



Life Insurance Company of Alabama

**CLARENCE W. DAUGETTE, III**  
PRESIDENT AND CHAIRMAN OF THE BOARD

Dear Stockholders,

I want to update you on Life Insurance Company of Alabama's (LICOA) 2019 fiscal year and the progress we have made on three large projects that impacted LICOA the last few years.

Several years ago, we began the process of converting to, and implementing, a new core administrative computer system that will enable us to stay competitive and adapt to the changing technology environment. The expenses of this system conversion have been higher than desired. However, they were necessary in order to complete the system. The system is now installed and should be viable for many years to come.

LICOA's management made the decision two years ago to retain New England Asset Management (NEAM) to more actively manage our investment portfolio. NEAM has many years of experience managing investment portfolios and specializes in asset management for similar sized insurance companies. At that time management thought it was advisable to move our investment portfolio to higher quality bonds, recognizing that this, as well as the historic low interest rate environment, would result in a lower investment income in the short run. During 2019, LICOA and NEAM began reviewing the investment portfolio to develop a strategy to increase the return on investment without tremendously increasing the risks within the portfolio, lowering the quality of the portfolio or violating risk management metrics. The Board and the Investment Committee reviewed the recommended changes to the portfolio at the February 2020 Board meeting and agreed to the implementation of this new investment strategy which is expected to increase the book yield of our investments by 50 bp and improve pre-tax return on assets by nearly \$1 million.

The final project, which has been ongoing for two years, is the renovation of our Home Office property. The buildings we occupy are over 100 years old and have not been updated since the 1960's. In the short term, LICOA's balance sheet was affected by the upgrades to the Home Office but, most of the expenses were capitalized and will flow through the income statement over time. The balance sheet reflects that the renovation increased the appraised value of our buildings by over \$2 million dollars in 2019, and we expect additional increases in the appraised value once the renovation is complete.

In light of the expenses caused by these ongoing projects during 2019, management has taken steps to review expenses and make cuts, where feasible, to offset the capital expenditures on our technology and infrastructure as much as possible. These efforts have already resulted in a substantial decrease in expenses for 2020. LICOA is committed to providing a positive return for investors. While the ongoing projects resulted in losses the first 3 quarters of 2019, it should be noted the 4th quarter of 2019 had a net gain from operations of \$1.28 million and LICOA had a net gain after taxes for the year.

We are confident that the steps implemented in 2019, and the LICOA's commitment to its clients, agents, and investors, will result in a continued positive trend in results.

Sincerely,