

# Kansas City Life Insurance Company

## 2012 First Quarter Report

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*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](http://www.kclife.com)



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

Kansas City Life Insurance Company recorded net income of \$19.4 million or \$1.72 per share in the first quarter of 2012, a \$14.7 million or \$1.30 per share increase relative to the same quarter in the prior year. The increase in earnings was primarily due to an increase in realized investment gains, largely from the sale of several real estate properties during the first quarter of 2012. Net realized investment gains totaled \$15.7 million in the first quarter, an increase of \$14.9 million over the first quarter of 2011. In addition, reduced policyholder benefits, amortization of deferred acquisition costs, and operating expenses also significantly contributed to the improved earnings results.

Insurance revenues declined \$2.0 million or 3% in the first quarter of 2012, largely due to lower sales of immediate annuities. Partially offsetting the reduced sales of these fixed-rate annuity products, renewal premiums increased \$1.8 million. The improvement in renewal premiums reflected increases in individual life and group accident and health product revenues. Both new and renewal premiums increased at Old American, providing an overall improvement in insurance revenues of \$0.6 million or 4% for this segment.

Deposits on the Company's interest sensitive products increased \$4.0 million or 7% versus the prior year. This was largely the result of a \$4.3 million or 29% increase in new fixed deferred annuity deposits. In addition, new universal life deposits increased \$0.5 million or 17%. Partially offsetting these changes, total renewal deposits decreased \$0.8 million or 2%.

Total investment revenues, which includes net investment income and net realized investment gains and losses, increased \$13.7 million or 30% compared with the prior year. This improvement resulted from a \$14.9 million increase in net realized investment gains. The gains were primarily driven by the sale of several real estate interests, which generated net realized gains of \$15.2 million. The Company has a long history of investing in real estate, and approximately 3% of investments were in this asset class at March 31, 2012. The increased gains were partially offset by a reduction in net investment income of \$1.2 million or 3% compared with the prior year. The decrease in net investment income was primarily the result of a decrease in yield on the Company's securities portfolio.

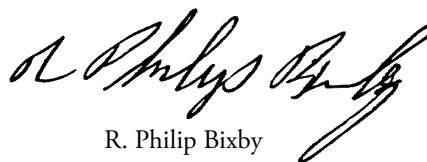
Policyholder benefits declined \$6.8 million or 15% for the first quarter of 2012 compared with the same period one year earlier. This decrease was largely the result of an improvement in mortality for the period. In addition, group accident and health benefits declined, largely due to reduced policyholder benefits on dental products.



The amortization of deferred acquisition costs decreased \$1.7 million or 18% in the first quarter compared with the prior year. This decrease was largely the result of reduced amortization on variable products, primarily due to improved equity market performance and full amortization of a significant volume of policies in 2011.

Finally, operating expenses decreased \$1.9 million or 7% in the first quarter of 2012 versus the prior year. This decrease was largely the result of a decline in employee benefits and lower charge-offs on agent receivables.

On April 23, 2012, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on May 9, 2012 to stockholders of record on May 3, 2012.

  
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>
	2012	2011
<b>ASSETS</b>	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,770,777	\$ 2,682,142
Equity securities available for sale, at fair value	37,245	36,689
Mortgage loans	573,702	601,923
Real estate	98,595	127,962
Policy loans	79,574	80,375
Short-term investments	54,293	49,316
Other investments	3,113	3,364
Total investments	<u>3,617,299</u>	<u>3,581,771</u>
Cash	5,172	10,436
Accrued investment income	38,981	34,705
Deferred acquisition costs	179,987	181,564
Reinsurance receivables	191,214	189,885
Property and equipment	22,419	22,671
Other assets	60,576	60,601
Separate account assets	341,250	316,609
Total assets	<u>\$ 4,456,898</u>	<u>\$ 4,398,242</u>
 <b>LIABILITIES</b>		
Future policy benefits	\$ 880,071	\$ 879,015
Policyholder account balances	2,105,428	2,089,452
Policy and contract claims	33,836	36,511
Other policyholder funds	151,005	152,125
Other liabilities	217,661	213,825
Separate account liabilities	341,250	316,609
Total liabilities	<u>3,729,251</u>	<u>3,687,537</u>
 <b>STOCKHOLDERS' EQUITY</b>		
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	41,106	41,101
Retained earnings	797,305	780,918
Accumulated other comprehensive income	30,636	30,086
Treasury stock, at cost (2012 - 7,187,203 shares;		
2011 - 7,187,315 shares)	(164,521)	(164,521)
Total stockholders' equity	<u>727,647</u>	<u>710,705</u>
 Total liabilities and stockholders' equity	<u>\$ 4,456,898</u>	<u>\$ 4,398,242</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	
	2012	2011
	(Unaudited)	
<b>REVENUES</b>		
Insurance revenues:		
Premiums, net	\$ 32,704	\$ 33,625
Contract charges	25,133	26,234
Total insurance revenues	57,837	59,859
Investment revenues:		
Net investment income	44,209	45,391
Net realized investment gains, excluding impairment losses	15,837	1,012
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(268)	(269)
Portion of impairment losses recognized in other comprehensive income	108	58
Net impairment losses recognized in earnings	(160)	(211)
Total investment revenues	59,886	46,192
Other revenues	2,185	2,408
Total revenues	119,908	108,459
 <b>BENEFITS AND EXPENSES</b>		
Policyholder benefits	38,470	45,274
Interest credited to policyholder account balances	20,558	20,481
Amortization of deferred acquisition costs	7,901	9,584
Operating expenses	23,962	25,865
Total benefits and expenses	90,891	101,204
Income before income tax expense	29,017	7,255
Income tax expense	9,576	2,464
<b>NET INCOME</b>	\$ 19,441	\$ 4,791
 Comprehensive income, net of taxes:		
Change in net unrealized gains on securities available for sale	\$ 2,092	\$ (625)
Change in future policy benefits	(1,467)	720
Change in policyholder account balances	(75)	7
Other comprehensive income	550	102
<b>COMPREHENSIVE INCOME</b>	\$ 19,991	\$ 4,893
 Basic and diluted earnings per share:		
Net income	\$ 1.72	\$ 0.42

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