FBL Financial Group, Inc.
2Q14 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.

I'd like to take a moment to welcome Ray Wasilewski to the call and introduce him. Ray was named Chief Operating Officer - Life Companies just a week and a half ago. He has served on FBL's Management Team since 2011 as VP of Information Technology and most recently as Chief Administrative Officer. Ray's been with FBL since 1997 as an innovative and productive technology and team leader, and I'm confident in his abilities to lead Farm Bureau Life's operations.

Results for the second quarter were outstanding with net income at $1.14 per share and operating income at $1.05 per share. These results build on the strong financial results in the first quarter and reflect 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 second quarter were mixed. Annuity sales were positive, but life sales are lagging a bit.

Annuity premium collected in the second quarter increased 36% over last year's second quarter and are up 21% year-to-date. The primary driver of this increase is sales of our index annuity product, which remains an attractive annuity option for our agents and customers.

Life insurance sales in the industry are down from last year and our life sales are down as well. For the second quarter, total life insurance premium collected decreased 13% compared to the second quarter of last year. Year-to-date our life insurance premium collected is down 9%. The decrease has been driven by lower universal life sales, which reflect UL product changes we made late last year.

I'm confident we're taking the necessary actions to reverse this trend. We're about to wrap a week-long sales blitz focusing on agent activity with incentives for appointment setting and application submissions. We also have a cross-sell mailing in flight.

In addition to increasing existing agent productivity, we are also focused on increasing our distribution footprint. Within our core eight states where we manage the agency force, this year we have appointed 113 new full-time agents and 64 reserve agents through June 2014. This compares to only 91 new full-time agents appointed last year through June 2013.

As a reminder, our new reserve agent program is where an agent candidate completes a training program that can take up to three months. The candidate is required to achieve certain production minimums on a part-time basis before being contracted as a full-time agent. This program gives us and the agent an opportunity to assess if the candidate is expected to have a successful long term career with us. We're pleased with the results of this program so far and expect it to ultimately increase our total agent count as well as improve retention.

I'd like to spend a moment highlighting our cross-sell success. Despite already being an industry leader, our cross-sell rate has been steadily increasing. At the end of 2009, our cross-sell rate was at 22.7% and today is 23.7%. According to LIMRA statistics, this is double the industry average. Cross-selling is a very strong part of our culture and is a part of our training, compensation, incentives, marketing and more. We see room for further growth from cross-sell as some of our territories have a much higher rate than others. We continue to work to make sure cross-sell best practices are in place in all regions. Most importantly, we have developed the type of agency force where our agents have relationships and personal connections with their customers. This cross-sell success reflects that we are focused on the entire customer relationship. When our customers think of insurance, we want them to think of their Farm Bureau agent.

For the remainder of 2014, we are directing our efforts in several areas:

- As I mentioned, we have several initiatives underway to improve life sales.
- We are proactively addressing the challenges of the low interest rate environment, which is increasingly difficult given what interest rates have done this year. However, I'm pleased that in total we are making our target spreads.
- We are leveraging technology. Most notably, at the beginning of the third quarter we launched a new enterprise financial system. And agents are embracing usage of our e-app for application submissions.
- We are working to ensure we have best-in-class distribution because our exclusive Farm Bureau agency force is one of our most important

competitive advantages. We are implementing transformational changes in the way we recruit and train our agents.

In conclusion, I'm very pleased with FBL's results to date in 2014 and have confidence in the management team and strategies we have in place.

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

As Jim indicated, we had excellent second quarter earnings results with operating income of $1.05 per share. This is a seven percent increase over the operating income of $0.98 per share in the second quarter of 2013. Net income per share for the quarter came in at $1.14.

Earnings results for the quarter were pretty straightforward with the volume of business in force continuing to grow.

Mortality experience for the quarter was a couple pennies per share better than projected, but was still within our range of expectations. Both the claim count and the average claim size were roughly in line with what we would normally expect. With that said, mortality experience by its nature can fluctuate on a quarterly basis.

During the quarter we benefitted from $0.03 per share of investment fee income, which was primarily in the Corporate & Other segment.

In the second quarter we performed our annual review of assumptions used in the calculation of deferred acquisition costs, value of insurance in force acquired and unearned revenue reserves for all of our blocks of business. We unlocked assumptions relating to projected earned spreads, withdrawals, mortality and premium persistency. This resulted in minor adjustments to these balances. The net income statement impact of the change in assumptions including adjustments to other related reserves was to increase pre-tax income by $43,000.

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

Higher equity markets in the second quarter positively impacted separate account performance, resulting in lower DAC amortization for our variable products. This is included in our Corporate & Other segment where we report our closed block of variable business.

In addition to these items, our per share results reflect the benefit of FBL share repurchases over the past year.

Taking into account the prepayment fee income, mortality results and the favorable impact of market performance on our variable business, I would put normalized operating earnings for the second quarter at just under a $1.00 per share.

Looking at results by segment, both the Life and Corporate & Other segments had higher pre-tax operating income compared to the year ago quarter, while the Annuity segment experienced a decrease. The Annuity segment declined primarily due to the impact of unlocking and lower investment fee income.

While I am pleased with our financial results so far in 2014, I remain concerned about the impact of the persistent low market interest rate environment. The 10-year Treasury yield has declined approximately 50 basis points since the beginning of the year, which is making it increasingly difficult to achieve our desired investment yields and meet our spread targets.

We've been proactive in managing the profitability of our business and have been decreasing crediting rates as appropriate given declining portfolio yields. In the second quarter we reduced crediting rates on certain annuity products and effective today we have decreased rates on certain universal life products.

As a result, the point-in-time spread on our annuity business increased 2 basis points during the quarter to 212 basis points at June 30. This spread is above our target of 203 basis points for this business.

Point-in-time spreads on our universal life business, however, decreased during the quarter, totaling 149 basis points at June 30, which is under our target for this business of 159 basis points. The crediting rate actions taking effect today will help to narrow this gap. While we still have room to lower crediting rates on certain products, the blocks on which we can do so are relatively small, making up only 36% of our annuity business and 15% of our universal life business.

From an investment perspective, purchases during the quarter focused on BBB-rated corporate bonds and GNMA project loans where we have seen value. Another area where we're seeing good relative value is our commercial mortgage lending. During the second quarter, the average tax-adjusted yield on investments acquired backing our long-term business was 4.71%.Our portfolio quality remains high with 96% of fixed maturity securities being investment grade.

Next I'll comment on our strong capital levels.

At June 30, Farm Bureau Life's capital position remains excellent with an estimated company action level risk based capital ratio of 531%. This increase from 504% at the end of the first quarter reflects the outstanding earnings during the quarter as well as a reduction in asset risk charges due to the sale or maturity of several lower rated securities.

During the second quarter of 2014 our stock repurchase activity was minimal as we watched our stock price reach all-time highs. During the quarter, we repurchased 70,481 shares of stock at a cost of $3.0 million. As of June 30, we have $47 million remaining on our stock repurchase authorization. We will continue to repurchase FBL shares from time to time as we see opportunities.

In addition to stock repurchases we are deploying capital via our regular quarterly dividend. Our indicated annual dividend of $1.40 per share results in a dividend yield of 3.3%, which makes us the highest dividend yielding stock among publicly traded U.S. life insurance companies. This level of dividend reflects confidence in our business.

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 $55 million at June 30. In addition, using 425% RBC as a base, Farm Bureau Life also has excess capital of approximately $120 million at June 30.

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.