FBL Financial Group, Inc.
3Q13 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.

During the third quarter we completed several capital management actions, grew life insurance sales and delivered outstanding results. Net income was very strong at $1.04 per share and operating income was $1.02 per share. Don will be covering the financial results and capital management actions in detail.

Our emphasis on life insurance products continues to produce results. During the third quarter, life insurance premium collected increased 24%, for a year-to-date increase of 29%. We're seeing sales growth in all of our life products, but it has been particularly strong for our suite of universal life products. Last year we enhanced our core universal life product by adding cash value accumulation. This aligned us better with the industry, as we made this product more competitive in situations where the client wants to put in excess premium. We are also seeing increased sales of our single pay universal life product. It is a wealth transfer product called Traditions UL. We attribute these increased UL sales in part to continued strength in the ag and energy sectors of the economy in our marketplace.

We're pleased with the level of life sales as they produce a long term profit stream and allow us to continue to grow earnings from sources other than spread income.

Annuity premium collected during the third quarter was down 5% and down 23% year-to-date, reflecting the emphasis on life sales. As you know, we deliberately reduced annuity sales through the suspension several quarters ago of our short term deferred and immediate annuity products. However with the recent rise in interest rates, we've taken several actions to modestly increase annuity sales.

- We're emphasizing sales of products with low guaranteed crediting rates.
- We have also partially restored agent commissions that we previously lowered.
- We also completed a direct mail campaign to existing customers most likely to purchase an annuity. This is one of our cross-selling tactics that involves agent follow-up, which reinforces the agent relationship and the practice of regular needs assessments.
- And finally, we had a special incentive campaign challenging our multiline agents to increase their annuity and life applications.

We've taken these actions to increase annuity sales, but we are not yet ready to reintroduce our shorter term products. We continue to monitor the interest rate environment and are prepared to relaunch these products when the time is appropriate.

Next, I want to discuss our recent investment acquisition strategies. During the year we bolstered yields on new acquisitions while maintaining the high credit quality of our investment portfolio. We took advantage of market sector and interest rate volatility by being very tactical as the market environment changed through the year. Our average acquisition yield for Farm Bureau Life on a tax-adjusted basis in the third quarter was 5.52% and year-to-date was 4.80%. This excludes the securities supporting the Federal Home Loan Bank funding agreements.

Earlier in the year when longer-term rates were extremely low, we emphasized shorter, structured products such as floating rate CLO's and non-agency mortgage-backed securities. We accomplished this through a combination of internal expertise and select external mandates. As long rates rose, we shifted our emphasis to long-dated corporate bonds and municipals. We were able to take advantage of historically extreme values that developed in the tax-exempt sector during the summer months, adding more than $190 million in tax-exempt securities, largely NAIC 1s, at an average yield of 5.06%.

We've also been active in commercial mortgage loans, and are on track to achieve our 2013 loan origination goal of more than $100 million. Our commercial mortgage loan portfolio continues to be of high quality with no delinquencies as of September 30, 2013.

We've also invested in several low income housing tax credit funds and have added several high yielding equity income investments. These actions cumulatively have helped bolster our overall yields.

You'll notice we added disclosures in our financial supplement on our equity income investments, particularly our low income housing tax credit investments. This additional disclosure should be helpful in understanding the positive impact of these investments.

In September we held our annual Life Sales Seminar. We had record attendance at this event, with more than 625 agents and sales associates. I am excited and inspired after having spent time with these agents that self-select and pay their own way to attend this seminar. This annual event is an opportunity for agents to gather, share sales ideas, meet with management and hear from industry experts and great speakers on topics ranging from product positioning to effective time management strategies. They learned about prospecting, explaining life insurance solutions, cross-selling and more, all to better protect the livelihoods and futures of our customers.

Our cross-sell rate continues to be industry leading at 24%. According to LIMRA statistics, this is double the industry average. While we are industry leading in this regard, we see opportunity for further growth 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 and that cross-selling is a strong part of our culture.

This means that we are making sure that we have the right training and development opportunities in place for all agents, that field leadership is accountable to cross-sell results and that we have the proper tools in place.

We know that customer satisfaction is higher for customers who own a life product in addition to their property and casualty products, and account retention increases with additional product ownership. Agents who cross-sell are more successful as well, from both production and retention perspectives.

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). When A.M. Best increased Farm Bureau Life's outlook to Positive from Stable in January of this year, they communicated that in order for an upgrade to occur in the future Farm Bureau Life needs to continue to demonstrate its positive trends in life sales, earnings and capital. We have done all of that. We are confident that Farm Bureau Life meets, even exceeds, the requirements for an upgrade and that we've made a strong case. So, we wait in anticipation of A.M. Best's decision, which we expect before the end of the year.

In conclusion, I'm very pleased with FBL's results to date, including the capital management actions completed in the third quarter and throughout the year. Farm Bureau Life's business is growing and we are making good progress on a host of internal investments in efficiency. I'm 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 very strong third quarter results. I'll discuss our financial results, spreads and capital position.

As Jim indicated, for the third quarter we had net income of $1.04 per share and operating income of $1.02 per share. During the quarter our operating income adjustments, which consist primarily of net realized gains on investments, totaled $0.02 per share.

We had outstanding earnings results again this quarter. In addition to being driven by an increase in the volume of our business in force, earnings for the quarter were positively impacted by several items.

We experienced a one-time benefit of $0.07 per share from the refinement in the calculation of unearned revenue reserves. In future quarters, certain guaranteed product charges relating to our universal life secondary guarantee product that were previously deferred and amortized into income over the lifetime of the contract will be recognized in income in the period assessed. This change in accounting resulted in a one-time increase to interest sensitive product charges of $6.3 million, an increase to the change in reserves of $2.5 million and an increase to DAC amortization of $1.0 million.

During the quarter we continued to experience an elevated level of investment fee income, particularly in the annuity segment and to some degree in the life insurance segment. In total, investment fee income for the quarter amounted to $0.05 per share. This fee income relates to commercial mortgage loan and bond prepayments. While I expect this activity to slow at some point with rising interest rates, it has remained elevated for several quarters.

The improved equity markets positively impacted separate account performance, resulting in lower DAC amortization for our variable products. This was a benefit of $0.02 per share and is included in our Corporate and Other segment where we report our closed block of variable business.

If we were to exclude these various positive items, normalized operating earnings for the quarter would be around $0.88 per share.

Results for the quarter also reflect mortality experience that was in line with expectations.

At September 30, the point-in-time spread on our annuity business decreased from last quarter by four basis points to 215 basis points. However, this spread of 215 basis points is in excess of the target of 204 basis points for this business. We've been proactive about decreasing our crediting rates for this line of business and still have room for additional crediting rate changes. 38% of our annuity business is above the minimum guarantee with a significant portion at more than 100 basis points above the minimum. Of the block of annuities crediting interest at guarantee levels, 36% is still achieving or exceeding target spreads.

Point-in-time spreads on our universal life business totaled 145 basis points at September 30, which is below our target of 163 basis points for this business for a deficiency of 18 basis points. During the quarter we took crediting rate actions on several products, thereby narrowing this deficiency by three basis points.

Approximately 36% of our UL business is crediting interest at rates above the minimum guarantee, so we still have the latitude to manage crediting rates for a good portion of this business. Of the block of universal life business crediting interest at guarantee levels, 18% is still achieving or exceeding target spreads.

Next I'll comment on our recent capital deployment actions and our current capital position.

During the quarter we were very active and completed a series of transactions that deployed more than $147 million of FBL's capital and reduced FBL's leverage ratio.

First we deployed $51 million of capital by paying a special dividend of $2.00 per share to shareholders of record as of September 6.

Next we executed a tender offer for 99% of our Class B common shares, which are only owned by Farm Bureau entities. In order for voting interests to be maintained, all Class B shareholders had to either tender 99% of their Class B shares or convert them to Class A. As a result, we repurchased 1,023,948 Class B shares for $46.4 million and several shareholders converted 105,930 Class B shares to Class A shares.

We also paid off affiliate debt of $50 million. This was scheduled to mature in May of 2015 and was pre-payable at par. This is positive as the interest we were paying on this debt was higher than our portfolio yield, so we have savings there.

On top of these transactions, we also increased our regular quarterly dividend by 36% to $0.15 per share.

We financed these actions in part with a $120 million dividend from Farm Bureau Life to the holding company. This dividend reduced Farm Bureau

Life's company action level risk based capital ratio by roughly 100 points. However, Farm Bureau Life's RBC ratio remains very robust with an estimated RBC of 450% at September 30.

These capital actions created a win-win situation for FBL and its shareholders. We were able to return excess capital to our shareholders, reduce our leverage ratio, reduce shares outstanding and, at the same time, increase FBL's public float. Collectively, these actions are accretive to operating income per share.

We still have financial flexibility as there is more than adequate liquidity and capital at the holding company level with excess capital at the parent of approximately $80 million. In addition, using 425% RBC as a base, Farm Bureau Life has excess capital of approximately $30 million.

To recap, FBL remains financially strong and the strategies we have in place for steady growth and profitability produced another quarter of strong earnings and shareholder value. 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.