

# Kansas City Life Insurance Company

## 2012 Third Quarter Report



*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 \$4.1 million or \$0.38 per share in the third quarter of 2012, down slightly from prior year third quarter earnings of \$4.5 million or \$0.39 per share. The third quarter 2012 results were favorably impacted by improved net investment income of \$1.6 million but offset by increased benefits and expenses of \$2.2 million.

Net income through the first nine months of 2012 was \$32.0 million or \$2.88 per share, an increase of \$11.5 million or \$1.10 per share over the prior year. The increase was largely the result of net realized investment gains of \$16.8 million in 2012, primarily from the sale of real estate during the first quarter. Also contributing to the favorable results year to date were higher insurance revenues of \$2.8 million and lower benefits and expenses of \$1.1 million.

Insurance revenues declined \$0.4 million or 1% in the third quarter of 2012, largely due to a \$1.0 million decrease in contract charges. The change in contract charges was primarily the result of lower universal life balances. Partially offsetting this change was a \$0.3 million increase in immediate annuity premiums. Insurance revenues increased \$2.8 million or 2% in the nine months of 2012, reflecting increases in immediate annuity and individual life premiums.

Total deposits on the Company's interest sensitive products decreased \$4.7 million or 8% for the third quarter, as increased variable annuity deposits were offset by lower fixed deferred annuity deposits. Total deposits decreased \$9.8 million or 5% in the nine months, largely due to declines in fixed deferred annuity and variable life and annuity deposits.

Total investment revenues, which includes net investment income and net realized investment gains and losses, increased \$1.4 million or 3% in the third quarter. The improved investment revenues were the result of both increased invested assets and higher yields earned. Total investment revenues in the nine months increased \$13.2 million over the prior year, largely from gains on real estate sales. Net investment income decreased \$1.1 million or 1% for the nine months, primarily due to a decline in yields.

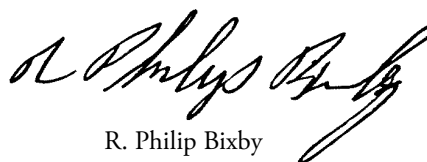
Policyholder benefits increased \$1.0 million or 2% for the third quarter of 2012, primarily due to increased policy reserves and net death benefits. However, policyholder benefits declined by \$3.4 million or 3% for the nine month period. The reduction year to date reflected reduced net death benefits, partially offset by an increase in benefit and contract reserves.



The amortization of deferred acquisition costs (DAC) decreased \$4.4 million in the third quarter of 2012 and \$1.7 million for the nine months. The decrease for the comparative third quarters was due to unlocking and system refinements that increased DAC amortization in 2011, while the reduction in DAC amortization year to date was primarily due to unlocking that occurred during the second quarter of 2012.

Operating expenses increased \$6.4 million in the third quarter and \$5.0 million for the nine months. The increase in the third quarter was due to increased depreciation, salaries and employee benefit costs, and legal fees. The increase in the nine months was reflective of the same items, but these were partially offset by a decline in pension expense and a reduction in allowances for doubtful accounts earlier in the year.

On October 22, 2012, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on November 7, 2012 to stockholders of record on November 1, 2012.



R. Philip Bixby



**KANSAS CITY LIFE INSURANCE COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

	<u>September 30</u> 2012	<u>December 31</u> 2011
<b>ASSETS</b>	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,878,625	\$ 2,682,142
Equity securities available for sale, at fair value	37,453	36,689
Mortgage loans	560,772	601,923
Real estate	120,748	127,962
Policy loans	78,172	80,375
Short-term investments	27,031	49,316
Other investments	2,581	3,364
Total investments	<u>3,705,382</u>	<u>3,581,771</u>
Cash	7,181	10,436
Accrued investment income	39,173	34,705
Deferred acquisition costs	174,755	181,564
Reinsurance receivables	193,384	189,885
Property and equipment	18,408	22,671
Other assets	48,164	60,601
Separate account assets	343,721	316,609
Total assets	<u>\$ 4,530,168</u>	<u>\$ 4,398,242</u>
 <b>LIABILITIES</b>		
Future policy benefits	\$ 892,837	\$ 879,015
Policyholder account balances	2,124,501	2,089,452
Policy and contract claims	28,921	36,511
Other policyholder funds	152,033	152,125
Other liabilities	231,733	213,825
Separate account liabilities	343,721	316,609
Total liabilities	<u>3,773,746</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	40,960	41,101
Retained earnings	803,800	780,918
Accumulated other comprehensive income	61,154	30,086
Treasury stock, at cost (2012 - 7,439,628 shares;		
2011 - 7,187,315 shares)	(172,613)	(164,521)
Total stockholders' equity	<u>756,422</u>	<u>710,705</u>
 Total liabilities and stockholders' equity	<u>\$ 4,530,168</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 September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
<b>REVENUES</b>				
Insurance revenues:				
Premiums, net	\$ 33,049	\$ 32,476	\$ 99,958	\$ 96,902
Contract charges	24,464	25,427	75,187	75,413
Total insurance revenues	57,513	57,903	175,145	172,315
Investment revenues:				
Net investment income	44,645	43,093	132,289	133,377
Net realized investment gains, excluding impairment losses	606	210	17,804	3,115
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(697)	(167)	(1,153)	(674)
Portion of impairment losses recognized in other comprehensive income	47	17	197	131
Net impairment losses recognized in earnings	(650)	(150)	(956)	(543)
Total investment revenues	44,601	43,153	149,137	135,949
Other revenues	2,146	2,215	6,643	7,289
Total revenues	104,260	103,271	330,925	315,553
<b>BENEFITS AND EXPENSES</b>				
Policyholder benefits	39,500	38,540	119,246	122,679
Interest credited to policyholder account balances	20,436	21,119	61,371	62,366
Amortization of deferred acquisition costs	7,151	11,577	20,173	21,866
Operating expenses	30,943	24,593	81,983	76,956
Total benefits and expenses	98,030	95,829	282,773	283,867
Income before income tax expense	6,230	7,442	48,152	31,686
Income tax expense	2,098	2,976	16,182	11,256
<b>NET INCOME</b>	\$ 4,132	\$ 4,466	\$ 31,970	\$ 20,430
<b>COMPREHENSIVE INCOME, NET OF TAXES</b>				
Change in net unrealized gains on securities available for sale	\$ 22,033	\$ 24,269	\$ 40,050	\$ 43,447
Change in future policy benefits	(3,617)	(3,862)	(8,586)	(6,068)
Change in policyholder account balances	(178)	(95)	(396)	(172)
Other comprehensive income	18,238	20,312	31,068	37,207
<b>COMPREHENSIVE INCOME</b>	\$ 22,370	\$ 24,778	\$ 63,038	\$ 57,637
Basic and diluted earnings per share:				
Net income	\$ 0.38	\$ 0.39	\$ 2.88	\$ 1.78

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

