (\$000)
Group	2,842	2,840	65.3	37.7	-86
Guaranteed renewable	27,137	27,149	48.4	49.7	509

Investment Results

Investment Gains

Year	Company							Industry Composite	
	Net Invest. Income (\$000)	Realized Capital Gains (\$000)	Unrealized Capital Gains (\$000)	Invest. Income Growth (%)	Invest. Yield (%)	Return on Invested Assets (%)	Pre-tax Invest Total Return (%)	Invest. Income Growth (%)	Invest. Yield (%)
2016	5,271	86	364	6.7	4.8	5.1	5.39	4.9	4.4
2015	4,941	449	-1,001	15.8	4.7	5.8	5.23	4.0	4.4
2014	4,269	3,388	-2,852	5.1	4.2	7.6	5.72	-5.8	4.1
2013	4,061	208	2,221	-0.2	4.2	4.7	7.08	-4.0	4.2
2012	4,069	-13	699	-7.6	4.5	5.5	6.68	5.2	4.4
5-Yr Avg/Tot	22,610	4,118	-570	4.0	4.5	5.7	5.98	0.8	4.3
03/2017	1,301	17	170	-0.5	4.8	4.9	1.33	XX	XX
03/2016	1,308	5	140	11.3	4.8	4.7	1.33	XX	XX

(*) Pre-Tax Invest Total Return quarterly calculation based on more limited quarterly data - see Calculation Specifications



Balance Sheet Strength

Capitalization

Capitalization: LICOA's level of absolute capital and surplus has increased consistently over the last several years. The increase through 2016 was driven by favorable net income, partially offset by unrealized capital gains and dividends to shareholders. Although capital and surplus growth has been inhibited somewhat in recent years due to modest annual shareholder dividend payments, the company maintains a favorable level of risk-adjusted capital for its insurance and investment risks based on its Best's Capital Adequacy Ratio (BCAR).

Current BCAR: 353

Capital Generation Analysis

Year	Source Of Surplus Growth (\$000)							% Change in Capital & Surplus
	Pre-tax Net Operating Gain	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Change in AVR	Other Changes	Change in Capital & Surplus	
2016	2,379	86	265	364	-495	-180	1,889	4.9
2015	2,531	449	145	-1,001	-83	-264	1,487	4.0
2014	4,656	3,388	1,018	-2,852	242	-195	4,220	12.8
2013	2,700	208	243	2,221	-723	-486	3,677	12.5
2012	3,295	-13	264	699	-384	1,018	4,349	17.4
5-Yr Total	15,560	4,118	1,935	-570	-1,443	-107	15,623	10.2
03/2017	43	17	-5	170	-278	80	36	0.1
03/2016	1,335	5	186	140	-390	167	1,071	2.8

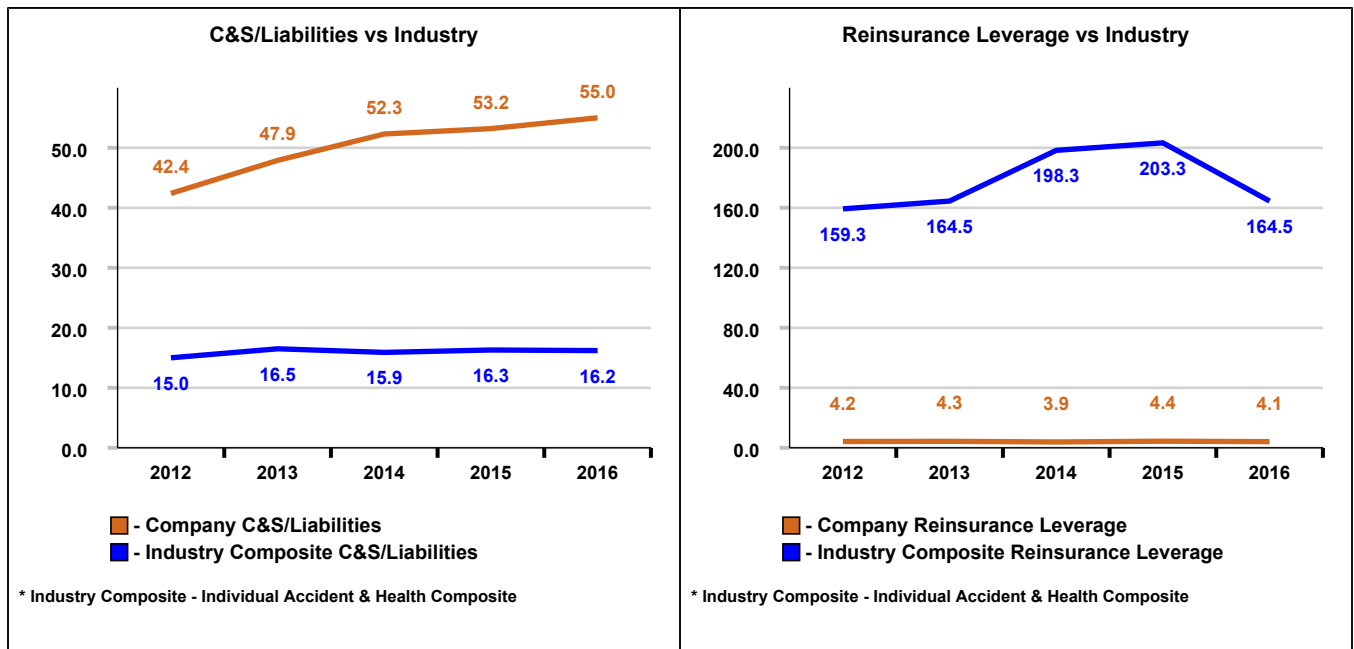
Quality of Surplus (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Capital & Surplus	Asset Valuation Reserve	Adjusted Capital & Surplus
2016	2,592	38,037	40,629	2,274	42,903
2015	2,592	36,148	38,740	1,779	40,519
2014	2,592	34,660	37,253	1,696	38,949
2013	2,592	30,440	33,032	1,938	34,970
2012	2,592	26,763	29,355	1,215	30,570
03/2017	2,592	38,073	40,665	2,552	43,217
03/2016	2,592	37,219	39,812	2,169	41,980

Underwriting Leverage

Leverage Analysis

Year	Company				Industry Composite	
	Capital & Surplus to Liabilities (%)	Surplus Relief (%)	NPW & Deposits to Total Capital	Change in NPW & Deposits (%)	Capital & Surplus to Liabilities (%)	Surplus Relief (%)
2016	55.0	...	0.8	-0.8	16.2	8.3
2015	53.2	...	0.9	-2.9	16.3	8.2
2014	52.3	...	1.0	0.6	15.9	6.4
2013	47.9	...	1.1	-2.1	16.5	5.0
2012	42.4	...	1.2	-3.2	15.0	5.2
03/2017	55.1	...	XX	XX	XX	XX
03/2016	54.7	...	XX	XX	XX	XX



Underwriting Leverage (Continued...)

Ceded Reinsurance Analysis

Year	Company						Industry Composite	
	Face Amount Reinsurance Ceded	Affiliated Reinsurance Recoverable / Capital & Surplus	Unaffiliated Reinsurance Recoverable / Capital & Surplus	Total Reinsurance Recoverable / Capital & Surplus	Surplus Relief	Reinsurance Leverage	Total Reinsurance Recoverable / Capital & Surplus	Reinsurance Leverage
2016	217,219	...	0.3	0.3	...	4.1	5.1	164.5
2015	214,722	...	0.5	0.5	...	4.4	7.1	203.3
2014	205,449	...	0.1	0.1	...	3.9	6.2	198.3
2013	202,711	...	0.1	0.1	...	4.3	4.0	164.5
2012	175,986	...	0.2	0.2	...	4.2	4.4	159.3

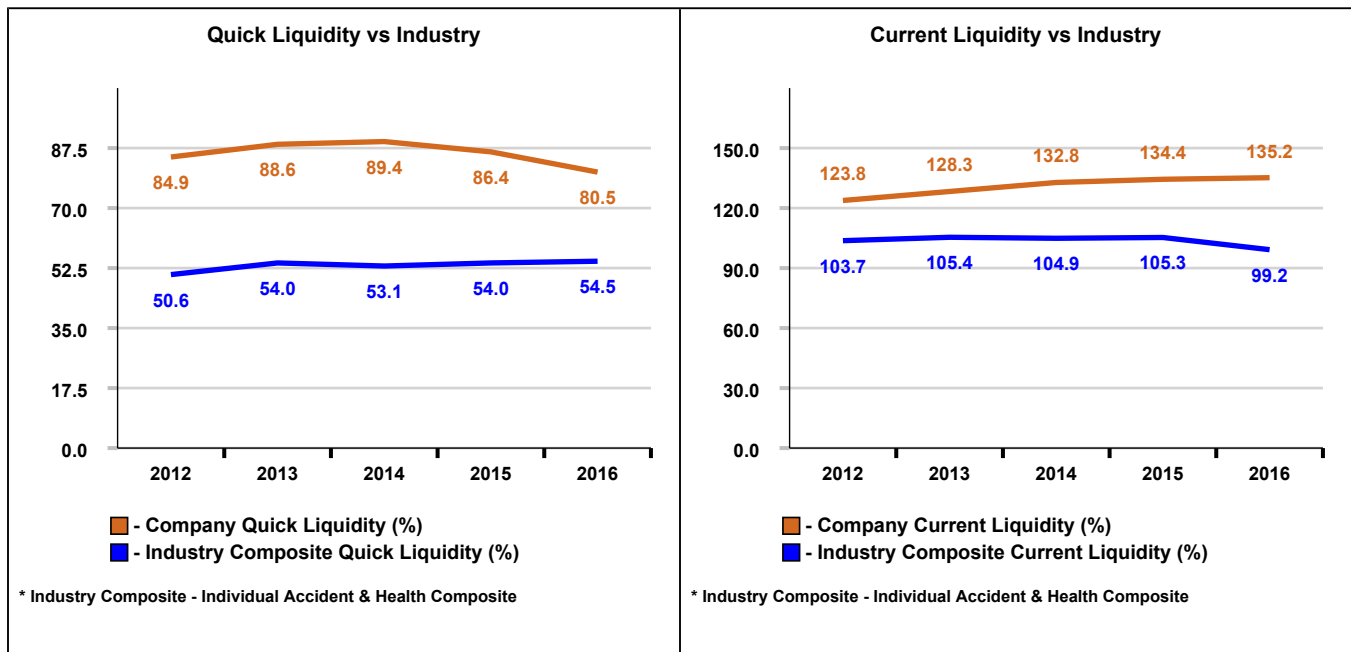
Liquidity

Liquidity: LICOA maintains an adequate liquidity level through its holding of approximately \$1.2 million in cash and short-term investments at year-end 2016. LICOA has maintained favorable liquidity ratios with overall liquidity remaining over one hundred percent of the past five years. Additionally, LICOA has consistently reported positive cash flows over the past five years.

Liquidity Analysis

Year	Company							Industry Composite	
	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Investment Grade Bonds / Capital	Delinq & Foreclosed Mortgage / Capital	Mortgage & Real Estate to Capital	Affiliated Investment to Capital	Quick Liquidity	Current Liquidity
2016	3,279	80.5	135.2	39.8	...	1.5	1.3	54.5	99.2
2015	3,282	86.4	134.4	21.8	...	1.7	1.5	54.0	105.3
2014	4,475	89.4	132.8	13.7	...	1.5	1.2	53.1	104.9
2013	3,801	88.6	128.3	10.4	...	1.6	1.3	54.0	105.4
2012	4,618	84.9	123.8	9.3	...	1.8	1.4	50.6	103.7
03/2017	319	XX	134.9	32.5	...	1.4	1.2	XX	XX
03/2016	1,119	XX	134.9	43.9	...	1.6	1.4	XX	XX

Liquidity (Continued...)



Investments

Investments: A lead external asset management firm and four other external asset management firms manage LICOA's relatively conservative, liquid investment portfolio. The lead firm manages bonds, while the four other firms manage portions of its equity portfolio. Additionally, external investment consulting firms monitor the performance of the four asset management firms overseeing its equity portfolio.

Bonds are comprised primarily of investment grade securities with an average maturity of approximately fourteen years, and the bond portfolio represents approximately 90% of the total invested asset portfolio. While approximately 90% of the fixed securities are investment grade, LICOA has been increasing its exposure to class 2 bonds which represented more than 50% of the bond portfolio at year-end 2016. Additionally the exposure to below investment grade bonds has been steadily rising. The fixed income portfolio is comprised of corporate issues, U.S. tax-free municipals and U.S. government agency bonds. In 2015, the company decreased its position in tax-free municipal bonds and increased its corporate issues for tax purposes. LICOA's equity portfolio is almost entirely comprised of unaffiliated common stock and is well-diversified across industry sectors. Historically, the company has retained a single large investment holding in one equity security, Protective Life Corporation, which was made shortly after the inception of the company. In 2014 and 2015, however, LICOA sold all of this holding for a capital gain. The remainder of the portfolio consists of policy loans, Schedule BA Assets (primarily a venture fund), cash & short-term investments and real estate.

Investment Yields (%)

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short Term	Real Estate		Investment Expense Ratio
						Gross	Net	
2016	4.84	5.07	2.57	...	0.12	14.62	-1.03	6.17
2015	4.68	4.98	2.21	...	...	15.27	-6.67	7.23
2014	4.18	4.51	2.33	...	0.01	15.97	-5.85	7.81
2013	4.18	4.54	2.20	...	...	19.69	0.61	8.12
2012	4.46	4.75	2.90	...	0.01	20.79	5.28	7.68

Investments - Bond Portfolio

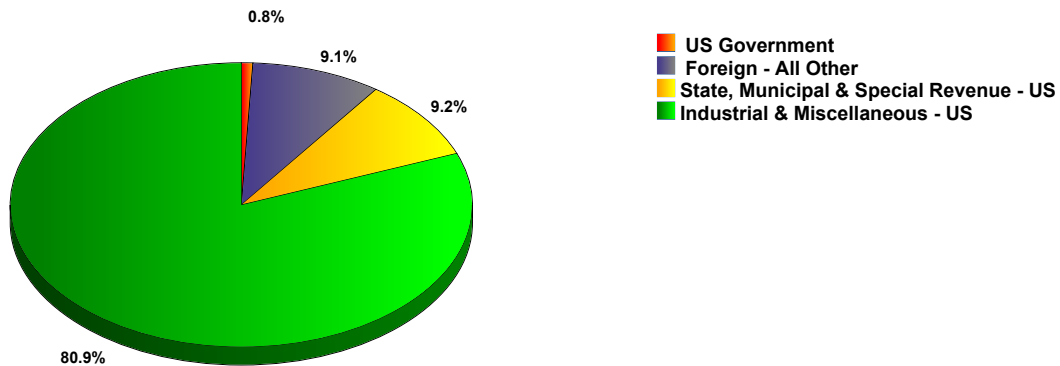
2016 Distribution By Maturity

	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.4	...	...	0.3	0.5	13.9
Government Agencies	0.2	1.0	3.7	2.7	1.6	12.1
Industrial & Miscellaneous	3.3	8.6	35.2	37.7	5.0	10.9
Total	3.8	9.6	38.9	40.7	7.0	11.1

Bond Distribution By Issuer Type

	2016	2015	2014	2013	2012
Bonds (\$000)	101,228	98,696	93,915	87,270	81,847
US Government	0.8	0.8	0.8	0.9	1.5
Foreign - All Other	9.1	11.4	2.4	...	...
State, Municipal & Special Revenue - US	9.2	5.2	47.7	63.5	63.6
Industrial & Miscellaneous - US	80.9	82.6	49.1	35.6	34.8

2016 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2016	2015	2014	2013	2012
Private Issues	...	0.5	...	...	...
Public Issues	100.0	99.5	100.0	100.0	100.0

Investments - Bond Portfolio (Continued...)

	Bond Quality				
	2016	2015	2014	2013	2012
Class 1	16.1	12.6	49.7	70.7	77.6
Class 2	67.1	78.5	44.6	25.1	18.9
Class 3	8.7	6.2	5.3	2.3	1.9
Class 4	7.1	1.5	0.2	1.5	1.1
Class 5	0.9	1.1	...	0.2	0.2
Class 6	0.1	0.1	0.1	0.1	0.2

Investments - Equity Portfolio

	2016	2015	2014	2013	2012
Total Stocks (\$000)	4,798	4,266	5,239	6,791	4,491
Unaffiliated Common	99.6	99.6	99.6	99.7	99.6
Unaffiliated Preferred	0.4	0.4	0.4	0.3	0.4

Investments - Mortgage Loans And Real Estate

	Real Estate				
	2016	2015	2014	2013	2012
Total Real Estate (\$000)	631	682	570	564	557
Property Occupied By Company	86.3	86.4	82.4	80.8	79.1
Property Held For Income	13.7	13.6	17.6	19.2	20.9

Investments - Other Invested Assets

	2016	2015	2014	2013	2012
Total Other Invested Assets (\$000)	5,467	4,882	5,453	5,973	8,603
Cash	14.0	-0.1	12.7	13.5	37.0
Short Term Investments	7.5	8.6	...	...	...
Schedule BA Investments	12.5	20.2	23.6	31.3	26.2
Investments	66.0	71.4	63.8	55.2	36.8

History

Date Incorporated: 07/28/1952

Date Commenced: 08/13/1952

Domicile: AL

Mergers: Life & Accident Insurance Company of Alabama, 1958.

Officers And Directors

Officers

Chairman of the Board and President: Clarence W. Daugette III
Vice President and Director: Michael P. Causey (Agency)
Vice President and Director: Kenneth W. Lewis (Marketing)
EVP and Chief Marketing Officer: Raymond R. Renfrow, Jr.
Vice President: Hoyt R. Casey
EVP and Treasurer: Marvin L. Lowe
Vice President: Jeffrey L. Casey
SVP, Secretary, Actuary and COO: Jack S. Keck
Vice President: Katrina D. Hulsey
Vice President and Chief Investment Officer: Rosalie R. Causey

Directors

Rosalie R. Causey
Herman W. Cobb, Jr.
Clarence W. Daugette III
Alburta D. Lowe
M. Lynn Lowe
Thomas W. Miller, Sr.
Lucian Newman, Jr., MD
Anne D. Renfrow
Raymond R. Renfrow, Jr.
Gerald R. Smith, Jr.

Regulatory

An examination of the financial condition was made as of December 31, 2012, by the insurance department of Alabama. The 2016 annual independent audit of the company was conducted by Thomas Howell Ferguson, PA. The annual statement of actuarial opinion is provided by J. Steven Keck, FSA, MAAA.

Reserve Basis: (Current ordinary business): 2001 CSO 3.50%; CRVM valuation.

Reinsurance

LICOA maintains a number of reinsurance treaties. Employers Reinsurance Corp. Chicago, IL, reinsures 100% of the 20 year certain accidental death benefit rider on accident disability policies. Optimum Re., Dallas, TX, reinsures, on a YRT basis, 10 year term life policies over \$50,000, 50% of increasing benefit term and whole life and 20 year term policies effective August 31, 2007 over \$100,000. Optimum Re. reinsures, on a 50% coinsurance basis, 10, 15, 20 and 30 year term life policies with Life of Alabama having a maximum retention of \$100,000 effective August 1, 2010. Swiss Re Life and Health America, Inc., Fort Wayne, IN, reinsure the Protector Series whole life product over \$50,000 and 100% of the accidental death benefits on all life products on a bulk basis. Scottish Re, Inc., Charlotte, NC, reinsures 10 year term and whole life coverage over \$50,000, while Hanover Life Reassurance Co. of America, Orlando, FL, reinsures whole life and 20 year term products over \$100,000 issued prior to August 31, 2007.

Balance Sheet (\$000)

Admitted Assets	YE 2016	YE 2015
Bonds	101,228	98,696
Preferred Stocks	19	19
Common Stocks	4,779	4,247
Mortgage Loans	...	...
Real Estate	631	682
Contract Loans	3,608	3,486
Cash & short-term Investments	1,174	411
Other Invested Assets	...	...
Premiums & Consideration Due	3,082	2,981
Investment income due & accrued	1,270	1,264
Other Assets	5,047	4,836
Total Assets	120,838	116,623

Liabilities & Surplus	YE 2016	YE 2015
+ Net Policy Reserves	65,810	64,410
Liabilities for deposit type contracts	1,203	1,347
Policy Claims	5,232	5,335
Interest maintenance reserve	1,782	1,831
Commissions, taxes and expenses	1,448	1,404
Asset Valuation Reserve	2,274	1,779
Other Liabilities	2,462	1,776
Total Liabilities	80,209	77,883

YE 2016: + Analysis of reserves; Life \$41,211; annuities \$1,597; supplementary contracts with life contingencies \$0; accidental death benefits \$46; disability active lives \$36; disability disabled lives \$44; miscellaneous reserves \$382; accident & health \$22,494.

YE 2015: + Analysis of reserves; Life \$39,366; annuities \$1,675; supplementary contracts with life contingencies \$0; accidental death benefits \$45; disability active lives \$36; disability disabled lives \$47; miscellaneous reserves \$361; accident & health \$22,880.

Capital & Surplus	YE 2016	YE 2015
Common Stock	1,500	1,500
Common Stock - Treasury	-718	-718
Paid-in & Contributed Surplus	1,810	1,811
Unassigned Surplus	38,037	36,148
Total Liabilities & Surplus	120,838	116,623

Interim Balance Sheet (\$000)

Admitted Assets	03/31/2017
Total Bonds	102,064
Total Preferred Stocks	19
Total Common Stocks	5,001
Real Estate	619
Contract Loans	3,654
Cash & short-term investments	499
Other invested assets	...
Premiums & Consideration Due	3,167
Investment income due & accrued	1,651
Other assets	4,968
Total Assets	121,643

Liabilities & Surplus	03/31/2017
Net policy reserves	66,518
Policy claims	5,010
Interest maintenance reserve	1,582
Commissions, taxes and expenses	1,340
Asset Valuation Reserve	2,552
Other liabilities	3,976
Total liabilities	80,978

Capital & Surplus	03/31/2017
Common stock	1,500
Common Stock - Treasury	-718
Paid-in & contributed surplus	1,810
Unassigned surplus	38,073
Total liabilities & surplus	121,643

Summary Of 2016 Operations (\$000)

Income	2016	Disbursements	2016
Premiums:		Death benefits	2,821
Ordinary life premiums	6,002	Claims incurred (PC)	...
Individual annuities premiums	27	Matured endowments	...
Credit life premiums	...	Annuity & old age benefits	181
Group life premiums	5	Disability & Accident & Health benefits	...
Group annuities premiums	...	Coupons, annual endowments & similar benefits	6
Accident & Health group premiums	2,842	Surrender benefits	825
Accident & Health credit premiums	...	Group conversion	...
Accident & Health other premiums	27,137	Accident & Health benefits	15,371
Industrial life premiums	...	Interest on contract or deposit-type funds	44
Miscellaneous premiums	...	Payments on supplemental contracts	...
Premiums & annuity considerations	...	Accumulated coupon payments	...
Fraternal premiums	...	Total benefits recodes	...
Aviation reinsurance premiums	...	Increase in life reserves	1,786
Deposit type funds	...	Increase in accident & health reserves	-386
Employee benefits plan premiums	...	Increase in liabilities for premium deposit funds	...
Deposit administration funds	...	Change in reserves	...
Other premiums	...	Reserve adjustment on reinsurance assumed	...
Reinsurance premiums	...	Other reserves	...
Total net premiums	36,013	Claim adjustment (PC only)	...
Supplementary contracts	...	Administrative expenses (PC only)	...
Coupon accum interest	...	Commissions on premiums & annuity considerations	6,899
Net investment income	5,271	Commissions & expenses on reinsurance assumed	...
Amortization of Interest Maintenance Reserve	212	Other commissions & expenses	...
Net operating gain from separate accounts	...	Reinsurance expenses	...
Commissions & expense allowance on reinsured	...	Interest expenses	...
Reserve adjustment on reinsurance ceded	...	Insurance taxes, licenses & fees	1,042
Reinsurance income	...	General insurance expenses	9,956
Other income	115	Net transfer to separate accounts	...
Difference between net earned & net written (PC only)	...	Other expenses	...
Management and/or service fees	...	Miscellaneous operating expenses	...
		Other disbursements	675
Total operating income	41,610	Total disbursements	39,220

Summary Of 2016 Operations (\$000) (Continued...)

Income	2016	Disbursements	2016
		Net operating gain before federal income taxes	...
		Net operating gain before taxes & dividends	2,390
		Net operating gain before refunds to members	...
		Dividends - life	12
		Dividends - accident & health	...
		Refund to members (fraternal only)	...
		Net operating gain after dividends & before taxes	2,379
		Federal income taxes	265
		Net operating gain	...
		Net operating gain after federal income taxes	...
		Net operating gain after dividends & taxes	2,114
		Net operating gain after refunds to members	...

Interim Summary Of Operations (\$000)

	Period Ended 03/31/2017	Period Ended 03/31/2016	Increase / Decrease
Premiums & annuity considerations	9,306	8,992	314
Aviation reinsurance premiums	...	...	...
Deposit type funds	...	...	...
Employee benefits plan premiums	...	...	...
Deposit administration funds	...	...	...
Other premiums	...	...	...
Reinsurance premiums	...	...	...
Total premiums	9,306	8,992	314
Supplementary contracts	...	...	...
Coupon accum interest	...	...	...
Net investment income	1,301	1,308	-7
Amortization of Interest Maintenance Reserve	194	197	-4
Net operating gain from separate accounts	...	...	...
Commissions & expense allowance on rein ceded	...	...	...
Reserve adjustment on reinsurance ceded	...	...	...
Other income	9	124	-115
Difference between net earned & net written (PC only)	...	...	...
Total operating income	10,810	10,622	188
Death benefits	400	267	133
Claims incurred (PC)	...	...	...
Matured endowments	...	...	...
Annuity and old age benefits	21	130	-108
Disability & Accident & Health benefits	4,355	3,946	410
Coupons, annual endowments & similar benefits	2	2	...
Surrender benefits	183	257	-74
Group conversion	...	...	...
Interest on contract or deposit-type funds	10	11	-1
Payments on supplemental contracts	...	...	...
Accumulated coupon payments	...	...	...
Total benefits recodes	...	...	...
Increase in liabilities for premium deposit funds	...	...	...
Change in reserves	708	309	399
Claim adjustment (PC only)	...	...	...
Administrative expenses (PC only)	...	...	...
Commissions on premiums & annuity considerations	1,841	1,693	148
Commissions & expenses on reinsurance assumed	...	...	...
Insurance taxes, licenses & fees	372	304	68
General insurance expenses	2,863	2,365	498

Interim Summary Of Operations (\$000) (Continued...)

	Period Ended 03/31/2017	Period Ended 03/31/2016	Increase / Decrease
Net transfer to separate accounts	...	...	...
Other disbursements	8	...	8
Total disbursements	10,765	9,284	1,481
Net operating gain before federal income taxes	...	...	...
Net operating gain before taxes & dividends	46	1,338	-1,292
Net operating gain before refunds to members	...	...	...
Dividends to policyholders	3	3	...
Refund to members (fraternal only)	...	...	...
Net operating gain after dividends & before taxes	43	1,335	-1,292
Federal income taxes	-5	186	-191
Net operating gain after federal income taxes	...	...	...
Net operating gain after dividends & taxes	48	1,149	-1,101
Net operating gain after refunds to members	...	...	...

Cash Flow Analysis (\$000)

Funds Provided	2016	Funds Applied	2016
Gross cash from operations	41,575	Benefit and loss payments	19,323
Transfers from separate accounts	...	Commissions, taxes & expenses paid	18,327
Federal income tax refunds	...	Transfers to separate accounts	...
Decrease in contract loans & premium notes	...	Dividends to policyholders	...
Bond proceeds	13,994	Federal income taxes paid	...
Stock proceeds	...	Increase in contract loans & premium notes	...
Mortgage loans proceeds	...	Surplus notes paid back	...
Real estate proceeds	...	Capital notes paid back	...
Collateral loans proceeds	...	Capital paid back	...
Surplus notes paid in	...	Repaid borrowed money	...
Capital notes paid in	...	Repaid capital notes	...
Capital paid in	...	Bonds acquired	16,635
Borrowed money	...	Stocks acquired	...
Capital notes	...	Mortgage loans acquired	...
Other investment proceeds	1,625	Real estate acquired	...
		Collateral loans acquired	...
		Other investments acquired	...
		Dividends to stockholders	...
Total Other cash provided	599	Total Other cash apportioned	2,745
Decrease in cash & short-term investments	...	Increase in cash & short-term investments	762
Total	57,793	Total	57,793

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the 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 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.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit www.ambest.com/ratings/notice.asp for additional information or www.ambest.com/terms.html for details on the Terms of Use.

Copyright © 2017 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.

No part of this report may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of the A.M. Best Company. While the data in this report was obtained from sources believed to be reliable, its accuracy is not guaranteed.