FBL Financial Group, Inc.
1Q16 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning, and thank you to everyone who joined us on the call today.

I am pleased to report that FBL Financial Group once again posted strong earnings results. Net income for the first quarter came in at $1.04 per share and operating income was $1.05 per share.

In addition to strong earnings results, we enhanced shareholder returns with significant dividends in the first quarter. We also continue to maintain very strong capital levels. These results position us well for a successful remainder of 2016.

Sales for the first quarter were strong, with premiums collected up 4.2% over the prior year quarter. Annuity premiums collected were up 12% and life insurance premiums collected were up 1% compared to the first quarter of 2015.

Given the success of two limited offerings of a 4-year guarantee annuity in 2015, we introduced a 4-year guarantee annuity product on an ongoing basis in early February. There is demand for this type of short term annuity product from agents and customers even with the lower interest crediting rate needed to meet our pricing objectives.

In addition to strong fixed rate annuity sales, premiums collected on our indexed annuity product continue to grow. We saw an increase of 33% in the first quarter over the first quarter of 2015.

Life premiums collected were up 1% compared to the first quarter of 2015, led again by sales of whole life insurance. Sales of our indexed universal life product, which we introduced mid-year 2015, are making a good contribution, but were overshadowed by declines in sales of other UL products.

Turning now to our agency force, as of March 31, we had 1,848 total agents and agency managers, plus 62 active reserve agents working to complete the steps necessary to become a full time Farm Bureau agent. Our multiline exclusive agents are one of our most significant competitive advantages. They represent a strong brand and have meaningful relationships with our clients. Our focus in 2016 is to have a fourth straight year of increases in our agent count in the 8-states where we manage the affiliated property-casualty insurance companies. We plan to contract more agents and sales associates, grow agent productivity and increase agent retention.

Now let me turn to the Department of Labor Fiduciary Rule, which was announced last month. As you know, the final rule is over 1,000 pages long and we continue to parse the text. Clearly, the big negative surprise with the final rule was the inclusion of fixed indexed annuities under the more onerous Best Interest Contract Exemption, known as BICE. But there were several positive changes as well, including a longer time period to implement, elimination of burdensome data requirements for disclosures, and clarifying that the required contractual documents can be executed at the time of sale rather than at the initial client meeting.

At this early stage, based on our current understanding of the rule, we have not seen anything that would prohibit us from continuing with our current proprietary product offerings and agent compensation models. However, adjustments and refinements to our current practices and procedures, including additional disclosures and record keeping, will be required. We expect that these changes will involve additional cost and increased risk to us and to our agents.

Our exclusive agency force, which focuses on trusted relationships and needs-based selling, gives us an advantage as we implement changes as a result of this additional regulation. Our agents already take suitability seriously, and we believe our compensation is reasonable. And while we no longer manufacture variable products, we believe that experience will make the transition from giving advice that is suitable to

giving advice that is in the best interest of our clients, easier. We already know our agents and registered representatives, and believe we can deploy the needed training and compliance processes to be compliant with the rule.

Our efforts to establish procedures to comply with the new rule include a formal project team with internal subject matter experts, and increased involvement with associations like the Insured Retirement Institute (IRI) and American Council of Life Insurers (ACLI) and their experts. We are concerned that there remains considerable uncertainty within the industry about the means of complying with various provisions of the rule, but we are hopeful that there will be additional guidance provided by the DOL or industry consensus practices that emerge. We are also working to identify ways to mitigate risks and costs to both us and our agents resulting from doing business under the new regulation.

The effective date of the final rule is June 7, 2016, but the provisions of the final rule will not apply until April 10, 2017. Limited additional transition relief is available until January 1, 2018.

In addition to this new burdensome rule, we face other challenges, such as continued low interest rates, slowing global and domestic growth, increased information technology and cybersecurity costs, and more. While headwinds increase, we continue to produce results. We're able to do this because we have best-in-class distribution with our exclusive Farm Bureau agency force, and a very loyal niche customer base. We also have a very strong capital position and maintain the industry-leading cross-sell rate. Our book of business is balanced between life and annuity business, and we have a diversified, high quality investment portfolio. These factors increase my confidence in FBL Financial Group, despite outside pressures.

Now I'll turn the call over to Don Seibel to 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 some insights regarding our financial results and financial position.

The first quarter of 2016 gave us a strong start to the year. As Jim indicated, operating income for the quarter was $1.05 per share and net income was $1.04 per share.

At a high level I would characterize our first quarter operating income as a little higher than our expectations, primarily due to better than expected mortality results.

I'll focus my comments around our operating results by segment.

Annuity segment results were strong this quarter with spreads meeting our targets.

During the quarter the point-in-time spread on our annuity business decreased by four basis points to 201 basis points. This decrease is due to a decline in the investment yield used for these point-in-time spreads, as it was negatively impacted by an increase in assumed default charges due to investment rating declines, primarily in the energy sector. Note, these are assumed, not actual default charges. We use these point-in-time spreads as we make crediting rate decisions, so we believe it's appropriate and conservative to include a level of assumed defaults. While we are meeting our spread targets for our annuity business as of March 31, going forward, it will be increasingly difficult to earn the target spread given the current interest rate environment. We have 33% of our annuity

business currently receiving a crediting rate above the guarantees, but there are competitive pressures that make it difficult to be aggressive in taking further rate actions.

Investment fee income for the first quarter totaled $1.6 million, with the large majority, $1.5 million, in the Annuity segment. Investment fee income has been at an elevated level for the last several years. As we have discussed previously, investment fee income benefits us in the short-term, but negatively impacts future spreads due to the loss of higher yielding securities.

Results for our life insurance segment were very strong this quarter, higher than our expectations primarily due to lower than expected death benefits. As we know from experience, the number of death claims can vary by quarter and is typically higher in the first quarter of the year. This year in the first quarter, we did see an increase in the number of claims compared to a typical quarter, however, it was not as high as we had originally anticipated. Mortality experience also benefitted from greater reinsurance on our term business than projected.

Spreads on our universal life business are pressured and are not currently meeting our targets, as much of this business is at the minimum guarantee. Point-in-time spreads on our universal life business totaled 139 basis points at March 31, which is below our target for this business of 153 basis points. Like the annuity segment, it will be difficult to improve the current universal life spreads going forward given today's interest rate environment. While 19% of our universal life business is receiving a crediting rate above the guarantees, there are competitive pressures that make it difficult to be aggressive in taking further rate actions on the in-force block of business.

Results for our Corporate & Other segment were below our expectations due primarily to a higher level of death benefits.

Next, I will turn to our balance sheet and capital position.

In our last conference call, I provided detail on our energy exposure. Since that time, oil prices have increased and the outlook for the sector has improved. Our energy portfolio had a carrying value of $518 million as of March 31st, and was trading at 91% of amortized cost, with $39 million of net unrealized losses. This exposure represents 6.6% of our total investments and is well diversified across subsectors. Further details regarding our investment in securities in the energy sector can be found in our Form 10-Q.

Next I'll comment on our capital levels.

In March we announced an increase in our regular quarterly dividend rate to $0.42 per share from $0.40 per share. Based on yesterday's closing stock price, this gives us a dividend yield of 2.8%. We are committed to having an attractive dividend yield, given our strong and consistent operating results. With a quarterly dividend rate of $0.42 per share, we expect to pay out approximately $42 million in regular quarterly dividends in 2016. Also in March we paid a $2 per share special dividend, for a total of $49.7 million deployed. We last paid a special dividend in 2015, and view the payment of special dividends, on occasion, as a viable option for distributing a portion of our excess capital.

At March 31, the capital position of our wholly-owned subsidiary, Farm Bureau Life, remained excellent with a company action level risk based capital ratio of 539%. This is a decrease from the year-end level of 570%, reflecting dividends paid from Farm Bureau Life to the holding company to fund the special dividend.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $140 million at March 31. At the holding company level we also have more than adequate liquidity and capital with excess capital at the parent company of approximately $30 million at March 31.

Stock repurchases remain a capital deployment option for us, although it is not the focus for us that it once was. During the first quarter we repurchased minimal shares of FBL stock. Our previous stock repurchase authorization expired on March 31, 2016. Our board approved a new $50 million repurchase program during the first quarter, which expires on March 31, 2018. We plan to use this authorization over time to offset dilution from stock option exercises as well as repurchase FBL shares as we see opportunities.

To recap, FBL had a good quarter with strong operating profits. We returned more than $60 million to our shareholders in the form of dividends, and have very strong capital levels. I'm pleased to have been able to share these results with you.

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