

Kansas City Life Insurance Company

2014 First Quarter Report

1



Includes our subsidiaries:

Sunset Life Insurance Company of America

Old American Insurance Company

Sunset Financial Services, Inc.

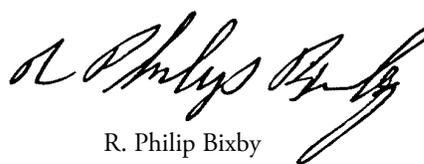
Post Office Box 219139
Kansas City, Missouri 64121-9139
Listing: NASDAQ
Stock Symbol:KCLI
www.kclife.com



Message *from the President, CEO and Chairman of the Board*

Kansas City Life Insurance Company recorded net income of \$5.5 million or \$0.50 per share in the first quarter of 2014, an increase of \$0.3 million or \$0.03 per share relative to the same quarter in the prior year. This increase was primarily the result of increased contract charges, lower policyholder benefits, and reduced interest credited to policyholder account balances. The improvement in contract charges was largely due to the reinsurance transaction effected in the second quarter of 2013. The decrease in policyholder benefits reflected a decline in benefit and contract reserves and a decrease in death benefits, net of reinsurance. The reduction in reserves was largely due to a decrease in immediate annuity premiums that resulted from a lower volume of conversions of fixed deferred annuities compared to one year earlier. The change in interest credited to policyholder account balances reflected lower average crediting rates, including reduced interest bonuses, as well as a decrease in policyholder account balances. These items were partially offset by a decrease in net investment income and lower immediate annuity premiums.

On April 28, 2014, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on May 14, 2014 to stockholders of record as of May 8, 2014.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>March 31</u>	<u>December 31</u>
	2014	2013
ASSETS	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,689,641	\$ 2,618,620
Equity securities available for sale, at fair value	24,024	23,116
Mortgage loans	599,193	629,256
Real estate	143,054	142,536
Policy loans	83,074	83,518
Short-term investments	34,413	40,712
Other investments	<u>7,694</u>	<u>12,517</u>
Total investments	3,581,093	3,550,275
Cash	10,372	8,197
Accrued investment income	36,720	33,795
Deferred acquisition costs	250,713	256,386
Reinsurance recoverables	191,121	191,055
Property and equipment	17,541	17,524
Other assets	61,612	64,018
Separate account assets	<u>392,509</u>	<u>393,416</u>
Total assets	<u>\$ 4,541,681</u>	<u>\$ 4,514,666</u>
LIABILITIES		
Future policy benefits	\$ 919,237	\$ 910,228
Policyholder account balances	2,092,312	2,096,212
Policy and contract claims	35,895	36,783
Other policyholder funds	161,451	160,421
Other liabilities	196,779	192,202
Separate account liabilities	<u>392,509</u>	<u>393,416</u>
Total liabilities	<u>3,798,183</u>	<u>3,789,262</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share		
Authorized 36,000,000 shares,		
issued 18,496,680 shares	23,121	23,121
Additional paid in capital	40,994	40,989
Retained earnings	825,949	823,408
Accumulated other comprehensive income	29,771	14,170
Treasury stock, at cost (2014 - 7,528,848 shares;		
2013 - 7,527,841 shares)	<u>(176,337)</u>	<u>(176,284)</u>
Total stockholders' equity	<u>743,498</u>	<u>725,404</u>
Total liabilities and stockholders' equity	<u>\$ 4,541,681</u>	<u>\$ 4,514,666</u>

Please refer to the Company's Form 10-Q and Annual Report on Form 10-K.



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, except share data)

	Quarter Ended March 31	
	2014	2013
REVENUES	(Unaudited)	
Insurance revenues:		
Net premiums	\$ 41,787	\$ 54,416
Contract charges	28,798	24,348
Total insurance revenues	70,585	78,764
Investment revenues:		
Net investment income	40,691	42,410
Net realized investment gains, excluding other-than-temporary impairment losses	1,665	446
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(213)	(187)
Portion of impairment losses recognized in other comprehensive income	51	58
Net other-than-temporary impairment losses recognized in earnings	(162)	(129)
Total investment revenues	42,194	42,727
Other revenues	2,333	2,233
Total revenues	115,112	123,724
 BENEFITS AND EXPENSES		
Policyholder benefits	52,754	61,148
Interest credited to policyholder account balances	18,946	19,663
Amortization of deferred acquisition costs	8,828	8,865
Operating expenses	26,620	26,504
Total benefits and expenses	107,148	116,180
 Income before income tax expense	7,964	7,544
Income tax expense	2,462	2,356
NET INCOME	\$ 5,502	\$ 5,188
 COMPREHENSIVE INCOME, NET OF TAXES		
Change in net unrealized gains on securities available for sale	\$ 19,365	\$ 9,473
Change in future policy benefits	(3,633)	287
Change in policyholder account balances	(131)	12
Other comprehensive income	15,601	9,772
COMPREHENSIVE INCOME	\$ 21,103	\$ 14,960
 Basic and diluted earnings per share:		
Net income	\$ 0.50	\$ 0.47

Please refer to the Company's Form 10-Q and Annual Report on Form 10-K.

