FBL Financial Group, Inc.
1Q14 Conference Call

Jim Brannen
Chief Executive Officer

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

Results for the first quarter were strong with net income at $0.91 per share and operating income at $0.92 per share. Don will cover the financial results and capital position in detail.

Sales for the first quarter were mixed. Annuity sales were positive, but life sales were not as strong in the quarter.

For the first quarter, total life insurance premium collected decreased 5% compared to the first quarter of last year. First year premiums collected decreased across all life product lines. Most notably were our universal life products. The decrease in UL sales was not unexpected as we made UL product changes late last year. We have taken several steps recently to increase life sales, and sales levels improved in March and April, and we'd like that trend to continue. In April we introduced new term rates and launched a new single premium term life product for children and teens. It's designed for parents and grandparents who want to provide the start of a financial foundation, but are not yet ready for a permanent product.

Annuity premium collected in the first quarter was strong and increased 9 percent compared to the first quarter last year. This reflects action we took in late 2013 to modestly increase annuity sales. We partially restored agent commissions that were previously lowered and added a direct mail campaign focused on cross-selling annuities to existing customers.

You'll note in our investor supplement this quarter that we have started breaking out detail on our index annuity product in our premiums collected table. This product, which was introduced in late 2012, has been an attractive annuity option for our agents and customers.

I just returned from spending time with a large group of our best Farm Bureau agents. These meetings reinforce my belief that our multiline exclusive Farm Bureau agents are one of our greatest assets. While research shows that the ways people shop for and buy insurance are changing, one thing that hasn't changed is the value our customers find in having a Farm Bureau agent. Our agents are part of the community, have a personal connection with their customers and work to address their needs by truly knowing them. When you think of insurance and having a relationship with your agent, we're doing it the way we feel it should be done. It's about more than just about products; it's about the whole customer relationship.

This is why growth in our agency force remains of primary importance. In 2013 we made significant changes to the way we recruit and train agents. In February of this year we introduced our new reserve agent program. The agent completes a training program that can take up to three months and achieves certain production minimums on a part-time basis before being contracted as a full-time agent. As of the end of March we had 6 agents in this program, with the number growing to 33 as of today. These reserve agents add to our sales totals, and are the pipeline for future full-time agents.

This program gives us the opportunity to assess if we expect the reserve candidate to be successful for a long term career with us. And it also gives them the opportunity to assess this career before changing jobs.

We've added this new reserve agent count disclosure to our investor supplement. We're excited about the potential of this new program and expect it ultimately to increase our total agent count as well as improve retention.

In addition to switching to this new program, we continued to add to our full-time agent count and added 64 new full-time agents in the first quarter, an increase over 62 during the same period last year.

As we transition to the new, lengthened onboarding process, we expect to see a short-term dip in our regular full-time agent count as the pipeline for reserve agents fills. We believe this is the right strategy to develop agents for the future.

As we move forward in 2014, in addition to implementing a first-class distribution strategy, we are focused on executing on several fronts:

- We're managing through the low-interest rate environment. This is becoming increasingly difficult, as Don will discuss, but in total we are making our targeted spreads.
- We are developing new products in an already robust line of life insurance and annuity products. At the same time we strive to keep our product portfolio simple and easy-to-understand, recognizing that the customer's relationship with their Farm Bureau agent and the customer's needs drive the product sale.
- We are focused on streamlining operations and managing expenses. We have several system changes underway and are making significant progress. We're moving to a new life operating system and have already transitioned our new annuity business to this system. We have our new life business scheduled for transition later this year, to then be followed

by our in force business. We're also implementing a new enterprise financial system, which is scheduled for the third quarter of this year.

In conclusion, I'm pleased with FBL's first quarter 2014 results and I'm optimistic about the remainder of 2014.

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 first quarter results. I'll discuss our operating results, spreads and capital position.

As Jim indicated, we had a solid first quarter with operating income of $0.92 per share. This compares favorably to operating income of $0.89 per share in the first quarter of 2013. Net income per share for the quarter came in at $0.91.

Earnings results for the quarter were pretty straightforward. Farm Bureau Life's volume of business in force continues to grow and we are managing the profitability of our products against the backdrop of low market interest rates.

Mortality experience for the quarter was in line with our expectations. There is some seasonality in our mortality experience as we typically have a higher number of claims in the first quarter, and that was the case this year.
Given this seasonality, we would expect second quarter death benefits to be lower than this first quarter experience.

During the quarter we had $0.02 per share of investment fee income, which is primarily due to bond prepayments. Nearly all of this was in the annuity segment. We've experienced elevated levels of prepayment fee income for several quarters, but this is the lowest level of fee income since the first quarter of 2012.

Looking at results by segment, both the Annuity and Life segments had higher pre-tax operating income compared to the year ago quarter, while the Corporate & Other segment experienced a decrease. In the Corporate & Other segment we had lower investment income, which reflects lower invested assets due to debt repayment, our special $2.00 per share dividend and stock repurchases over the past year.

Next I'll discuss spreads, which continue to be pressured by the low interest rate environment.

The point-in-time spread on our annuity business decreased 2 basis points during the quarter to 210 basis points at March 31. This spread is still above our target of 204 basis points for this business.

Point-in-time spreads on our universal life business remained fairly steady during the quarter, totaling 154 basis points at March 31, which is under our target for this business of 161 basis points.

We've been proactive in managing the profitability of our business and have been decreasing crediting rates in response to declining portfolio yields. At the beginning of the first quarter we reduced the crediting rates on certain universal life products and, effective May 1 of this year, we have taken additional rate decreases on certain annuity products.

We still have some room for additional crediting rate actions as 39% of our annuity business and 14% of our UL business as of quarter end remained above the minimum guarantee. For the business at guarantee levels, much is achieving or exceeding target spreads.

Achieving desired investment yields remains difficult as the overall market environment is presenting increasing challenges. The 10-year Treasury yield has declined by more than 30 basis points since the beginning of the year. We continue to manage our investment portfolio with a very talented in-house securities staff, along with some select mandates for a few asset classes using outside investment managers. During the quarter we focused our investment purchases mostly on BBB-rated corporate bonds and also on GNMA project loans, which offered attractive yield pick-up compared to 10-year single A corporates. Our portfolio quality continues to be very high with 96% of fixed maturity securities being investment grade. During the first quarter of 2014, the average yield on investments acquired backing our long-term business was 4.93%.

Next I'll comment on our strong capital position and capital management actions.

At March 31, Farm Bureau Life's capital position remains excellent with an estimated company action level risk based capital ratio of 504%, an increase from 499% at year-end 2013.

We've been actively deploying capital over the last several years by repurchasing stock, increasing the regular quarterly dividend and paying a special dividend. During our last earnings call, I mentioned that we were evaluating our capital management options. In February, we announced a significant increase to our dividend rate as well as a new stock repurchase authorization of up to $50 million.

We increased our quarterly cash dividend by 133% to $0.35 per share. This represents an indicated annual dividend of $1.40 per share and is our third dividend increase in the past 15 months. With this increase, we now have the highest dividend yield among domestic public companies in the life insurance industry.

The increase in our dividend reflects confidence in our business and our desire to distribute the majority of excess capital generated each year to our shareholders.

We plan to review this dividend rate at least annually and will consider the payment of another special dividend as appropriate. Farm Bureau Life generates approximately $50 million of excess capital each year.

During the first quarter of 2014 we repurchased 262,945 shares of stock at a cost of $11.2 million. Our previous stock repurchase authorization, which had $9.1 million authorization remaining, expired on March 31, 2014. Our board approved a $50 million authorization plan, which expires on March 31, 2016. We plan to use this authorization to offset dilution from any stock option exercises as well as repurchase FBL shares from time to time as we see opportunities.

We continue to have flexibility with our capital management plans. We have more than adequate liquidity and capital at the holding company level with excess capital at the parent of approximately $65 million. In addition, using 425% RBC as a base, Farm Bureau Life also has excess capital of approximately $90 million.

To recap, FBL had a very good quarter with solid operating profits and a significant increase to our dividend rate. I'm pleased to have been able to share these results and our plans 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.