

**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

Report Revision Date: 03/05/2014

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 consistent favorable operating profitability and the recent improvement in its overall risk profile. Offsetting factors include relatively flat premium trends, as well as its business and geographic concentration risks.

LICOA markets accident, health and life insurance products chiefly in the southeastern part of the U.S. The company has reported fairly consistent profitability over the past several years, despite numerous one-time items and unfavorable results in its unlimited cancer block of business. Relatively consistent investment income has also supplemented modest underwriting results over the period. It is also important to note that LICOA has significantly reduced its historically elevated risk profile by converting many unlimited benefit cancer policies to limited benefit cancer policies, and largely resolving the majority of its outstanding litigation -- much of which had been reserved for while in dispute.

LICOA's net premium revenue has been relatively flat for several years now due to policyholder conversions from higher premium unlimited cancer policies to lower premium limited cancer policies, as well as lower sales driven by local economic conditions and a mandatory one-year premium rate freeze in 2012 on parts of its cancer block. A concentration of business in cancer insurance exposes the company 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 given LICOA's recent upgrade. 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>
02/26/14	B++	bbb
02/27/13	B+	bbb-
02/14/12	B+	bbb-
03/08/11	B+	bbb-
02/22/10	B+	bbb-
03/10/09	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>
2009	88,751	18,922	565	40,715	4,191	3,312
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	33,040	1,930	37,162	4,061	2,665
03/2013	103,733	30,282	1,474	9,559	1,051	696
03/2014	109,947	34,163	2,059	9,401	1,049	956

(*) 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

Life Insurance Company of Alabama (LICOA), established in 1952 and based in Gadsden, AL, is a closely-held, public company primarily owned by the Dauge 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, 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's long-term 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. Approximately three-quarters of its direct premium revenue is derived from Alabama, Tennessee, Mississippi and Georgia. 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>
2009	41,237	3.9	3	-3.1
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
5-Yr CAGR	...	-1.1	...	5.8
03/2013	9,722	-2.6	XX	XX
03/2014	9,538	-1.9	XX	XX

Period	Reinsurance		NPW & Deposits	
	Prem Ceded			
<u>Ending</u>	<u>(\$000)</u>	<u>(% Chg)</u>	<u>(\$000)</u>	<u>(% Chg)</u>
2009	524	7.9	40,739	3.8
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
5-Yr CAGR	...	0.0	...	-1.1
03/2013	XX	XX	9,559	-2.7
03/2014	XX	XX	9,401	-1.6

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, after increasing before 2011, decreased over the last two years and through late 2013. The increases were due to new sales and modest overall premium rate increases, partially offset by lapses. The much smaller increase in 2010 versus prior years was due to the conversion of many unlimited benefit cancer policies with higher premiums to limited benefit cancer policies with lower premiums. In 2011, these policy conversions caused net premium revenue to decrease. A combination of continuing policy conversions, lower new sales and a mandatory one year premium rate freeze resulted in the decrease in 2012. The company's products and associated premium revenue are not subject to Federal healthcare reform legislation.

2013 BY-LINE BUSINESS (\$000)

Product Line	DPW		Reinsurance Prem Assumed		Reinsurance Prem Ceded		NPW	
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)
Ordinary life	6,377	16.9	...	...	486	100.0	5,891	15.9
Group life	1	0.0	4	100.0	...	...	5	0.0
Individual annuities	42	0.1	...	...	...	...	42	0.1
Individual A&H	28,854	76.6	...	...	...	...	28,854	77.6
Group A&H	2,370	6.3	...	...	...	...	2,370	6.4
Total	37,645	100.0	4	100.0	486	100.0	37,162	100.0

BY-LINE RESERVES (\$000)

Product Line	2013	2012	2011	2010	2009
Ordinary life	36,528	35,191	33,974	33,196	32,122
Group life	4	4	4	4	4
Supplementary contracts	...	...	...	...	1
Individual annuities	1,986	2,128	2,119	2,071	2,269
Deposit type contracts	1,343	1,426	1,440	1,414	1,496
Individual A&H	21,628	20,145	19,525	20,332	20,955
Group A&H	919	959	868	753	685
Total	62,408	59,853	57,931	57,771	57,532

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>
2009	3,021	21,730	...	4	...	6,567
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

LIFE INSURANCE IN FORCE (\$000)

<u>Year</u>	<u>Whole Life Endow & Addds</u>	<u>Term</u>	<u>Credit</u>	<u>Group</u>	<u>Industrial</u>	<u>Total Insurance In Force</u>
2009	342,104	373,153	...	1,190,105	...	1,905,362
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

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>
2009	65,046	65,083	...	...	...	130,129	100.0	...
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	...

ORDINARY LIFE STATISTICS

<u>Year</u>	<u>Ord. Lapse Ratio %</u>	<u>Renew Premium Persist %</u>	<u>Average Ord. Policy (in dollars) Issued In Force</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>
2009	10.7	88.3	43,075	32,916	7.86	14.7	99.4	61.28
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

<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>			
2009	3,021	21,730	824	4.00	1.08
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

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>
2009	38	2,270	1.1	67.9	726.8	12.0
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

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 (%)
2009	2,270	...	100.0	...	0.0
2010	2,071	...	100.0	...	...
2011	2,119	...	100.0	...	...
2012	2,128	...	100.0	...	...
2013	1,986	...	100.0	...	...

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

GEOGRAPHIC BREAKDOWN BY DIRECT PREMIUM WRITINGS (\$000)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Alabama	11,135	11,302	11,951	12,407	12,452
Tennessee	6,158	6,264	6,603	6,847	6,812
Mississippi	5,652	5,746	5,854	5,952	5,106
Georgia	5,601	5,538	5,560	5,947	6,130
Kentucky	2,985	3,103	3,253	3,410	3,353
South Carolina	2,592	2,584	2,694	2,742	2,756
Arkansas	1,438	1,500	1,540	1,607	1,556
North Carolina	1,162	1,229	1,297	1,449	1,480
Florida	444	433	456	478	500
Louisiana	350	350	374	398	445
All Other	130	133	149	166	155
Total	37,645	38,182	39,732	41,404	40,745

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 generally reported stable net income in recent years due generally to consistent investment income supplementing modest underwriting results. Lower net income reported in 2008 resulted from legal settlements and realized capital losses incurred on the write-down and disposal of some troubled investments. In 2009 and 2010, net income increased, with the company reporting the two most profitable years in its history. 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. Net income remained flat in 2012 from lower net premium revenue, 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. Through late 2013, net income decreased slightly due to continued lower net premium revenue. LICOA's investment income, despite generally lower interest rates, has remained relatively stable over the last five years. In 2008-2010, the company realized capital losses on the write-down and disposal of some troubled investments.

PROFITABILITY ANALYSIS (\$000)

Period Ending	Company			
	Pre-tax Net Oper	Net Operating	Net Income	Total Return
	<u>Income</u>	<u>Gain</u>	<u>Income</u>	
2009	4,587	3,514	3,312	3,764
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
5-Yr Total	18,239	15,052	15,586	19,113
03/2013	797	680	696	1,496
03/2014	1,059	926	956	1,132

Period Ending	Company		Industry Composite	
	Operating <u>ROR</u>	Operating <u>ROE</u>	Operating <u>ROR</u>	Operating <u>ROE</u>
	2009	7.8	20.0	6.5	22.2
2010	7.8	16.9	7.7	24.6
2011	5.8	10.5	7.7	24.0
2012	7.2	11.1	7.7	24.0
2013	5.9	7.9	6.3	17.9
5-Yr Avg	6.9	12.5	7.2	22.4
03/2013	6.3	9.3	XX	XX
03/2014	8.8	8.4	XX	XX

PROFITABILITY TESTS

Year	Ben Paid to NPW & Dep	Comm & Exp to NPW & Dep	NOG to Tot <u>Assets</u>	NOG to <u>Tot Rev</u>	Operating Return on <u>Equity</u>	Net <u>Yield</u>	Total <u>Return</u>
2010	55.5	43.2	3.8	7.8	16.9	4.72	5.90
2011	59.0	42.9	2.6	5.8	10.5	4.96	4.52
2012	53.0	44.0	3.1	7.2	11.1	4.46	5.26
2013	51.0	45.9	2.3	5.9	7.9	4.18	6.76
5-Yr Avg	53.8	43.6	3.2	6.9	12.5	4.70	5.63
03/2013	56.0	43.7	2.6	6.3	9.3	4.34	5.21
03/2014	48.6	42.7	2.5	8.8	8.4	4.12	6.02

NET OPERATING GAIN (\$000)

Product Line	2013	2012	2011	2010	2009
Ordinary life	440	1,252	953	748	359
Group life	1	1	1	0	-1
Supplementary contracts	-7	-5	-3	-2	4
Individual annuities	-12	-60	-75	48	-28
Individual A&H	1,954	1,668	1,556	2,645	3,054

Group A&H	81	174	87	92	125
Total	2,457	3,031	2,519	3,532	3,514

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>
2009	35,274	35,314	51.8	40.9	2,595
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
Current Year Experience:					
Group	2,370	2,371	65.2	34.3	12
Guarant renew	28,854	28,896	53.1	45.5	439

INVESTMENT GAINS (\$000)

<u>Year</u>	Company		
	Net Inv <u>Income</u>	Realized Capital <u>Gains</u>	Unrealized Capital <u>Gains</u>
2009	4,191	-202	453
2010	4,080	-1	978
2011	4,402	541	-823
2012	4,069	-13	699
2013	4,061	208	2,221
5-Yr Total	20,803	533	3,527
03/2013	1,051	16	801
03/2014	1,049	30	175

<u>Year</u>	Company				Industry Composite	
	Inv Inc Growth (%)	Inv Yield (%)	Return on Inv Assets (%)	Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2009	-1.5	5.3	5.2	5.7	4.2	4.8
2010	-2.6	4.7	5.1	5.9	5.1	4.6
2011	7.9	5.0	5.2	4.5	4.9	4.3
2012	-7.6	4.5	5.5	5.3	5.2	4.2
2013	-0.2	4.2	4.7	6.8	-1.7	4.0
5-Yr Avg	-0.9	4.7	5.1	5.6	3.4	4.3
03/2013	-3.2	4.3	4.3	5.2	XX	XX
03/2014	-0.2	4.1	4.3	6.0	XX	XX

BALANCE SHEET STRENGTH

Capitalization: LICOA's level of absolute capital and surplus has increased over the last five years from a combination of net income and periodic unrealized capital gains, partially offset by shareholder dividends and periodic unrealized capital losses. A material decrease in non-admitted assets, partially offset by a decrease in net deferred income tax and an increase in the asset valuation reserve, resulted in a larger increase in capital and surplus in 2012. Although capital and surplus growth has been inhibited somewhat in recent years due to modest annual shareholder dividend payments, the company maintains a sufficient level of risk-adjusted capital for its insurance and investment risks.

CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth			
	Pre-Tax Net	Realized	Unrealized	
	Operating Gain	Capital Gains	Income Taxes	Capital Gains
2009	4,587	-202	1,074	453
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
5-Yr Total	18,239	533	3,187	3,527
03/2013	797	16	117	801
03/2014	1,059	30	133	175

Year	Source of Surplus Growth			
	Change in AVR	Other Changes	Change in C&S	% Change in C&S
	2009	-517	-464	2,784	17.2
2010	-359	-245	3,905	20.6
2011	94	-153	2,178	9.5
2012	-384	1,018	4,349	17.4
2013	-715	-486	3,685	12.6
5-Yr Total	-1,882	-329	16,902	15.4
03/2013	-259	-310	927	3.2
03/2014	-129	120	1,122	3.4

QUALITY OF SURPLUS (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus
2009	2,546	16,376
2010	2,546	20,281
2011	2,592	22,413
2012	2,592	26,763
2013	2,592	30,448
03/2013	2,592	27,690
03/2014	2,592	31,570

Year	Year- End C&S	Asset Valuation Reserve	Adjusted C&S
2009	18,922	565	19,487
2010	22,827	924	23,751
2011	25,006	830	25,836
2012	29,355	1,215	30,570
2013	33,040	1,930	34,970
03/2013	30,282	1,474	31,756
03/2014	34,163	2,059	36,222

LEVERAGE ANALYSIS

Year	Company				Industry Composite	
	C&S	Surplus	NPW	Change	C&S	Surplus
	to	Relief	& Dep	in NPW	to	Relief
	<u>Liab</u>		<u>to Capital</u>	<u>& Dep</u>	<u>Liab</u>	<u>Relief</u>
2009	28.1	...	2.1	3.8	14.8	5.3
2010	32.6	...	1.7	0.4	15.0	3.8
2011	37.4	...	1.5	-4.1	13.1	3.8
2012	42.4	...	1.2	-3.2	13.7	3.3
2013	47.9	...	1.1	-2.1	15.3	3.9
03/2013	44.1	...	0.3	-2.7	XX	XX
03/2014	49.1	...	0.3	-1.6	XX	XX

Current BCAR: 432

CEDED REINSURANCE ANALYSIS

Year	Company					Industry Composite			
	Face	Affil	Unaffil	Total	Surplus	Reins	Total	Reins	
	Amount	Reins	Reins	Reins	Relief	Leverage	Reins	Leverage	
	<u>Ceded</u>	<u>Rec/C&S</u>	<u>Rec/C&S</u>	<u>Rec/C&S</u>			<u>Rec/C&S</u>	<u>Leverage</u>	
2009	145,864	...	0.3	0.3	...	3.6	3.4	88.4	
2010	136,250	...	0.2	0.2	...	5.0	2.8	77.6	
2011	152,754	...	0.2	0.2	...	4.7	3.0	80.7	
2012	175,986	...	0.2	0.2	...	4.2	2.8	73.2	
2013	202,711	...	0.1	0.1	...	4.2	2.8	80.2	

Liquidity: LICOA maintains a more than adequate liquidity level through its holding of approximately \$800,000 in cash and cash equivalents through late 2013.

LIQUIDITY ANALYSIS

Year	Company				Industry Composite	
	Operating	Quick	Current	Non-Inv	Delinq &	
	Cash	Liquidity	Liquidity	Grade	Foreclsd	
	<u>Flow (\$000)</u>	<u>Liquidity</u>	<u>Liquidity</u>	Bonds to	Mtg to	
				<u>Capital</u>	<u>Capital</u>	
2009	7,634	92.5	95.6	9.8	...	
2010	5,620	97.8	100.1	8.1	...	
2011	-834	82.1	90.6	9.1	...	
2012	4,859	84.9	96.7	9.3	...	
2013	2,890	89.2	102.1	8.3	...	
03/2013	168	XX	XX	7.1	...	
03/2014	1,601	XX	XX	9.2	...	

Year	Company		Industry Composite	
	Mtg & Cred	Affil	Quick	Current
	Ten Lns	Invest	Liquidity	Liquidity
	& RE	to		
	<u>to Cap</u>	<u>Capital</u>	<u>Liquidity</u>	<u>Liquidity</u>
2009	2.7	2.0	40.2	66.5
2010	2.3	1.7	39.1	65.7
2011	2.2	1.7	42.8	66.9
2012	1.8	1.4	53.2	73.7
2013	1.6	1.3	56.0	75.0

03/2013	1.7	1.4	XX	XX
03/2014	1.7	1.4	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 11.7 years, and represent nearly nine-tenths of the portfolio. The remainder of the invested asset portfolio consists of equities, policy loans, cash & short-term investments, Schedule BA assets and real estate. State/special revenue and corporate issues comprise nearly two-thirds and over one-third, respectively, of bonds. In 2011, the company increased its position in tax-free municipal bonds while decreasing 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, LICOA 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 late 2008, LICOA sold a sizable portion of this holding for a capital gain to offset realized capital losses on some disposed bonds and subsequently repurchased these shares in early 2009.

INVESTMENT YIELDS

Year	Net Yield	Bonds	Stocks	Mortgages	Cash & Short-Term	Real Estate		Invest. Exp. Ratio
						Gross	Net	
2009	5.30	5.65	4.39	...	0.33	18.49	4.92	7.40
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

INVESTMENTS - SECURITIES

Current Year Distribution of Bonds By Maturity

	-----Years-----					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20+	
Government	...	...	...	0.3	0.5	21
Gov't Agencies & Muni	1.8	10.6	37.9	9.6	3.6	9
Industrial & Misc	...	3.6	12.6	10.9	8.4	13
Total	1.8	14.3	50.6	20.8	12.6	10
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	
<u>Bonds (000)</u>	87,270	81,847	78,116	79,072	73,948	
US Government	0.9	1.5	28.6	83.5	74.3	
State/Special Revenue - US	63.5	63.6	...	...	11.0	
Industrial & Misc - US	35.6	34.8	71.4	16.5	14.7	
Public Issues	100.0	100.0	100.0	100.0	100.0	
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	
<u>Bond Quality (%)</u>	71.4	77.6	81.7	90.2	93.0	
Class 1	25.3	18.9	15.3	7.3	4.4	
Class 2	1.5	1.9	2.1	1.6	1.7	
Class 3	1.5	1.1	0.8	0.7	...	
Class 4	0.2	0.2	...	...	0.4	
Class 5	0.1	0.2	0.2	0.2	0.5	

INVESTMENTS - EQUITIES

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Stocks (000)</u>	6,791	4,491	3,820	3,792	2,662
Unaffiliated Common	99.7	99.6	99.3	99.5	95.7

Unaffiliated Preferred	0.3	0.4	0.7	0.5	4.3
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INVESTMENTS - MORTGAGE LOANS & REAL ESTATE

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Real Estate (000)	564	557	568	540	524
Property Occupied by Co	80.8	79.1	77.9	76.4	74.1
Property Held for Inc	19.2	20.9	22.1	23.6	25.9

INVESTMENTS - OTHER INVESTED ASSETS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Other Inv Assets (000)	5,973	8,603	6,353	7,696	6,988
Cash	13.5	37.0	5.0	19.3	17.5
Schedule BA Assets	31.3	26.2	47.8	42.1	42.8
All Other	55.2	36.8	47.1	38.6	39.7

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: Clarence W. Bracewell, Jr.

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

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 is being made as of December 31, 2012, by the insurance department of Alabama. The 2012 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, 2013

	Assets		Liabilities	
Total bonds	87,270		+Net policy reserves	61,065
Total preferred stocks	19		Policy claims	6,048
Total common stocks	6,772		Deposit type contracts	1,343
Real estate	564		Interest maint reserve	1,387
Contract loans	3,296		Comm taxes expenses	1,362
Cash & short-term inv	805		Asset val reserve	1,930
Premis and consid due	2,702		Other liabilities	1,797
Accrued invest income	1,245		Total liabilities	74,932
Other assets	5,299		Common stock	1,500
			Treas stock common	-718
			Paid in & contrib surpl	1,811
			Unassigned surplus	30,448
Assets	107,972		Total	107,972

+ Analysis of reserves; Life \$36,197; annuities \$1,986; accidental death benefits \$43; disability active lives \$37; disability disabled lives \$70; miscellaneous reserves \$185; accident & health \$22,547.

SUMMARY OF OPERATIONS (\$000)

Premiums:		Death benefits	2,208
Ordinary life	5,891	Annuity benefits	258
Individual annuities	42	Disability benefits	0
Group life	5	Coup endow/similar ben	8
Acc & health group	2,370	Surrender benefits	1,045
Acc & health other	28,854	Acc & health benefits	15,398
Total premiums	37,162	Int on policy funds	47
Net investment income	4,061	Incr life reserves	1,194
Amort interest maint res	110	Incr a & h reserves	1,444
Other income	33	Commissions	7,536
Mgt and/or service fee	0	Insur taxes lic & fees	1,117
		General ins expenses	8,397
Total	41,367	Total	38,653
Gain from operations before FIT & div to policyholders			2,714
Dividends to policyholders: life			14
Gains from operations after dividends to policyholders			2,700
Federal income taxes incurred			243
Net gain from operations after FIT and dividends			2,457

CASH FLOW ANALYSIS (\$000)

	Funds Provided		Funds Applied	
Gross cash from oper	41,670		Benefits paid	19,931
Long-term bond proceeds	20,972		Comm, taxes, expenses	17,077
Other cash provided	1,123		Long-term bonds acquired	26,178
Decr cash & short-term	2,378		Other cash applied	2,958
Total	66,144		Total	66,144

INTERIM BALANCE SHEET (\$000)

<u>Assets</u>	<u>03/31/2014</u>	
Total bonds	88,596	
Total preferred stocks	19	
Total common stocks	7,000	
Real estate	610	
Contract loans	3,317	
Cash & short-term inv	1,535	
Premis and consid due	2,962	
Accrued invest income	1,225	
Other assets	4,683	
Assets	109,947	
<u>Liabilities</u>	<u>03/31/2014</u>	
Net policy reserves	61,979	
Policy claims	5,721	
Interest maint reserve	1,349	
Comm taxes expenses	1,371	
Asset val reserve	2,059	
Other liabilities	3,307	
Total liabilities	75,785	
Common stock	1,500	
Treas stock common	-718	
Paid in & contrib surpl	1,811	
Unassigned surplus	31,570	
Total	109,947	

INTERIM SUMMARY OF OPERATIONS (\$000)

	Period Ended <u>3/31/2014</u>	Period Ended <u>3/31/2013</u>	Increase/ <u>(Decrease)</u>
Premis & ann consid	9,401	9,559	-157
Total premiums	9,401	9,559	-157
Net investment income	1,049	1,051	-2
Amort interest main res	101	104	-2
Other income	8	8	0
Total	10,559	10,721	-162
Death benefits	550	557	-7
Annuity benefits	52	136	-85
Coup endow/similar ben	3	3	0
Surrender benefits	238	305	-67
Disability and A&H ben	3,715	4,337	-622
Int on policy funds	12	12	0
Change in reserves	914	392	521
Commissions	1,892	1,918	-25
Insur taxes lic & fees	326	303	23
General ins expenses	1,795	1,958	-163
Total	9,496	9,920	-424

Gain from operations before FIT & div to policyholders	1,063	801	262
Dividends to policyholders	4	4	0
Gain from operations after dividends to policyholders	1,059	797	262
Federal income taxes incurred	133	117	16
Net gain from operations after FIT and dividends	926	680	246

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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 Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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