

August 8, 2016

Meeting of Audit Committee of Life Insurance Company of Alabama

Members present: G. Ray Smith, Chairman, Alie Renfrow Causey, Internal Auditor & AVP, Steve Keck, Exec. V.P. & Secretary

The meeting was held at the office of Mr. Smith at 10:30 am.

There was discussion of the status of the current open items. The committee was informed of the actions taken by the company to enlist the services of Strategic Asset Alliance and Hanover Stone Solutions to review our investment process and Enterprise Risk Management processes, respectively. IT is believed that many of the remaining outstanding items will be settled by the end of these reviews.

The management report provided by Thomas, Howell and Ferguson was also discussed. The items mentioned in that report will be added to the control sheet and discussed with senior management. Some of the items discussed were additional payroll procedures, including backup for Libby, as well as investment procedures, accrued time liability and actuarial documentation.

The audit committee was informed that Roger Boatner will be making a presentation to senior management in reference to travel and entertainment expenses.

There being no other business the meeting was adjourned.

**QUARTERLY MEETING OF THE  
BOARD OF DIRECTORS**

Monday, August 17, 2016

The 2016 second quarter meeting of the Board of Directors of Life Insurance Company of Alabama convened at 11a.m., Monday August 15, 2016 in the Rutledge Library, Life of Alabama building, 302 Broad Street, Gadsden, Alabama. The meeting was called to order by the Chairman, Clarence W. Daugette, III who presided over the meeting. The invocation was given by Herman Warren Cobb.

**ROLL CALL:**

The Roll Call revealed that members of the Board were present as follows:

Rosalie Renfrow Causey  
Herman Warren Cobb  
Clarence W. Daugette, III  
Alburta D. Lowe  
M. Lynn Lowe

Thomas W. Miller  
Anne Daugette Renfrow  
Raymond R. Renfrow, Jr.  
Gerald Ray Smith, Jr.

Also Present: Director Emeritus, Robert W. Echols, Jr.

The Chairman declared a quorum present and the meeting duly qualified for the transaction of business.

**MINUTES:**

The Chairman asked the pleasure of the Board concerning the reading of the minutes from the previous meeting. Alburta D. Lowe moved that the minutes not be read and upon second by Raymond R. Renfrow, Jr., the motion carried unanimously.

**PRESIDENT'S REPORT:**

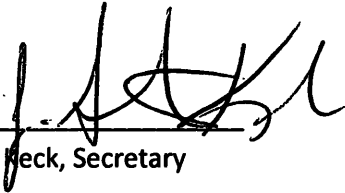
President, Clarence W. Daugette, III, called upon Vice President Hoyt Casey to update the board on LICOA's new Administrative System software. Mr. Casey mentioned that they are testing the system and it should begin running in early 2017.

The Chairman reported that there was a change made to the number of outstanding shares of both classes of stock. The change was made to correct for a 10 share understatement of the actual shares outstanding of voting stock and to reflect the issuance of several shares of nonvoting stock that were due to stock dividends being paid in the past. A motion was made by Thomas W. Miller to accept the corrected number of shares outstanding. After a second from M. Lynn Lowe, the motion carried unanimously.

**NEW BUSINESS:**

J. Steve Keck, Senior Vice President & Secretary stated that he had performed the required annual asset adequacy testing using Cash Flow Testing. The company passed all tests and there no scenarios of concern.

There being no further business and upon motion duly made and seconded, the meeting adjourned.



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J. Steve Keck, Secretary

**COMMITTEE REPORTS:****Compensation Committee**

Thomas W. Miller, Chairman of the Compensation Committee reported that they had met and approved in the form of a motion a bonus based on the results of the first quarter for all officers and employees. The total bonus in aggregate amounts to \$42,901. The motion was seconded by Alburta D. Lowe and carried unanimously.

**Investment Committee:**

Vice President and Chief Investment Officer, Rosalie Renfrow Causey, reported that the Company's equity investment portfolio as of June 30, 2016 had a market value of \$4,981,167. This is a gain of 4.54% for the quarter, and a year-to-date gain of 8.67%. As of June 30, 2016 the bond portfolio was \$99,685 million with an overall yield of 5.14%. The portfolio carries an average life of 14.28 with a duration number of 8.39.

**Audit Committee**

Gerald R. Smith, Jr., Chairman of the Audit Committee reported that the committee had met recently and reviewed the outstanding items requiring corrective action previously identified by the internal and external auditors and the state examiners. Items that are still under review are:

- HanoverStone Solutions – LICOA has hired Tim Morris, President & CEO of HanoverStone Solutions to help facilitate the process of writing an Enterprise Risk Management (ERM) report. Executive Vice President & Chief Operating Officer, J. Steve Keck, is heading this process.
- Strategic Asset Alliance (SAA) – LICOA has hired Alton Cogert, President & CEO of Strategic Asset Alliance to help review and guide LICOA through the process of evaluating its Investment Policy. Vice President & Chief Investment Officer, Rosalie Renfrow Causey is heading this endeavor.
- Sick Leave – LICOA's Executive Committee met to discuss potential changes to the Sick Leave policy to mitigate growth in this liability.
- The Executive Committee met with Roger Boatner from Willis Boanter Pugh, LLC to review the current travel policy.

**Agency Department:**

Executive Vice President, Raymond R. Renfrow, Jr. reported that sales for the Second Quarter of 2016 were up half a million dollars from the previous quarter. Mr. Renfrow also mentioned that recruiting was going well, and the Agency Department will hold its 50<sup>th</sup> TAP (Training Agents Professionally) class in October.

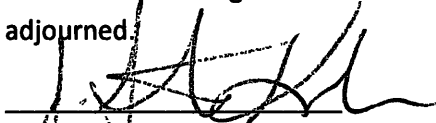
**QUARTERLY FINANCIAL REPORT:**

Vice President, Katrina D. Hulse, CPA joined the meeting and reviewed highlights of the Quarterly Statement.

- Net Income 2<sup>nd</sup> Quarter 2016 - \$1,435,487

**ADJOURNMENT:**

There being no further business and upon motion duly made and seconded, the meeting adjourned.

  
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J. Steve Keck, Secretary

## Clarence Daugette

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**From:** Katrina Hulsey  
**Sent:** Thursday, July 28, 2016 4:51 PM  
**To:** Clarence Daugette  
**Subject:** stock memo - revised  
**Attachments:** Stock Memo 053116.pdf

The attached memo was sent to me on May 31, 2016 to inform me that 10 shares of the \$5 par stock and 6 shares of the \$1 par stock should be transferred out of Treasury Stock and into Outstanding Stock.

I treated this entry similar to a sale of treasury stock. We do not know the original cost of the stock in question, so I used an average cost in my calculation.

The accounting for the entry pertaining to the \$5 stock was to credit Treasury Stock - \$5 and debit Additional Paid In Capital for \$196.40. I arrived at this amount by dividing the \$5 Treasury Stock balance of \$244,521.85 by the number of \$5 Treasury Stock which is 12,447. This equals \$19.64. Multiply \$19.64 time 10 shares to arrive at \$196.40.

The accounting for the entry pertaining to the \$1 stock was to credit Treasury Stock - \$1 and debit Additional Paid In Capital for \$7.02. I arrived at this amount by dividing the \$1 Treasury Stock balance of \$473,843.74 by the number of \$1 Treasury Stock which is 404,827. This equals \$7.02. Multiply \$1.17 time 6 shares to arrive at \$7.02.

The net effect of the above entries have a zero effect on capital and surplus.

Furthermore, It was determined that \$291.71 should be paid out as a dividend. I debited Dividends Paid on Stock and Credited cash for this entry. This entry does reduce Capital and Surplus by \$291.71.

Please let me know if you have any questions concerning how I handled the accounting for the stock correction.



CLARENCE W. DAUGETTE, III  
PRESIDENT

LIFE INSURANCE COMPANY

*of Alabama*

HOME OFFICE  
P. O. BOX 349  
GADSDEN, ALABAMA 35902  
Phone: (256) 543-2022

May 31, 2016

MEMO

TO: Katrina Hulseley

FROM: Clarence Daugette

RE: Stock

After a review, we found that a number of shares bought was entered wrong on the certificate stub, so therefore, entered wrong on the computer. This makes the Outstanding Stock short by 10 shares of the \$5 par. You will need to transfer 10 shares from Treasury Stock to Outstanding Stock. This will make Treasury Stock 12,437 and Outstanding Stock 87,563 for the \$5 par.

In addition, we will be issuing 6 shares of \$1 par stock out of Treasury Stock. This will make Treasury Stock 404,821 and Outstanding Stock 595,179 for the \$1 par.

If you should have any questions, please do not hesitate to contact me or Steve.



# LIFE INSURANCE COMPANY *of Alabama*

HOME OFFICE  
P. O. BOX 348  
GADSDEN, ALABAMA 35802  
Phone: (256) 543-2022

July 28, 2016

MEMO TO: Compensation Committee  
Tommy Miller  
Warren Cobb

RE: Employee Quarterly Bonus

FROM: Clarence Daugeette

I am pleased to report that the Company had earnings of \$260,000 for the second quarter of 2016.

I, therefore, recommend that the following bonus be approved, payable July 28, 2016.

Officers (In Aggregate)	\$33,530
Employees (In Aggregate)	<u>\$ 9,371</u>
Total Bonus:	\$42,901

Please review this recommendation and if you approve, please fax the enclosed authorization (2<sup>nd</sup> Page only) at your earliest convenience.

  
Clarence W Daugeette



## **LICOA 2<sup>nd</sup> Quarter 2016 Commentary**

**The U.S. stock market, represented by the S&P 500 total return was up 2.50% during the second quarter of 2016. Price swings during the quarter were not nearly as extreme as what investors experienced during the first quarter, except for the last week of trading. The market was up in both April and May despite modest to weak news within economic releases. The market rebounded from the U.K.-driven sell-off to post three strong days to end the quarter. The Federal Open Market Committee decided in June to maintain the current Fed Funds rate, although they cut their forecast for economic growth in the U.S., the second downward revision this year.**

**Our equity portfolio experienced a positive return of 4.54% for the 2<sup>nd</sup> quarter. The portfolio is positive 8.67% year to date through June 30, 2016. The portfolio has maintained a position in high quality stocks that are reasonably priced. Dividends have played an important role in the overall portfolio return. Our utility and telecommunication holdings have been leaders during the 2016 calendar year. Energy holdings have rebounded and we believe they will continue upward as commodity markets normalize. We continue to believe that high quality equities will produce positive gains through the year.**

### **Fixed Income:**

**The Book Value for Life Insurance Company of Alabama's Fixed Income Portfolio was \$99,685,000 for the 2<sup>nd</sup> quarter of 2016. Book Yield on the portfolio was 5.14% with a weighted average life of 14.28. Duration was 8.39 with an unrealized loss position of \$1.26 million. Principal cash flow two years out at level rates is 3%. It is worth a note that the Unrealized Gain/Loss position has moved positively in the last month to an unrealized gain of \$397,000. This can be attributed to spread tightening in the corporate bond sector of the markets and a price recovery of some names once under market pressure, coupled with low interest rates. Gains on bonds sold for liquidity needs were approximately \$187,000 for 1<sup>st</sup> and 2<sup>nd</sup> quarters of 2016 year-to-date. We continue to look for opportunities in investment grade bonds with attractive yield levels versus peers, while maintaining our investment parameters set forth by the investment committee.**