BEST'S RATING REPORT

FARM BUREAU INSURANCE®

1401 Livingston Lane, Jackson, Mississippi, United States 39213

AMB #: 007053	**NAIC #:** 68896	**FEIN#:** 64-0283583
Phone: +1-601-981-7422	**Fax:**	**Website:** www.sfbli.com

Financial Strength Rating
AM BEST
A+ Superior

Southern Farm Bureau Life Insurance Company

AMB #: 007053 | **NAIC #:** 68896 | **FEIN#:** 64-0283583

Best's Credit Ratings

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa-**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Best's Credit Rating Effective Date

July 16, 2020

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Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Rating Rationale

Balance Sheet Strength: Strongest

- Southern Farm Bureau Life's risk-adjusted capitalization is at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR).
- Solid liquidity position supported by the company's creditworthy investment portfolio and consistent net cash flows.
- Strong quality of capital as the company maintains its XXX term life reserves on its balance sheet, which enhances and further supports the company's strongest level of balance sheet assessment.

Operating Performance: Adequate

- Although total direct premium growth has fluctuated, direct premium levels in the company's core ordinary life line of business have consistently improved in recent years. Fluctuations in annuity premiums are driving the lower overall premium growth.
- The company has consistently reported operating earnings and net income, albeit at well below industry average returns on equity.
- Although return ratios are modest, the company's earnings have exhibited limited volatility as earnings are relatively consistent and predictable.

Business Profile: Favorable

- Product mix is considered to be very creditworthy as the company's primary line of business is ordinary life, which is heavily concentrated in participating whole life and term life.
- Distribution channels are considered a strength, as the company has access to nearly a dozen multi-line exclusive agency channels that have consistently delivered strong cross-selling results between P/C and life products.
- The company benefits from a strong Farm Bureau affinity group relationship with its customers, which contributes positively to its above-average policy persistency.
- Modest geographic exposure given that its top two largest states for premium generation represent over 40% of total direct premiums, although Southern Farm Bureau Life is more geographically diversified than many other Farm Bureau companies.

Enterprise Risk Management: Appropriate

- Overall risk exposure for Southern Farm Bureau Life is relatively low given its focus on primarily creditworthy lines of business, together with its limited investment risk exposure.
- Risk capabilities are viewed as in line with the company's risk exposures, given that the company employs a formalized and integrated enterprise risk management framework.
- Southern Farm Bureau Life performs ten deterministic cash flow testing scenarios including the New York 7 interest scenarios as well as three additional stressed scenarios. The company continues to pass each scenario.

Outlook

- The stable outlooks reflect the company's strongest level of balance sheet strength assessment and its favorable business profile.

Rating Drivers

- A negative rating action could occur if there is significant and sustained deterioration in the company's risk-adjusted capitalization.
- A negative rating action could occur if there is an adverse trend in the company's operating performance.

Credit Analysis

Balance Sheet Strength

Capitalization

Southern Farm Bureau Life (SFBL) maintains risk-adjusted capitalization which is assessed at the strongest level, as measured by Best's Capital Adequacy Ratio (BCAR). The risk-adjusted capital position continues to be enhanced by the overall good credit quality of the fixed-income portfolio as well. Total capital has grown at a five-year compound annual growth rate of 2.2%. The company's capital adequacy position is monitored through a variety of sources, including risk-based capital modeling, cash flow testing, and the

Balance Sheet Strength (Continued...)

maintenance of reinsurance agreements. Aggregate capital and surplus has grown over the last five years primarily due to strong and consistent net operating gains during this time period. Finally, AM Best notes that the quality of capital is strong as the company retains all Regulation XXX redundant term life reserves on its balance sheet and does not utilize surplus notes in its capital structure.

SFBL's liquidity position is solid, and is supported by the company's investment approach. Liquidity ratios for Southern exceed industry averages, and the company's net cash flows from operations have been consistent and generally between $300-$450 million in recent years. Solid net cash flows further support the company's strong liquidity position and support future profitability.

Asset Liability Management - Investments

SFBL's investment portfolio is composed of primarily fixed income holdings, most of which are public investment grade corporate holdings. The fixed income portfolio also includes a fair amount of private placements, as about one fourth of the bond portfolio is in private holdings. The remainder of the portfolio is comprised of just over 13% mortgage loans, 6% in equities, 5% in Schedule BA assets, and 4% in contract loans. The company also holds less than one percent in cash and short-term investments, real estate and other invested assets. This allocation is considered to be in line with allocations witnessed across the life industry, and does not present elevated risk exposure based on its investment mix.

The portfolio credit quality remains strong even considering recent incremental efforts to add to below investment grade holdings during periods of market weakness, as investment grade bonds consistently represent over 96% of the bond portfolio. Although commercial mortgage loan holdings as a percentage of invested assets have increased in recent periods, the exposure of mortgage loans to capital and surplus remains below the industry average. In addition, the commercial mortgage loan portfolio has performed well as problem loans have been minimal and loan-to-value and debt service coverage ratios are very strong.

The company improves its matching of assets and liabilities incrementally through an ongoing portfolio balancing process. SFBL has attempted to maintain the portfolio duration even though the liabilities have lengthened significantly. The company does not change its investment strategy materially year-to-year, as its investment mix has remained relatively consistent. A majority of SFBL's consolidated assets are managed by the company's internal securities management department. Outside specialty managers are used for investing in private equities, mezzanine debt and real estate partnerships, and structured securities.

Operating Performance

Southern Farm Bureau Life continues to report consistent levels of operating profitability with relatively low volatility, as it generated approximately $130 million in net operating gains during 2019. Earnings improved from 2018 primarily as a result of reduced death claims, benefits from the implementation of principle based reserving, and increased investment income. Over the near term, AM Best expects net operating gains to be challenged to grow, as spread compression on the annuity and universal life insurance book will pressure margins. Southern Farm Bureau Life's bottom line will be impacted by the effects COVID 19 had on the credit markets, resulting in pressures on net investment income in 2020. However, AM Best anticipates that the company will continue to report stable levels of operating gains over the longer term.

SFBL typically reports statutory operating returns on equity (ROE) below that of the industry composite, given its relatively high level of capital and surplus and the modest returns on its business. The company's statutory ROE ratio is typically between 3% and 5% and was approximately 4.9% in 2019. The low ROE is also in part attributable to Southern’s low leverage relative to the industry.

Total direct and net premiums increased in 2019 over 2018 fueled by strong growth in both the ordinary life and annuities lines of business. In both 2017 and 2018, the dip in premium levels was entirely attributable to the company's annuity business, which declined by about $98 million in 2017, and by $31.6 million in 2018. This decline in annuity premiums (both individual and group) was due to the reduction in credited rates and also due to the temporary suspension of qualified annuity sales during 2017. SFBL's core ordinary life line of business grew in 2019, and has consistently reported premium growth in its recent history. Growth in the ordinary life line is attributable to both whole life and term life products and the favorable reported persistency rates. Renewal premium persistency has been very strong, with reported rates above 93% in each of the past four years.

Business Profile

Southern Farm Bureau Life Insurance Company (SFBL) is a stock insurance company principally engaged in the sale of individual life (term and whole life) insurance products as well as annuity contracts. The ownership structure of SFBL consists of Farm Bureau investment corporations in Arkansas, Kentucky, Mississippi, Texas, Louisiana, South Carolina, and North Carolina, and holding corporations in Virginia, Florida, and Georgia, which are controlled by the Farm Bureau Federations in each state respectively.

Business Profile (Continued...)

Farm Bureau membership within SFBL's marketing territories is approximately 2.8 million families across eleven states. The company's strong market position within the Farm Bureau communities partially reflects the strong ties maintained with the multi-line exclusive agency forces shared with the Farm Bureau property/casualty (P/C) companies and the strong levels of satisfaction that Farm Bureau P/C clients have with the Farm Bureau insurers. The relationship with the P/C insurers provides a large niche market that has led to a stable and loyal policyholder base, as demonstrated by the favorable persistency of the company's business. The Farm Bureau market offers considerably more opportunities to cross-sell existing P/C customers through the multi-line agency force, although full advantage of these opportunities has not been maximized as the agency force still derives the majority of its income from P/C products.

Sales and services are provided through career multi-line agents shared with the Farm Bureau property/casualty (P/C) companies. The multi-line agency force directs its marketing efforts toward P/C products, with the typical agent earning the majority of his or her income from P/C sales. The company's agent retention and recruiting are dependent upon P/C performance and may increase or decrease based on market conditions.

The whole life product portfolio consists of Whole Life (WL), 20 and 30 Pay Whole Life, and Single Premium Whole Life. The term life portfolio is comprised of Par Term, Term Premier, and Term Riders for 10 or 20 years. The annuity product currently being offered is a Flexible Premium Qualified and Single Premium Non-Qualified Deferred Annuity. SFBL also focuses on term policies that have expiring conversion options, which augments life premiums.

SFBL has tailored its entire whole life and term portfolio to emphasize needs-based selling through the use of permanent insurance with inexpensive term riders. AM Best views further efforts to update the company's product offerings and technology platforms positively and believes that these efforts may lead to further penetration of its P/C policyholder base.

In response to the low interest rate environment as well as other market factors, SFBL has reduced some of its marketing efforts within its annuity lines of business. The company reduced the guaranteed minimum interest rate on its new annuity contracts, and will no longer accept unscheduled premium payments on existing annuities with interest guarantees of 2% or higher. Extension of maturity dates on existing annuities with guaranteed interest rates of 3.50% or greater have also been eliminated.

SFBL's level commission program helps SFBL to present a more competitive product portfolio, reward good persistency, and improve agent retention. The existing commission structure provides the agents with a vested interest in their renewal premium, increased customer service, and helps stabilize the agency force. Incentive programs have helped to increase sales of new life insurance and further improve P/C cross-selling ratios. SFBL has an agency website, which serves as the major provider of information to its agency force. The company also continues to place emphasis on the continuing education of its agency sales force.

Enterprise Risk Management

The company’s enterprise risk management is employed with the goal to optimize risk-taking and risk management to support its long-term revenue and earnings growth and to provide a continued strong capital base for its policyholders. Overall risk exposure at SFBL is determined both on a point in time and forward-looking basis. In addition, in establishing its ERM program the framework was designed to be sustainable and to comply with the ORSA requirements.

The company’s ERM function is controlled through its Enterprise Risk Management Committee. Oversight of this committee is by the Company’s Risk Officer (RO). The company’s ERM Committee consists of vice presidents and other members of management representing the business units within the company. SFBL has outlined and manages five major categories of risk which include Credit, Market, Insurance/Underwriting, Operational, and Strategic. The company's risk management practices also include monitoring of asset/liability management, risk-adjusted capitalization, spread analysis, and cash flow testing. The company also performs stress tests using stressed scenarios to calculate impacts on its BCAR calculations. The analysis utilizes deterministic scenarios for various risk types, and the scenarios represent potential events that could adversely impact the company's operating results and its risk-adjusted capitalization. Liquidity risk is managed by having a liquidity plan in place that identifies the company's most liquid assets available for sale in the event of an unexpected cash need. In addition, liquidity risk is further mitigated through a line of credit through the Federal Home Loan Bank of Dallas; a portion of this line of credit was first utilized by the company as part of an investment spread strategy during 2016.

AM Best views the Enterprise Risk Management (ERM) program at SFBL as appropriate for the company’s insurance, investment and business risks.

Reinsurance Summary

SFBL cedes approximately 20% of its total life insurance in force to reinsurers. It continues to have a number of yearly renewable term and coinsurance treaties. The life business ceded to outside reinsurers is assumed by a small number of reinsurers, including Swiss Re

Enterprise Risk Management (Continued...)

Life & Health America, Connecticut; Hannover Life Reassurance Company, Florida; Scottish Re Life Corporation, Missouri; Lincoln National Life Insurance Company, Indiana; Munich American Reassurance Company, Georgia; Athene Annuity and Life Company, Iowa; RGA Reinsurance Company, Missouri; and SCOR Global Life Americas Reinsurance Company, North Carolina. Accident and health business is ceded to American Long Term Care Reinsurance Group, New York; Employers Reinsurance Corporation, New York; and SCOR Global Life USA Reinsurance Company, Missouri. Group business is ceded to Swiss Re Life & Health America, Connecticut and Munich America Reinsurance Company, Georgia. Current maximum net retention on any one life is $750,000 for ordinary policies and $150,000 for affiliated group coverage and between $25,000 and $100,000 for non-affiliated groups.

Financial Statements

	3-Months		Year End - December 31			
	2020		2019		2018	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	96,251	0.7	124,454	0.8	87,226	0.6
Bonds	9,969,666	68.4	10,038,632	68.1	9,911,056	69.4
Preferred and Common Stock	665,313	4.6	822,230	5.6	638,069	4.5
Other Invested Assets	3,258,220	22.4	3,169,306	21.5	3,100,252	21.7
Total Cash and Invested Assets	13,989,450	96.0	14,154,622	96.1	13,736,604	96.2
Premium Balances	312,806	2.1	308,442	2.1	293,794	2.1
Net Deferred Tax Asset	66,039	0.5	65,116	0.4	68,350	0.5
Other Assets	189,650	1.3	192,718	1.3	170,975	1.2
Total General Account Assets	14,557,946	100.0	14,720,897	99.9	14,269,723	99.9
Separate Account Assets	7,275	...	10,093	0.1	16,116	0.1
Total Assets	14,565,221	100.0	14,730,990	100.0	14,285,839	100.0
Net Life Reserves	10,329,168	70.9	10,289,738	69.9	10,097,194	70.7
Net Accident & Health Reserves	158,114	1.1	157,566	1.1	155,210	1.1
Liability for Deposit Contracts	857,286	5.9	895,904	6.1	898,710	6.3
Asset Valuation Reserve	207,995	1.4	313,874	2.1	197,426	1.4
Other Liabilities	404,793	2.8	342,137	2.3	327,033	2.3
Total General Account Liabilities	11,957,356	82.1	11,999,218	81.5	11,675,573	81.7
Separate Account Liabilities	7,275	...	10,093	0.1	16,116	0.1
Total Liabilities	11,964,631	82.1	12,009,310	81.5	11,691,688	81.8
Capital Stock	1,500	...	1,500	...	1,500	...
Paid-In and Contributed Surplus	400	...	400	...	400	...
Unassigned Surplus	2,598,690	17.8	2,719,780	18.5	2,592,251	18.1
Total Capital and Surplus	2,600,590	17.9	2,721,680	18.5	2,594,151	18.2
Total Liabilities, Capital and Surplus	14,565,221	100.0	14,730,990	100.0	14,285,839	100.0

Source: BestLink® - Best's Financial Suite

Last Update
September 01, 2020

Identifiers
AMB #: 007053
NAIC #: 68896
FEIN #: 64-0283583
LEI #: KL4V6Y2IFYCHCZRT1288

Contact Information

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Southern Farm Bureau Life Insurance Company

Operations

Date Incorporated: October 30, 1946 **|** **Date Commenced:** December 18, 1946

Domiciled: Mississippi, United States

Licensed: (Current since 04/17/2020). The company is licensed in AL, AR, CO, FL, GA, KY, LA, MS, NC, SC, TN, TX and VA.

Business Type: Life, Annuity, and Accident
Organization Type: Stock
Marketing Type: Independent Agency
Financial Size: XV ($2 Billion or greater)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 007053 - Southern Farm Bureau Life Insurance Co

Refer to the Best's Credit Report for AMB# 007053 - Southern Farm Bureau Life Insurance Company for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 1952. In our opinion, the company has a Superior ability to meet their ongoing insurance obligations and a Superior ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to Rating History in BestLink:

	Best's Financial Strength Ratings			Best's Long-Term Issuer Credit Ratings		
Effective Date	**Rating**	**Outlook**	**Action**	**Rating**	**Outlook**	**Action**
Current - Jul 16, 2020	**A+**	**Stable**	**Affirmed**	**aa-**	**Stable**	**Affirmed**
Jul 10, 2019	A+	Stable	Affirmed	aa-	Stable	Affirmed
Jul 13, 2018	A+	Stable	Affirmed	aa-	Stable	Affirmed
Jun 22, 2017	A+	Stable	Affirmed	aa-	Stable	Affirmed
May 27, 2016	A+	Stable	Affirmed	aa-	Stable	Affirmed

Management

Officers

Chairman of the Board and President: Wayne F. Prior
EVP and CEO: Randy M. Johns
SVP and CFO: Robert E. Ward, Jr.

Officers (Continued...)

SVP and Chief Investment Officer: Horace L. Brown
SVP, Secretary and General Counsel: Perry McGaugh
SVP and Chief Actuary: Charles S. Dickens
SVP: David B. Hurt (Marketing)
SVP: Jeremy R. Wesson (Policy Administration)
First Vice President: Russell W. Boening

Directors

Ronald R. Anderson
Russell W. Boening
William K. Coleman
Thomas M. Freeze
Donald Gant
Mark E. Haney
Jim T. Harper
Richard E. Hillman
John L. Hoblick
Daniel L. Johnson
Gerald W. Long
David M. McCormick
Eddie A. Melton
Harry L. Ott, Jr.
Wayne F. Pryor
Joseph B. Schirard, Jr.
Scott E. Sink
Malcolm S. Whitford
Zachary X. Yanta

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