FBL Financial Group, Inc.
1Q13 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.

FBL Financial Group is off to a great start in 2013 with a very strong first quarter. We experienced positive life insurance sales, deliberately decreased annuity sales and had continued steady and consistent earnings from Farm Bureau Life. Net income was $0.96 per share and operating income was $0.89 per share. Don will be covering the financial results in detail.

Our emphasis on life insurance products continues to drive sales. During the first quarter, life insurance premium collected increased 27%. Our largest increase came from our traditional universal life products. Those sales increased steadily throughout 2012 and that trend has continued in 2013. This reflects our emphasis on life insurance as well as product changes implemented in late 2011. This is a very positive increase, but we wouldn't expect to see this rate of increase continue.

Annuity premium collected during the first quarter was down 28%. This reflects our deliberate reduction of annuity sales through the suspension of short term deferred and immediate annuity products, lower agent compensation on renewal premiums of select annuity products, and limits on renewal premiums for certain products.

In the first quarter our premiums collected split was 50% life and 50% annuity. This compares to a split of 35% life and 65% annuity in the first quarter of last year. I'm pleased with this shift in sales. It diversifies risk. Life sales also lead to a long term profit stream for Farm Bureau Life and allow us to continue to grow earnings from sources other than spread income.

Consumers are finding life products to be attractive, particularly given the investment environment and alternatives with fixed annuities.

We participated in several investor meetings and conferences during the past quarter so I was able to spend time with investors and hear directly from them. We continue to get consistent positive feedback about the strength of our Farm Bureau niche and our multiline agency force.

We continue to benefit from our close ties to the unique needs of the agricultural market. Many areas within our marketing footprint are experiencing strong economies, fueled by the agricultural and energy industries. This "wealth effect" has sparked additional interest in life insurance through our business succession seminars. These continue to be a part of our life sales strategy and so far this year we've held 59 seminars.

I recently spent time with a large group of our best Farm Bureau agents and again I came away from those meetings convinced that our multiline exclusive Farm Bureau agency force is one of our greatest assets. These individuals are entrepreneurs who have client relationships based on trust. Our agents live and work next to our customers and sit down across the kitchen table with them to assess and fulfill their insurance needs, and offer solutions that help protect what matters most. When our customers think of insurance, they think of their Farm Bureau agents. We view it as a customer relationship, not a transaction.

As I mentioned last quarter, we are implementing long-term initiatives geared towards better agent recruiting and retention, training and leadership support.

With increased recruiting requirements, we would expect to recruit fewer people, yet retain more of them. Our focus is to source and select only candidates that we believe will have long-term success with our companies. Part of this strategy is to identify successful agents as early as possible in their career and support them better. Converting to this strategy will likely cause a temporary dip in agent numbers. Over time, however, we'll be building an even stronger and larger agency force with higher retention rates.

We've had an excellent first quarter and are pleased with our progress to date in 2013.

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

As Jim indicated, for the first quarter we had net income of $0.96 per share and operating income of $0.89 per share. During the quarter our operating income adjustments consisted primarily of net realized gains on investments totaling $0.07 per share.

Earnings were very strong this quarter and were positively impacted by several items.

During the quarter we again experienced significant investment fee income, particularly in the annuity segment. In total, investment fee income for the quarter amounted to $0.04 per share. The fee income relates to bond calls and prepayments and has been running at a higher level for the last several quarters and may continue at this higher level given the low interest rate environment. It's nice to receive this additional investment income, but the downside is that the securities being called are often our higher yielding securities. This of course is putting pressure on our spreads.

The improved equity markets positively impacted separate account performance, resulting in lower DAC amortization for our variable products. This was a benefit of $0.03 per share and is included in our Corporate and

Other segment where we have our closed block of variable business.

Death benefits fluctuate on a quarterly basis and are typically higher in the first quarter. However, this quarter we experienced favorable mortality due to smaller variable universal life claims and fewer term life insurance claims. Mortality was approximately $0.05 per share better than we would expect for the first quarter and was about $0.02 per share better than what we expect for each of the remaining quarters of 2013.

If I were to exclude these various positive items and take into account the seasonality of death claims, normalized earnings for the quarter would be around $0.80 per share.

Equity income, which is related to our securities and indebtedness of related parties line on our balance sheet, continues to perform well on an after-tax basis. Consistent with the fourth quarter of 2012, we are benefitting from increased income from investment partnerships and from low income housing tax credit investments.

Turning now to spreads, at March 31, the point-in-time spread on our annuity business totaled 226 basis points, a decrease of two basis points from last quarter, but still well in excess of the target for this business of 200 basis points. We still have some room for additional crediting rate changes as 37% of our annuity business is above the minimum guarantee with a significant portion at more than 100 basis points above the minimum.

Point-in-time spreads on our universal life business decreased during the quarter by 18 basis points to 148 basis points, which is below our target for this business of 170 basis points. The decrease is due to a decline in the investment yield during the quarter. The decrease in yield this quarter was larger than we have observed in recent quarters due in part to a few high coupon securities that were called or matured during the quarter. For the UL business, yields on investment purchases made during the quarter were at an average of 4.47%, while the yield on securities disposed of during the quarter was 6.13%.

The universal life block of business is much smaller than our annuity block. It has interest sensitive reserves of $707 million, which compares to the annuity business with interest sensitive reserves of $3.1 billion. Approximately 43% of this business is crediting interest at rates above the minimum guarantee. In May, we decreased the crediting rate on many of our products to narrow the gap between our actual and target spreads. For some of this business we are limited in the frequency with which we can make crediting rate changes, and have one block where it can only be done annually.

From an investment perspective, we are addressing the low market interest rate environment by selectively increasing investment allocations to several non-core asset classes, such as CLOs, non-agency RMBS and tax exempt. We are making relatively small allocations to these sectors where we see opportunities for some investment yield pickup. We have a very talented in-house securities staff that makes the large majority of our investment decisions, but we do not have the resident expertise for some of these asset classes and are using outside investment managers when appropriate. This has helped to enhance our acquisition yields. We're very cognizant of the increased risk/return profile of these asset classes, and are managing accordingly. Our portfolio quality continues to be very high with 95% of fixed maturity securities being investment grade. During the first quarter of 2013, the average yield on investments acquired backing our long-term business was 4.49%.

We continue to scrutinize the investment portfolio's European exposure. Our long term outlook for the Euro zone remains negative, so we have completed a review of all of our European credits. Overall, we own $349 million of bonds from companies headquartered in Europe, with about 40% in the United Kingdom. From a sector standpoint, 75% of these securities are issued by industrial or utility companies with the balance being in the financial sector. We have no significant credit-related concerns with these securities since we have no exposure to sovereign issues and virtually no exposure to financials in the most distressed countries.

Next I'll comment on our capital strength. Farm Bureau Life's capital position is excellent with an estimated company action level risk based capital ratio of 519% at March 31, an increase from 504% at year-end 2012. Using an RBC level of 425% as a base, Farm Bureau Life has an estimated $115 million in excess capital. In addition, there is more than adequate liquidity and capital at the holding company level with excess capital at the parent of approximately $90 million. This results in total estimated excess capital of $205 million.

During the first quarter we repurchased 158,927 shares of our common stock at a cost of $5.5 million, for an average acquisition price of $34.82 per share. We're pleased that we repurchased these shares at an attractive price well below book value. As of March 31, we have $29.0 million remaining in stock repurchase authorization.

Given our level of excess capital, we continue to evaluate a number of capital deployment opportunities such as increasing the regular quarterly dividend, continuing to repurchase FBL stock, and/or issuing a special one-time dividend. In addition, we're open to inorganic growth through mergers or acquisitions of blocks of business, but the timing related to that is obviously harder to control. We don't expect to hold this level of excess capital in perpetuity, but are not ready to announce any actions today.

In closing, it was a great quarter for FBL Financial Group. 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.