FBL Financial Group, Inc.
1Q17 Conference Call

Jim Brannen
Chief Executive Officer

Thanks Kathleen. Good morning, and thank you to everyone on the call. I'm glad you are able to join us today.

FBL Financial Group reported excellent earnings for the first quarter of 2017. In fact it was the best first quarter we've ever had. Net income was $1.05 per share and operating income was $1.08 per share. These results reflect our discipline to profitably grow our business.

Total premiums collected for the first quarter were $170 million.

Annuity premium collected for the first quarter was down 4.9% compared to the first quarter of 2016. Fixed rate annuity sales grew during the quarter. Sales of these products are impacted by the crediting rate we are able to offer. Rates on our 4-year multiyear guaranty annuity product remain relatively low, but are higher than they were a year ago. We continue to maintain our financial discipline and only offer credited rates that allow us to meet our pricing objectives.

Premiums collected on our indexed annuity product declined for the quarter after increasing 38% for the full year of 2016.

Life premium collected for the first quarter of 2017 was up 2.6% compared to the first quarter of 2016. We saw the greatest growth in our universal life sales, reflecting increased sales of our index universal life product.

In April the Department of Labor modified the applicability dates of the fiduciary rule. We are now required to be in compliance with the Impartial Conduct standards of the rule by June 9, 2017, and the remaining provisions of the rule by January 1, 2018. The majority of our agency force has already completed the necessary training to comply with the requirements of the rule.

This new regulation, along with low interest rates and other factors, is challenging growth. Given our desire for further growth, we have a variety of initiatives in place.

- Our Indexed Academy is helping to ensure that agents understand and are confident about all aspects of indexed products.
- We’ve created a new Advanced Life Academy for experienced agents. The first one was held at the end of March and was very well received.
- We’ve introduced a variety of digital initiatives. These are expected to improve customer experience and allow customers a greater range of online access.

We recently began an accelerated underwriting program on a pilot basis. This program is a non-medical underwriting approach that includes:

- an oral swab, which can detect nicotine use,
- an electronic inspection report, which can catch a variety of risks and,
- a diagnostic review which, for a portion of applicants, will provide insight into previous medical lab results.

The pilot program is directed to the middle market to attract customers who need to protect their family’s livelihood with life insurance. This pilot will include a sales campaign in each of our states of operation.

The new program is available for ages 18-59 and for face amount coverage from $100,000 to $250,000. We have limited the program in order to minimize risk while evaluating underwriting results and consumer demand.

As of March 31, we had 1,839 agents and agency managers, plus 60 active reserve agents in the pipeline working to complete the steps necessary to become full-time Farm Bureau agents. Our focus is to retain our current agents, add new agents and increase our total agent count. We have seen steady growth in agent numbers over the last few years.

We continue to have success with our reserve agent program, and made some refinements at the beginning of 2017 in order to optimize the new agent experience. We lengthened the program to a minimum of two months and a maximum of four months, while increasing validation requirements tied to the duration of the program. Refinements were also made to further assist new agents in developing good prospecting and sales habits.

Our exclusive agents are critical to our success and we are dedicated to providing them with the tools and training they need to be successful.

To conclude, our excellent first quarter financial results give us a great start to 2017. We move forward in 2017 supporting our best-in-class distribution, serving the Farm Bureau niche, and maintaining financial discipline.

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 glad to be here today to provide some insights regarding our earnings and capital position.

As Jim indicated, net income for the quarter was $1.05 per share and operating income was $1.08 per share. During the quarter our operating income adjustments totaled $0.03 per share from net realized losses on investments.

Results in total were very strong, with results for each our segments better than our expectations.

Looking at our Annuity segment, pre-tax operating income was strong and reflects growth in this block of business. However, there continues to be pressure on spreads. Until the first quarter of 2017, we've been able to meet or exceed our target spreads on our individual annuity block despite the long period of low market interest rates. This quarter, however, our actual spread moved below our target. At March 31, the total spread on our individual annuity business was 198 basis points, three basis points below target for this business.

Next I'll comment on the results for our Life Insurance segment. Death benefits in this segment were within our range of expectations, although higher than the first quarter of 2016. This segment also benefited for the first time from equity income.

Historically our alternative investments have been reported in the Corporate & Other segment. These investments are in the securities and indebtedness of related parties line on the balance sheet and consist of low income housing tax credit investments, investment companies and real estate investment partnerships. In the first quarter of 2017, we began to tag a portion of these investments to the Life Insurance segment. This allows us to add capacity to invest in alternative investments, lengthen the duration of the Life Insurance portfolio and increase the investment yield in the Life Insurance segment. This move also improves the liquidity profile of the Corporate & Other segment. You'll note a new line for this equity income added to the Life Insurance segment in the Form 10-Q and investor supplement. These investments contributed $1.2 million before tax to the Life Insurance segment in the first quarter.

We also see spread pressure in the Life Insurance segment, where spreads are not meeting our targets. Point-in-time spreads on our universal life business declined during the first quarter to 138 basis points at March 31, below our target for this business of 150 basis points.

Results for the Corporate & Other segment were also above expectations. This segment benefitted from lower amortization of acquisition costs due to the positive impact of equity markets on separate account performance. This segment includes our closed block variable business. This segment also benefitted from lower expenses this quarter.

I'll take a moment to discuss our investment portfolio, given the continued pressure on spreads.

As of March 31, we had total investments of $8.3 billion, plus $133 million of alternative investments included in the securities and indebtedness of related parties line on the balance sheet. The majority of our investments - $7.1 billion - are fixed maturity securities, with below investment grade bonds accounting for 4.4% of the fixed maturity total. Looking at our portfolio composition compared to public company peers, we generally have a higher allocation to structured product and municipal securities, and a lower allocation to commercial mortgage loans.

This past quarter we performed our annual investment peer study. Our investment area is doing an excellent job of managing our investments in this low interest rate environment. Based on this analysis, Farm Bureau Life's net investment yield exceeds that of peers by 35 basis points on average, while being the same or better risk profile. We're pleased with this outperformance, but portfolio yields continue to decrease given the maturity of higher yielding assets and purchases of lower yielding assets. In the first quarter the average tax-adjusted yield on investments acquired backing our long-term business was 4.18%. So far in 2017 we are finding value in structured product and also emphasizing mortgage loan production. We are also focusing on adding duration when appropriate.

There is pressure on spreads as the average yield on securities disposed of during the first quarter was 5.53%. It is difficult to lower crediting rates on our inforce business much further as we had only 34% of our annuity business and 22% of our universal life business receiving a crediting rate above the minimum guarantees as of March 31.

Before I comment on our capital strength, I want to make a couple more comments on our first quarter financial results.

In the first quarter of 2017 we adopted new accounting guidance relating to share-based compensation. Specifically, certain tax benefits relating to stock-based compensation, previously recorded directly to equity, are now recorded in the income statement. This resulted in a $0.02 per share federal tax benefit in the first quarter. Periodically, we will recognize similar benefits as stock option exercises and distributions of our stock from certain deferred compensation plans occur. However, we do not expect this to occur on a regular basis and will over time become immaterial as our stock-settled compensation plans have been frozen and replaced with cash-settled plans.

To summarize, our operating earnings were very strong this quarter at $1.08 per share. I estimate approximately $0.08 per share of these earnings were from sources that aren't necessarily repeatable on a consistent basis. These sources include:

- decreased DAC amortization due to market performance
- better than expected equity income
- tax impact of share-based compensation, and
- lower expenses.

Next I will make some comments regarding our capital. In March we announced a 4.8% increase in our regular quarterly dividend rate to $0.44 per share from $0.42 per share. Based on yesterday's closing stock price, this gives us an indicated dividend yield of 2.6%. We are committed to having an attractive dividend yield, given our strong and consistent operating results. Also in March, because of our strong excess capital position, we elected to pay a $1.50 per share special dividend. We were pleased to pay this special dividend, which totaled $37.4 million. Special dividends are an appealing option for us to distribute some of our excess capital from time to time.

At March 31, the capital position of our wholly-owned subsidiary, Farm Bureau Life, was excellent with an estimated company action level risk based capital ratio of 544%. This ratio remains unchanged from year end 2016.

Using 425% RBC as a base, Farm Bureau Life had excess capital of approximately $150 million at March 31. Additionally, we estimate that we have approximately $30 million of excess capital at first quarter end at the holding company level.

In closing, FBL had a great first quarter with strong operating profits. We returned more than $48 million to our shareholders in the form of dividends, while maintaining very strong capital levels.

I'm pleased to have been able to share these results with you. We will now turn the call over to the operator and open it up to any questions you may have.