

**AMB Credit Report for
LIFE INSURANCE COMPANY OF ALABAMA**

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Publicly Traded Corporation: Life Insurance Company of Alabama

OTC: LINS.PK OTC: LINS.A.PK

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BEST'S CREDIT RATINGS

Best's Financial Strength Rating: B++
Best's Issuer Credit Rating: bbb

Outlook: Stable
Outlook: Stable

Best's Financial Size Category: VI

RATING RATIONALE

Rating Rationale: The ratings of Life Insurance Company of Alabama (LICOA) reflect its well-established regional market niche, its consistently favorable operating results and general improvement in its risk profile. Offsetting factors include its relatively flat premium trend, as well as its business and geographic concentration risks.

LICOA has historically marketed accident, health and life insurance products chiefly in the southeastern section of the U.S. The company has reported fairly consistent profitability over the last several years, despite some one-time expenditures. Relatively stable investment income has also supplemented modest underwriting results over the period. LICOA has significantly reduced its historically elevated risk profile by converting many unlimited benefit cancer policies to limited benefit cancer policies and resolving its outstanding litigation -- much of which had been reserved for while in dispute.

The company's net premium revenue, except for 2014, has remained flat in recent years due to the conversion of many unlimited benefit cancer policies with higher premiums to limited benefit cancer policies with lower premiums; a mandatory one-year premium rate freeze in 2012 on parts of its cancer business; and a lower level of new sales, driven by highly competitive supplemental accident and health and life benefits markets. However, net premium revenue production grew modestly in 2014, due primarily to premium rate increases. A concentration of business in cancer insurance exposes LICOA to a certain level of market and regulatory risks. A.M. Best also believes it is exposed to geographic risk as over four-fifths of direct premium revenue is derived from Alabama, Tennessee, Mississippi, Georgia and Kentucky.

A.M. Best notes the unlikelihood of upward rating movement in the near-to-medium term. Conversely, negative rating actions could occur if LICOA is unable to meet its modest growth projections, cannot achieve greater diversification of its revenue and earnings and/or material litigation / excessive claims arise in its remaining unlimited cancer business.

FIVE YEAR RATING HISTORY

<u>Date</u>	BEST'S	
	<u>FSR</u>	<u>ICR</u>
02/27/15	B++	bbb
02/26/14	B++	bbb
02/27/13	B+	bbb-
02/14/12	B+	bbb-
03/08/11	B+	bbb-

KEY FINANCIAL INDICATORS (\$000)

Total Capital

<u>Year</u>	<u>Assets</u>	<u>Capital Surplus Funds</u>	<u>Asset Valuation Reserve</u>	<u>Net Premiums Written</u>	<u>Net Invest Income</u>	<u>Net Income</u>
2010	96,595	22,827	924	40,889	4,080	3,531
2011	94,939	25,006	830	39,218	4,402	3,061
2012	102,594	29,355	1,215	37,959	4,069	3,017
2013	107,972	33,032	1,938	37,162	4,061	2,665
2014	113,481	37,253	1,696	37,398	4,269	7,026
03/2014	109,947	34,163	2,059	9,401	1,049	956
03/2015	114,329	37,882	1,391	9,479	1,175	892

(*) 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.

BUSINESS PROFILE

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: 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. Supplemental accident & health products 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, while life insurance products include whole and term life with small face amounts.

Cancer insurance, its primary line of business, comprises nearly three-fifths of total net premium revenue. Limited benefit and unlimited benefit cancer products comprise four-fifths and one-fifth, respectively, of total cancer business. To offset historically high claims experience in its unlimited benefit products, the company introduced a limited benefit indemnity product in mid-2009, which includes a monthly indemnity benefit maximum and new benefits. In early 2011, the company introduced a guaranteed issue limited benefit indemnity product as an alternative to its unlimited policyholders.

LICOA's ancillary supplemental accident & health products each comprise under one-tenth 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 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. LICOA introduced in mid-2009 new accident disability and sickness & accident disability products which provide enhanced flexibility and benefit features. In early 2013, the company introduced a critical illness product in partnership with a major reinsurer. 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 introduced 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.

Life products comprise approximately one-sixth of total net premium revenue. The Protector II Whole Life product, comprising nearly three-fifths of the life business, offers a guaranteed value as well as a \$15,000 rider on all children. Term life products, comprising the remaining life business, consist of 10 or 20 Year Level Term Renewable and Convertible coverage. In early 2011, LICOA introduced four term life products consisting of 10, 15, 20 and 30 Year Level Term coverage. The company developed and introduced new whole and term life products in 2014. LICOA's goal is to increase its new life premium revenue production to one-quarter of total new premium revenue.

Approximately 800 active general agents market LICOA's products. Although the company's agents are not captive, certain ones sell only for LICOA. Over four-fifths of its direct premium revenue is derived from Alabama, Tennessee, Mississippi, Georgia and Kentucky. Future sales growth is expected from further penetration of its current eleven state marketing territory.

TOTAL PREMIUM COMPOSITION & GROWTH ANALYSIS

<u>Period Ending</u>	<u>DPW</u>		<u>Reinsurance Prem Assumed</u>	
	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2010	41,389	0.4	3	14.1
2011	39,648	-4.2	4	28.4
2012	38,383	-3.2	4	-1.9

2013	37,645	-1.9	4	-4.9
2014	37,917	0.7	4	-4.8
5-Yr CAGR	...	-1.7	...	5.4
03/2014	9,538	-1.9	XX	XX
03/2015	9,642	1.1	XX	XX

Period	Reinsurance		NPW & Deposits	
	Prem Ceded			
Ending	(\$000)	(% Chg)	(\$000)	(% Chg)
2010	503	-4.1	40,910	0.4
2011	435	-13.5	39,238	-4.1
2012	428	-1.5	37,979	-3.2
2013	486	13.5	37,181	-2.1
2014	523	7.5	37,416	0.6
5-Yr CAGR	...	-0.1	...	-1.7
03/2014	XX	XX	XX	XX
03/2015	XX	XX	XX	XX

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

Business Trends: LICOA's net premium revenue has remained flat over the last three years due to the conversion of many unlimited benefit cancer policies with higher premiums to limited benefit cancer policies with lower premiums; a mandatory one-year premium rate freeze on parts of its cancer business in 2012; and a lower level of new sales, due to highly competitive supplemental accident and health and life benefits markets. However, net premium revenue modestly increased through late 2014 due primarily to premium rate increases. The increase in net premium revenue in 2010 was driven by new sales and premium rate increases. LICOA's products and associated premium revenue are not subject to the Affordable Care Act (ACA).

2014 BY-LINE BUSINESS (\$000)

Product Line	DPW		Reinsurance Prem Assumed		Reinsurance Prem Ceded		NPW	
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)
Ordinary life	6,502	17.1	...	...	523	100.0	5,979	16.0
Group life	1	0.0	4	100.0	...	...	5	0.0
Individual annuities	39	0.1	...	...	...	...	39	0.1
Individual A&H	28,625	75.5	...	...	...	...	28,625	76.5
Group A&H	2,750	7.3	...	...	...	...	2,750	7.4
Total	37,917	100.0	4	100.0	523	100.0	37,398	100.0

BY-LINE RESERVES (\$000)

Product Line	2014	2013	2012	2011	2010
Ordinary life	38,348	36,528	35,191	33,974	33,196
Group life	4	4	4	4	4
Individual annuities	1,777	1,986	2,128	2,119	2,071
Deposit type contracts	1,325	1,343	1,426	1,440	1,414
Individual A&H	21,693	21,628	20,145	19,525	20,332
Group A&H	1,010	919	959	868	753
Total	64,157	62,408	59,853	57,931	57,771

LIFE POLICIES STATISTICS

__ Ordinary Policies __ __ Group Policies __ __ Group Certificates __

<u>Year</u>	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>
2010	3,218	21,679	...	4	...	8,814
2011	2,733	21,764	...	4	...	8,462
2012	2,278	21,548	...	4	...	7,845
2013	2,666	21,551	...	4	...	7,217
2014	2,181	21,431	...	4	...	6,706

LIFE INSURANCE IN FORCE (\$000)

<u>Year</u>	<u>Whole Life Endow & Adds</u>	<u>Term</u>	<u>Credit</u>	<u>Group</u>	<u>Industrial</u>	<u>Total Insurance In Force</u>
2010	372,867	362,893	...	1,579,348	...	2,315,108
2011	364,038	395,929	...	1,524,112	...	2,284,079
2012	382,150	398,243	...	1,411,360	...	2,191,753
2013	388,292	423,139	...	1,310,100	...	2,121,531
2014	393,770	429,941	...	1,216,140	...	2,039,851

NEW LIFE BUSINESS ISSUED (\$000)

<u>Year</u>	<u>Whole Life & Endow</u>	<u>Term</u>	<u>Credit</u>	<u>Group</u>	<u>Indus- trial</u>	<u>Total Insurance Issued</u>	<u>Non- Par (%)</u>	<u>Par (%)</u>
2010	79,816	65,367	...	...	...	145,183	100.0	...
2011	57,087	90,308	...	...	...	147,395	100.0	...
2012	51,049	95,634	...	...	...	146,683	100.0	...
2013	54,949	108,361	...	...	...	163,310	100.0	...
2014	51,816	85,510	...	...	...	137,327	100.0	...

ORDINARY LIFE STATISTICS

<u>Year</u>	<u>Ord. Lapse Ratio %</u>	<u>Renew Premium Persist %</u>	<u>Average Ord. Policy (in dollars)</u>		<u>Avg. Prem (\$/M)</u>	<u>1st Yr Prem / Total Prem</u>	<u>1st Yr Comm / 1st Yr Prem</u>	<u>Gen. Exp. / Policies In Force</u>
			<u>Issued</u>	<u>In Force</u>				
2010	12.6	90.0	45,116	33,939	8.05	14.6	99.8	71.87
2011	12.2	87.9	53,932	34,919	7.85	12.8	107.9	78.42
2012	11.7	90.0	64,391	36,216	7.80	11.7	96.2	61.56
2013	12.2	91.3	61,257	37,652	7.86	12.9	94.0	79.55
2014	10.7	90.3	62,965	38,435	7.89	11.4	100.0	90.74

<u>Year</u>	<u>Number of Policies</u>		<u>First Year Premium (000)</u>	<u>Gen'l Exp/ Reserves (%)</u>	<u>Return on Reserves (%)</u>
	<u>Issued</u>	<u>In Force</u>			
2010	3,218	21,679	864	4.53	2.18
2011	2,733	21,764	762	4.85	2.71
2012	2,278	21,548	713	3.65	3.45
2013	2,666	21,551	823	4.56	1.17
2014	2,181	21,431	740	4.93	0.75

INDIVIDUAL ANNUITY STATISTICS

<u>Year</u>	<u>NPW (000)</u>	<u>Res (000)</u>	<u>Exp to Res (%)</u>	<u>Comm & Exp to NPW (%)</u>	<u>Benefits & Wdrwls to NPW (%)</u>	<u>Benefits & Wdrwls to Res (%)</u>
2010	38	2,071	0.6	32.0	675.8	12.4
2011	70	2,119	0.6	17.9	281.8	9.3

2012	56	2,128	0.6	22.1	319.6	8.4
2013	42	1,986	0.6	26.5	633.2	13.5
2014	39	1,777	1.0	46.1	831.8	18.3

TOTAL ANNUITY ACTUARIAL RESERVES BY WITHDRAWAL CHARACTERISTICS

Year	Total Annuity Res. (000)	Min or No Surrender Charge (%)	With Surrender Charge 5% or more (%)	With MVA (%)	No Surrender Allowed (%)
2010	2,071	...	100.0	...	...
2011	2,119	...	100.0	...	...
2012	2,128	...	100.0	...	...
2013	1,986	...	100.0	...	...
2014	1,777	...	100.0	...	...

Market Share/Market Presence: LICOA is licensed in 10 southeastern states and Oklahoma.

GEOGRAPHIC BREAKDOWN BY DIRECT PREMIUM WRITINGS (\$000)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Alabama	11,386	11,135	11,302	11,951	12,407
Tennessee	6,137	6,158	6,264	6,603	6,847
Georgia	5,682	5,601	5,538	5,560	5,947
Mississippi	5,660	5,652	5,746	5,854	5,952
Kentucky	2,973	2,985	3,103	3,253	3,410
South Carolina	2,531	2,592	2,584	2,694	2,742
Arkansas	1,387	1,438	1,500	1,540	1,607
North Carolina	1,114	1,162	1,229	1,297	1,449
Florida	427	444	433	456	478
Louisiana	350	350	350	374	398
All Other	113	130	133	149	166
Total	37,760	37,645	38,182	39,732	41,404

RISK MANAGEMENT

LICOA, due to its relatively small size, does not maintain a formal risk management program. However, executives 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 this policy. The COO 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, however the recovery site and tape storage building are both located within one-half mile of the company.

OPERATING PERFORMANCE

Operating Results: LICOA has reported generally stable net income in recent years due to relatively consistent investment income supplementing modest underwriting results. However, net income materially increased through late 2014 versus late 2013 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. In 2013, net income decreased slightly due to continued lower net premium revenue from policyholder conversions, higher death benefits, an increase in reserves and higher general expenses, partially offset by lower disability benefits and a net realized capital gain. Net income remained flat in 2012 from lower net premium revenue resulting from continued policyholder conversions, the absence of a net realized capital gain and an increase in reserves, offset by a decrease in disability benefits and lower income taxes incurred. The slight decrease in net income in 2011 was due to policyholder conversions from more profitable unlimited benefit cancer policies to less profitable limited benefit cancer policies. In the two years before 2011, net income increased, with the company reporting the two most profitable years in its history.

LICOA's investment income, despite lower interest rates, has remained relatively stable over the last five years. In 2009 and 2010, the company realized capital losses on the write-down and disposal of some troubled investments.

PROFITABILITY ANALYSIS (\$000)

Period <u>Ending</u>	Company			
	Pre-tax	Net	Net	Total
	<u>Net Oper</u> <u>Income</u>	<u>Operating</u> <u>Gain</u>	<u>Income</u>	<u>Return</u>
2010	4,310	3,532	3,531	4,509
2011	3,347	2,519	3,061	2,237
2012	3,295	3,031	3,017	3,716
2013	2,700	2,457	2,665	4,887
2014	4,656	3,638	7,026	4,173
5-Yr Total	18,308	15,176	19,300	19,522
03/2014	1,059	926	956	1,132
03/2015	321	405	892	191

Period <u>Ending</u>	Company		Industry Composite	
	Operating	Operating	Operating	Operating
	<u>ROR (%)</u>	<u>ROE (%)</u>	<u>ROR (%)</u>	<u>ROE (%)</u>
2010	7.8	16.9	7.1	20.0
2011	5.8	10.5	7.7	20.9
2012	7.2	11.1	7.8	21.5
2013	5.9	7.9	6.7	16.5
2014	8.6	10.4	7.1	12.5
5-Yr Avg	7.1	11.0	7.3	18.2
03/2014	8.8	8.4	XX	XX
03/2015	3.8	8.7	XX	XX

PROFITABILITY TESTS

<u>Year</u>	<u>Ben Paid</u> <u>to NPW</u> <u>& Dep</u>	<u>Comm &</u> <u>Exp to</u> <u>NPW</u> <u>& Dep</u>	<u>NOG</u> <u>to Tot</u> <u>Assets</u>	<u>NOG to</u> <u>Tot Rev</u>	<u>Operating</u> <u>Return on</u> <u>Equity</u>	<u>Net</u> <u>Yield</u>	<u>Pre-tax</u> <u>Invest</u> <u>Total</u> <u>Return</u>
2010	55.5	43.2	3.8	7.8	16.9	4.72	6.31
2011	59.0	42.9	2.6	5.8	10.5	4.96	3.99
2012	53.0	44.0	3.1	7.2	11.1	4.46	6.68
2013	51.0	45.9	2.3	5.9	7.9	4.18	7.08
2014	48.8	46.7	3.3	8.6	10.4	4.18	5.72
5-Yr Avg	53.5	44.5	3.0	7.1	11.0	4.48	5.97
03/2014	XX	XX	2.5	8.8	8.4	4.12	1.26
03/2015	XX	XX	2.8	3.8	8.7	4.25	1.08

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

NET OPERATING GAIN (\$000)

<u>Product Line</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Ordinary life	297	440	1,252	953	748

Group life	0	1	1	1	0
Supplementary contracts	29	-7	-5	-3	-2
Individual annuities	-9	-12	-60	-75	48
Individual A&H	3,202	1,954	1,668	1,556	2,645
Group A&H	118	81	174	87	92
Total	3,638	2,457	3,031	2,519	3,532

ACCIDENT & HEALTH STATISTICS (\$000)

<u>Year</u>	Net Premiums <u>Written</u>	Net Premiums <u>Earned</u>	Loss <u>Ratio</u>	Exp. <u>Ratio</u>	Under- writing <u>Results</u>
2010	35,647	35,805	54.1	41.4	1,668
2011	33,604	33,707	57.5	41.1	505
2012	32,206	32,259	55.6	43.9	191
2013	31,224	31,267	54.0	44.6	451
2014	31,375	31,363	48.2	45.3	2,041
Current Year Experience:					
Group	2,750	2,750	66.5	31.2	62
Guarant renew	28,625	28,613	46.4	46.7	1,979

INVESTMENT GAINS (\$000)

<u>Year</u>	<u>Company</u>		
	Net Inv <u>Income</u>	Realized Capital <u>Gains</u>	Unrealized Capital <u>Gains</u>
2010	4,080	-1	978
2011	4,402	541	-823
2012	4,069	-13	699
2013	4,061	208	2,221
2014	4,269	3,388	-2,852
5-Yr Total	20,881	4,124	222
03/2014	1,049	30	175
03/2015	1,175	487	-701

<u>Year</u>	<u>Company</u>			<u>Industry Composite</u>		
	Inv Inc Growth <u>(%)</u>	Inv Yield <u>(%)</u>	Return on Inv Assets <u>(%)</u>	Pre-tax Invest Total Return <u>(%)</u>	Inv Inc Growth <u>(%)</u>	Inv Yield <u>(%)</u>
2010	-2.6	4.7	5.1	6.3	2.3	4.7
2011	7.9	5.0	5.2	4.0	3.5	4.5
2012	-7.6	4.5	5.5	6.7	4.6	4.4
2013	-0.2	4.2	4.7	7.1	-4.6	4.2
2014	5.1	4.2	7.6	5.7	-5.4	4.2
5-Yr Avg	0.4	4.5	5.7	6.0	0.0	4.4
03/2014	-0.2	4.1	4.3	1.3	XX	XX
03/2015	12.0	4.3	8.1	1.1	XX	XX

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

BALANCE SHEET STRENGTH

Capitalization: LICOA's level of absolute capital and surplus has increased each year over the last five years and through late 2014 from net income, unrealized capital gains, increases to net deferred income tax and decreases in non-admitted assets and the asset valuation reserve. These enhancements to capital have been partially offset by unrealized capital losses, shareholder dividends, decreases to net deferred income tax and increases to non-admitted assets and the asset valuation reserve. 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: 439

CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth			
	Pre-Tax Net	Realized	Income	Unrealized
	Adjusted Gain	Capital Gains	Taxes	Capital Gains
2010	4,310	-1	778	978
2011	3,347	541	828	-823
2012	3,295	-13	264	699
2013	2,700	208	243	2,221
2014	4,656	3,388	1,018	-2,852
5-Yr Total	18,308	4,124	3,131	222
03/2014	1,059	30	133	175
03/2015	321	487	-85	-701

Year	Source of Surplus Growth			
	Change	Other	Change	% Change
	in AVR	Changes	in C&S	in C&S
2010	-359	-245	3,905	20.6
2011	94	-153	2,178	9.5
2012	-384	1,018	4,349	17.4
2013	-723	-486	3,677	12.5
2014	242	-195	4,220	12.8
5-Yr Total	-1,131	-61	18,330	14.5
03/2014	-121	120	1,130	3.4
03/2015	305	134	629	1.7

QUALITY OF SURPLUS (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus
2010	2,546	20,281
2011	2,592	22,413
2012	2,592	26,763
2013	2,592	30,440
2014	2,592	34,660
03/2014	2,592	31,570
03/2015	2,592	35,290

Year	Year- End C&S	Asset Valuation Reserve	Adjusted C&S
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2010	22,827	924	23,751
2011	25,006	830	25,836
2012	29,355	1,215	30,570
2013	33,032	1,938	34,970
2014	37,253	1,696	38,949
03/2014	34,163	2,059	36,222
03/2015	37,882	1,391	39,273

LEVERAGE ANALYSIS

Year	Company				Industry Composite	
	C&S to Liab(%)	Surplus Relief(%)	NPW & Dep to Capital	Change in NPW & Dep(%)	C&S to Liab(%)	Surplus Relief(%)
2010	32.6	...	1.7	0.4	15.4	...
2011	37.4	...	1.5	-4.1	13.8	...
2012	42.4	...	1.2	-3.2	14.3	...
2013	47.9	...	1.1	-2.1	16.1	...
2014	52.3	...	1.0	0.6	15.8	...
03/2014	49.1	...	XX	XX	XX	XX
03/2015	52.3	...	XX	XX	XX	XX

CEDED REINSURANCE ANALYSIS

Year	Company					Industry Composite			
	Face Amount Reins Ceded	Affil Reins Rec/C&S	Unaffil Reins Rec/C&S	Total Reins Rec/C&S	Surplus Relief	Reins Leverage	Total Reins Rec/C&S	Reins Leverage	
2010	136,250	...	0.2	0.2	...	5.0	4.2	161.3	
2011	152,754	...	0.2	0.2	...	4.7	4.6	176.9	
2012	175,986	...	0.2	0.2	...	4.2	4.4	167.1	
2013	202,711	...	0.1	0.1	...	4.3	4.0	167.7	
2014	205,449	...	0.1	0.1	...	3.9	5.8	195.4	

Liquidity: LICOA maintains a more than adequate liquidity level through its holding of over \$1.4M in cash and cash equivalents through late 2014. Additionally, it has reported strong positive cash flow through this period.

LIQUIDITY ANALYSIS

Year	Company				Industry Composite	
	Operating Cash Flow (\$000)	Quick Liquidity	Current Liquidity	Non-Inv Grade Bonds to Capital	Delinq & Foreclsd Mtg to Capital	
2010	6,303	97.8	115.7	8.1	...	
2011	-959	82.1	119.3	9.1	...	
2012	4,618	84.9	123.8	9.3	...	
2013	3,801	88.6	128.3	10.4	...	
2014	4,475	89.4	132.8	13.7	...	
03/2014	1,594	XX	129.8	9.2	...	
03/2015	239	XX	134.3	18.9	...	

Company _____ Industry Composite _____

<u>Year</u>	Mtg & Cred Ten Lns & RE to Cap	Affil Invest to Capital	Quick Liquidity	Current Liquidity
2010	2.3	1.7	38.5	104.7
2011	2.2	1.7	41.9	103.1
2012	1.8	1.4	49.7	103.8
2013	1.6	1.3	52.8	105.4
2014	1.5	1.2	52.1	105.2
03/2014	1.7	1.4	XX	XX
03/2015	1.4	1.2	XX	XX

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. In 2011, following the engagement of these firms, the company revised its investment policy. Bonds are comprised of over nine-tenths investment grade securities with an average maturity of nearly eight years, and represent nearly nine-tenths of the invested asset portfolio.

The remainder of the portfolio consists of equities, policy loans, Schedule BA Assets, cash & short-term investments and real estate. U.S. tax-free municipal and corporate issues comprise nearly one-half and over two-fifths, respectively, of bonds. In 2011, the company increased its position in tax-free municipal bonds and decreased its position in U.S. government agency bonds. 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, however, it sold the majority of this holding for a capital gain.

INVESTMENT YIELDS

<u>Year</u>	Net Yield	Bonds	Stocks	Mort- gages	Cash & Short- Term	Real Estate Gross	Net	Invest. Exp. Ratio
2010	4.72	5.11	3.05	...	0.03	17.13	2.68	8.38
2011	4.96	5.30	2.77	...	0.19	20.15	4.92	7.02
2012	4.46	4.75	2.90	...	0.01	20.79	5.28	7.68
2013	4.18	4.54	2.20	...	0.00	19.69	0.61	8.12
2014	4.18	4.51	2.33	...	0.01	15.97	-5.85	7.81

INVESTMENTS - SECURITIES

Current Year Distribution of Bonds By Maturity

	-----Years-----					Yrs-Avg Maturity
	<u>0-1</u>	<u>1-5</u>	<u>5-10</u>	<u>10-20</u>	<u>20+</u>	
Government	...	...	...	0.3	0.5	21
Gov't Agencies & Muni	0.6	13.4	18.5	13.6	1.6	9
Industrial & Misc	...	2.5	25.0	17.9	6.0	12
Total	0.6	15.9	43.5	31.8	8.1	11

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Bonds (000)</u>	93,915	87,270	81,847	78,116	79,072
US Government	0.8	0.9	1.5	28.6	83.5
Foreign - All Other	2.4	...	...	...	...
State/Special Revenue - US	47.7	63.5	63.6	...	...
Industrial & Misc - US	49.1	35.6	34.8	71.4	16.5
Public Issues	100.0	100.0	100.0	100.0	100.0
<u>Bond Quality (%)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Class 1	49.7	70.7	77.6	81.7	90.2

Class 2	44.6	25.1	18.9	15.3	7.3
Class 3	5.3	2.3	1.9	2.1	1.6
Class 4	0.2	1.5	1.1	0.8	0.7
Class 5	...	0.2	0.2	...	...
Class 6	0.1	0.1	0.2	0.2	0.2

INVESTMENTS - EQUITIES

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Stocks (000)</u>	5,239	6,791	4,491	3,820	3,792
Unaffiliated Common	99.6	99.7	99.6	99.3	99.5
Unaffiliated Preferred	0.4	0.3	0.4	0.7	0.5

INVESTMENTS - MORTGAGE LOANS & REAL ESTATE

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Real Estate (000)</u>	570	564	557	568	540
Property Occupied by Co	82.4	80.8	79.1	77.9	76.4
Property Held for Inc	17.6	19.2	20.9	22.1	23.6

INVESTMENTS - OTHER INVESTED ASSETS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Other Inv Assets (000)</u>	5,453	5,973	8,603	6,353	7,696
Cash	12.7	13.5	37.0	5.0	19.3
Schedule BA Assets	23.6	31.3	26.2	47.8	42.1
All Other	63.8	55.2	36.8	47.1	38.6

HISTORY

Date Incorporated: 07/28/1952

Date Commenced: 08/13/1952

Domicile: AL

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

MANAGEMENT

OFFICERS

Chairman of the Board and President: Clarence W. Dauge III

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: M. Lynn Lowe

Vice President: Jeffrey L. Casey

SVP, Secretary, Actuary and COO: J. Steven Keck

Vice President: Katrina D. Hulsey

Vice President and Director: Michael P. Causey (Agency)

DIRECTORS

Rosalie R. Causey

Thomas W. Miller, Sr.

Warren W. Cobb, Jr.

Lucian Newman, Jr. MD

Clarence W. Dauge III

Anne D. Renfrow

Alburta D. Lowe

Raymond R. Renfrow, Jr.

M. Lynn Lowe

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 2013 annual independent audit of the company was conducted by Thomas Howell Ferguson P.A. 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.

FINANCIAL INFORMATION

BALANCE SHEET (\$000) - December 31, 2014

	Assets		Liabilities	
Total bonds	93,915		+Net policy reserves	62,832
Total preferred stocks	19		Policy claims	5,696
Total common stocks	5,219		Deposit type contracts	1,325
Real estate	570		Interest maint reserve	1,284
Contract loans	3,400		Comm taxes expenses	1,500
Cash & short-term invest	690		Asset val reserve	1,696
Premis and consids due	2,848		Other liabilities	1,895
Accrued invest income	1,336			
Other assets	5,482		Total liabilities	76,228
			Common stock	1,500
			Treas stock common	-718
			Paid in & contrib surpl	1,811
			Unassigned surplus	34,660
Assets	113,481		Total	113,481

+ Analysis of reserves; Life \$37,831; annuities \$1,777; accidental death benefits \$44; disability active lives \$36; disability disabled lives \$53; miscellaneous reserves \$388; accident & health \$22,703.

SUMMARY OF OPERATIONS (\$000)

Premiums:		Death benefits	1,955
Ordinary life	5,979	Annuity benefits	315
Individual annuities	39	Coup endow/similar ben	7
Group life	5	Surrender benefits	979
Acc & health group	2,750	Acc & health benefits	14,961
Acc & health other	28,625	Int on policy funds	47
Total premiums	37,398	Incr life reserves	1,611
Net investment income	4,269	Incr a & h reserves	156
Amort interest maint res	88	Commissions	7,438
Other income	430	Insur taxes lic & fees	1,054
		General ins expenses	8,990
Total	42,184	Total	37,514
Gain from operations before FIT & div to policyholders			4,670
Dividends to policyholders: life			14

Gains from operations after dividends to policyholders	4,656
Federal income taxes incurred	1,018
Net gain from operations after FIT and dividends	3,638

CASH FLOW ANALYSIS (\$000)

Funds Provided		Funds Applied	
Gross cash from oper	42,286	Benefits paid	18,555
Long-term bond proceeds	38,063	Comm, taxes, expenses	17,159
Stock proceeds	5,823	Long-term bonds acquired	45,277
Other cash provided	666	Other cash applied	5,963
Decr cash & short-term	115		
Total	<u>86,954</u>	Total	<u>86,954</u>

INTERIM BALANCE SHEET (\$000)

<u>Assets</u>	<u>03/31/2015</u>
Total bonds	95,841
Total preferred stocks	19
Total common stocks	4,582
Real estate	558
Contract loans	3,368
Cash & short-term inv	756
Premis and consid due	3,124
Accrued invest income	1,443
Other assets	4,638
Assets	<u>114,329</u>
<u>Liabilities</u>	<u>03/31/2015</u>
Net policy reserves	63,383
Policy claims	5,385
Interest maint reserve	1,386
Comm taxes expenses	1,497
Asset val reserve	1,391
Other liabilities	3,405
Total liabilities	<u>76,447</u>
Common stock	1,500
Treas stock common	-718
Paid in & contrib surpl	1,811
Unassigned surplus	35,290
Total	<u>114,329</u>

INTERIM SUMMARY OF OPERATIONS (\$000)

	Period Ended <u>3/31/2015</u>	Period Ended <u>3/31/2014</u>	Increase/ <u>(Decrease)</u>
Premis & ann consid	<u>9,479</u>	<u>9,401</u>	<u>77</u>
Total premiums	9,479	9,401	77
Net investment income	1,175	1,049	126
Amort interest main res	100	101	-2
Other income	10	8	2

Total	10,763	10,559	203
Death benefits	970	550	420
Annuity benefits	47	52	-5
Coup endow/similar ben	3	3	0
Surrender benefits	228	238	-11
Disability and A&H ben	4,126	3,715	411
Int on policy funds	12	12	0
Change in reserves	552	914	-362
Commissions	1,735	1,892	-158
Insur taxes lic & fees	306	326	-21
General ins expenses	2,461	1,795	666
Total	10,439	9,496	942
Gain from operations before FIT & div to policyholders	324	1,063	-739
Dividends to policyholders	3	4	0
Gain from operations after dividends to policyholders	321	1,059	-738
Federal income taxes incurred	-85	133	-217
Net gain from operations after FIT and dividends	405	926	-521

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