

FBL Financial Group, Inc.
3Q14 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 extremely pleased that we have reported outstanding third quarter financial results. Our Farm Bureau Life business is performing well, and capital levels are strong and growing.

Net income for the quarter was \$1.21 per share and operating income was \$1.18 per share. This builds on the strong financial results in the first half of 2014 and reflects positive momentum from serving the needs of the Farm Bureau niche market. Don will cover our financial results and capital position in detail.

Sales for the third quarter again favored annuities. Annuity sales growth continues to be positive compared to the year ago quarter, and while we saw good activity in life sales in the third quarter, production remains below our target levels.

Annuity premium collected in the third quarter increased 16% over last year's third quarter and are up 19% year-to-date. The driver of this increase is sales of our indexed annuity product. We introduced this product in September of 2012 and now indexed annuities make up almost half of new annuity sales.

For the third quarter, total life insurance premium collected decreased 12% compared to the third quarter of last year. Year-to-date life insurance premium collected is down 10%. Much of the decline is due to lower UL sales, reflecting changes we made last year to our UL product. UL sales began dropping off in August 2013, so we expect fourth quarter sales to compare more favorably to last year. Sales of term life and whole life insurance products, on the other hand, were up for the quarter.

We are working to increase agent productivity through initiatives on several fronts including sales, marketing and product.

We held a weeklong life sales blitz during the third quarter to drive life insurance appointment setting and application submissions. This was successful with nearly 5,000 appointments set and more than 1,400 life insurance applications submitted. Another campaign is in full swing through the end of the year.

We also have several cross-sell offers and mailings to Farm Bureau property casualty customers. These offers promote the sales of indexed annuities, universal life insurance and term life insurance. These cross-sell mail programs include agent goal setting to drive agent follow up. The multi-line culture of our business and these initiatives allow us to maintain and grow our industry-leading cross-sell rate.

In August we enhanced our whole life product portfolio with the addition of smaller face amounts. This has been well received by our agency force. Also in August we added a term rider to our whole life product.

In addition to these initiatives, we are seeing success from our strategies to grow the agency force which will drive increased sales.

Within our core eight states where we manage the agency force, this year we have appointed 158 new full-time agents and 143 reserve agents through September 2014. This compares to 127 new full-time agents appointed last year through September 2013. These appointments have resulted in a year-over-year increase of 31 agents and agency managers in those 8 states. One of the goals of this program is to improve our agent retention and we are starting to see that occur.

We expect our distribution strategy efforts, numerous sales campaigns and product enhancements to drive increased sales going forward. This is despite the headwinds of the continued low interest rate environment, and an industrywide decline in life insurance sales.

Before I hand it over to Don, I want to mention that we recently held our annual review meeting with A.M. Best. Our desire is to have Farm Bureau Life rated at least A (Excellent), and A.M. Best has had a Positive outlook on our company for nearly two years now. During that time, we have continued to deliver excellent financial results, as well as maintain a very high level of capital. We are confident that Farm Bureau Life exceeds the requirements for an upgrade, and have made a strong case once again this year, and are eager to receive our rating.

In conclusion, we have much to be proud of. In addition to strong earnings and strong capital levels, we maintain the industry-leading cross-sell rate and have one of the highest dividend yields in the life insurance industry. 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.

I'm very pleased with FBL's results to date in 2014 and am looking forward to a strong finish to the year.

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

As Jim indicated, we had excellent third quarter earnings results with operating income of \$1.18 per share. This is a 16 percent increase over the operating income of \$1.02 per share in the third quarter of 2013. Net income per share for the quarter came in at \$1.21.

Earnings for the quarter were very positive. As we focus on the Farm Bureau niche market and meeting the needs of our customers, our book of business continues to steadily and consistently grow. In addition, results for the quarter were impacted by a number of positive contributing factors.

During the quarter we benefited from \$0.07 per share of investment fee income, which was predominantly in the Annuity and Life Insurance segments. This fee income was due to higher than expected bond prepayments.

Mortality experience for the quarter was better than our projections, by about \$0.06 per share, primarily due to a lower claim count. But as we know, mortality experience by its nature can fluctuate on a quarterly basis.

Expenses came in lower than expected during the quarter due to expense savings initiatives and the timing at which certain expenses are incurred.

Equity income continues to perform well on an after-tax basis, reflecting our investment partnerships and low income housing tax credit investments.

In addition to these items, our per share results reflect the benefit of FBL share repurchases over the past year, with a four percent decrease in weighted average common shares outstanding on a year-over-year basis.

On the other hand, flat equity markets in the third quarter negatively impacted separate account performance, resulting in approximately \$0.02 per share higher DAC amortization for our variable products. This is included in the Corporate & Other segment where we report our closed block of variable business.

Taking into account these various items, I would place normalized operating earnings for the third quarter at just north of \$1.00 per share.

While I'm very pleased with our financial results so far in 2014, the challenges of the persistent low market interest rate environment remain. We have been diligent in proactively managing the profitability of our business and have lowered crediting rates when appropriate, given declining portfolio yields. I am glad to say that in total we are exceeding our target spreads at the end of the third quarter.

During the quarter, the point-in-time spread on our annuity business decreased 3 basis points to 209 basis points at September 30. This spread is above our target of 203 basis points for this business.

Looking at our universal life business, in the third quarter we reduced crediting rates on certain UL products by 50 basis points. As a result, point-in-time spreads on our universal life business increased 5 basis points during the quarter, totaling 154 basis points at September 30, but still remains below our target for this business of 158 basis points.

Given that much of our business is at the guaranteed minimum rate, there is less opportunity to continue to lower crediting rates on certain products.

From an investment perspective, purchases during the quarter focused on long, BBB-rated corporate bonds. Early in the quarter we also saw good relative value in GNMA project loans. During the third quarter, the average tax-adjusted yield on investments acquired backing our long-term business was 4.78%. Our portfolio quality remains high with 96% of fixed maturity securities being investment grade.

Next I'll comment on our strong capital levels.

At September 30, Farm Bureau Life's capital position remains excellent with an estimated company action level risk based capital ratio of 550%. This represents an increase from 531% at the end of the second quarter and is due to the strong earnings during the quarter.

During the third quarter of 2014 our stock repurchase activity was minimal; we repurchased 62,390 shares of stock at a cost of \$2.8 million. As of September 30, we have \$44.2 million remaining on our stock repurchase authorization. We will continue to repurchase FBL shares from time to time as we see opportunities.

We 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 company of approximately \$50 million at September 30. In addition, using 425% RBC as a base, Farm Bureau Life also has excess capital of more than \$140 million at September 30.

Our regular quarterly dividend remains among one of the highest dividend yields in the life insurance industry. FBL's board of directors reviews the dividend rate regularly and will consider the payment of another special dividend as appropriate.

To recap, FBL had an excellent quarter and is managing the profitability of its business despite the challenges of low market interest rates. 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.