FBL Financial Group, Inc.
4Q14 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning and welcome to everyone on the call. Thank you for taking the time to join us today and for your interest in FBL Financial Group.

I am pleased to report that FBL Financial Group delivered another excellent quarter of earnings. Fourth quarter net income and operating income were both $1.13 per share. These results cap off a year of record highs in full-year net income and operating income per share. At the same time we maintained a very strong capital position and enhanced shareholder returns with significant dividends.

Sales for the fourth quarter were flat for annuities and a little down for life insurance. While annuity premium collected was flat in the fourth quarter compared to the fourth quarter of 2013, it was up 15% for the full year. The driver of this increase is sales of our indexed annuity product. This product was introduced in September of 2012 and it's been well received by our agents and customers.

For the fourth quarter, total life insurance premium collected decreased 2% compared to the fourth quarter of 2013. Full year life insurance premium collected is down 8%. As we have previously mentioned, much of the decline is due to lower UL sales, reflecting changes we made in late 2013 to our UL product.

There is no question sales environment is somewhat challenging as we face headwinds of the continued low interest rate environment and an industrywide decline in life insurance sales. We do have a number of marketing and sales campaigns planned for 2015 along with the mid-year introduction of an indexed universal life product that will help to spur additional sales.

We continue to invest in and develop agents for the future, with a goal to grow our total agent count each year and improve retention.

We have a number of strategies in place to accomplish this. In 2014 we introduced a new recruiting and onboarding approach, developed a new centralized training approach for new agents, and reintroduced our assistant manager program, which provides additional recruiting and agent development capabilities. Also, in mid-2013 we also introduced a new agent financing program, which provides higher income for new agents who are able to meet increased production standards.

To date we have seen marked improvement in the agent experience and increased retention because of these programs. These strategies are beginning to result in growth in the agent count and more effective and engaged producers driving increased sales going forward.

Within our core eight states where we manage the agency force, in 2014 we appointed 213 new full-time agents and 226 reserve agents. This compares to 197 new full-time agents appointed in 2013. These appointments have resulted in a year-over-year increase of 20 agents and agency managers in those 8 states. This growth is notable as it compares to a loss of 6 in 2013 and a loss of 59 in 2012. We have the right distribution strategies in place, have built momentum and are well positioned for further growth in our agency force in 2015.

One thing I'd like to mention before I hand it over to Don, is that A.M. Best upgraded the financial strength rating of Farm Bureau Life to A (Excellent) in December. I am very pleased with this action. As you know we have been looking for this to occur for a very long time. Prior to this upgrade, A.M. Best had a Positive outlook on our company for nearly two years. The upgrade validates Farm Bureau Life's excellent financial results and strong capital position. The ratings are important and we take them seriously. Having said that, given our niche marketplace and exclusive distribution, the rating is more a matter of pride and validation than it is a driver of new sales.

In closing I look back on 2014 with much pride in our company and people. In addition to record earnings, we have a very strong capital position and maintain the industry-leading cross-sell rate. We have a profitable book of business that is balanced between life and annuity business, as well as a diversified, high quality investment portfolio. We also have best-in-class distribution with our exclusive Farm Bureau agency force, and a very loyal niche customer base.

The challenges of the persistent low market interest rate environment remain, but we have been diligent in proactively managing the profitability of our business allowing us to achieve our target spreads in total.

Now I'll turn the call over to Don Seibel for a review of our financial results. Don.

Don Seibel
Chief Financial Officer

Thanks, Jim, and good morning everyone. I'm pleased to share with you today the details of our fourth quarter financial results. I'll discuss our operating results, spreads and capital position.

As Jim indicated, we had excellent fourth quarter earnings results with operating income and net income of $1.13 per share. This is a 13 percent increase over the operating income of $1.00 per share in the fourth quarter of 2013 and a 6 percent increase over the net income of $1.07 per share in the prior year fourth quarter.

Our book of business continues to steadily and consistently grow as we work to serve the Farm Bureau niche market and address their needs. In addition, results for the quarter were impacted by a number of factors.

During the quarter we benefited from $0.10 per share of investment fee income, which was predominantly in the Annuity segment. This fee income was due to higher than expected bond prepayments. This is good in the short run as it positively impacts investment income, but is less desirable in the long run as the securities being called are higher yielding investments.

Mortality experience for the quarter was better than our projections, by about

$0.04 per share. This is positive, but mortality experience by its nature can fluctuate on a quarterly basis. Looking forward, I'll note that we have seasonality with our mortality experience and typically have higher death benefits in the first quarter of the year.

Expenses for the quarter also came in lower than expected due to our focus on expense control.

Equity income continues to perform well on an after-tax basis, reflecting our investment partnerships and low income housing tax credit investments. Detail on this is found on page 17 of our financial supplement.

Also impacting earnings is the updating of the interest related assumptions used in the calculation of deferred acquisition costs, value of insurance in force acquired and unearned revenue reserves to better reflect the current low interest rate environment. This unlocking negatively impacted earnings by $0.07 per share.

Taking into account these various items, our normalized operating earnings for the fourth quarter are slightly above $1.00 per share.

As Jim mentioned, we are successfully managing spreads, despite the continuing challenges of the low interest rate environment. As of year-end, in total we are exceeding our target spreads.

During the quarter, the point-in-time spread on our annuity business decreased 2 basis points to 207 basis points at December 31. This spread remains above our target of 203 basis points for this business.

Spreads on our universal life business are a bit more pressured. Point-in-time spreads on our universal life business decreased 5 basis points during the quarter, totaling 149 basis points at December 31. This is below our target for this business of 157 basis points.

From an investment perspective, purchases during the quarter focused on long, NAIC1-rated corporate bonds. We also added some fixed rate collateralized loan obligations to our portfolio. During the fourth quarter, the average tax-adjusted yield on investments acquired backing our long-term business was 4.64%. Our portfolio quality remains high with 96% of fixed maturity securities being investment grade.

Next I'll comment on our capital levels.

At December 31, Farm Bureau Life's capital position remains excellent with an estimated company action level risk based capital ratio of 545%. This represents a slight decrease from 550% at September 30 and is due to a $45 million dividend paid during the fourth quarter from Farm Bureau Life to the holding company.

We continue to have ample excess capital. Using 425% RBC as a base, Farm Bureau Life has excess capital of approximately $135 million at December 31. At the holding company level we also have more than adequate liquidity and capital with excess capital at the parent company of approximately $90 million at December 31. On top of that, going forward, I expect Farm Bureau Life to conservatively generate $50-$60 million of excess capital each year.

As we review our options for deploying this capital, we consider stock repurchases, our regular quarterly dividend and the payment of special dividends.

We have repurchased $275 million of our stock over the last several years. This is significant as today we have almost 20% fewer shares outstanding than we did just three years ago. We will continue to repurchase shares as we see opportunities, but the value proposition is not as attractive as it was when we were buying our shares back below book value. During the fourth quarter our repurchase activity was minimal with 33,930 shares repurchased at a cost of $1.5 million. At a minimum, I would expect our share repurchases to offset any potential dilution from stock option exercises. As of December 31, we have $42.7 million remaining on our stock repurchase authorization.

In the first quarter of 2014 we increased our quarterly dividend to $0.35 per share. At that time, it was one of the highest dividend yields in the life insurance industry. With our stock price increasing 30% in 2014, the yield has declined. Our board of directors reviews the dividend rate regularly and is committed to having an attractive dividend yield, given our strong and consistent operating results. Our board will next review the dividend rate when it meets in March.
Given our excess capital levels we are asked regularly about paying a special dividend. We last paid a special dividend in 2013, and view the payment of special dividends, on occasion, as a viable option for distributing a portion of our excess capital.

In closing, as I look back on 2014, it was a year of success for FBL Financial Group. We delivered strong financial results and achieved new highs in operating income per share and net income per share. We accomplished this by growing our business and actively managing spreads and expenses. At the same time we returned more than $50 million to shareholders through dividends and repurchases. As we move forward in 2015, we continue to address the challenges of the low interest rate environment and further build on FBL's strong financial foundation. I'm pleased to have been able to share these results with you.

That concludes our prepared comments. We will now turn the call over to the operator and open it up to any questions you may have.