

Kansas City Life Insurance Company

2014 Second 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

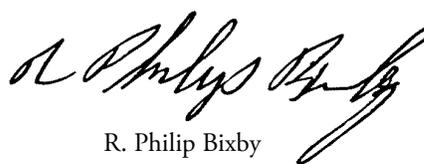


Message *from the President, CEO and Chairman of the Board*

Kansas City Life Insurance Company recorded net income of \$8.5 million or \$0.77 per share in the second quarter of 2014, a decrease of \$2.4 million or \$0.21 per share relative to the same quarter in the prior year. This change reflected a decrease in total investment revenues, including the impact of lower yields earned and a decline in net realized investment gains. In addition, policyholder benefits increased in the second quarter, primarily due to increased death benefits and group dental payments. Partially offsetting these items was a decrease in operating expenses, largely resulting from reduced agent and employee benefit expenses.

The Company recorded net income of \$14.0 million or \$1.27 per share for the first half of 2014, a decrease of \$2.1 million or \$0.18 per share compared to the prior year. The most significant factors contributing to the decrease were reduced investment revenues from lower yields earned and increased group dental benefit payments. These were partially offset by increased contract charges, lower death benefit payments, and reduced operating expenses.

On July 28, 2014, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 13, 2014 to stockholders of record on August 7, 2014.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	June 30 2014	December 31 2013
ASSETS	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,762,031	\$ 2,618,620
Equity securities available for sale, at fair value	24,732	23,116
Mortgage loans	572,831	629,256
Real estate	142,102	142,536
Policy loans	83,223	83,518
Short-term investments	35,660	40,712
Other investments	7,526	12,517
Total investments	3,628,105	3,550,275
Cash	8,566	8,197
Accrued investment income	34,160	33,795
Deferred acquisition costs	245,728	256,386
Reinsurance recoverables	193,765	191,055
Property and equipment	17,295	17,524
Other assets	58,967	64,018
Separate account assets	410,700	393,416
Total assets	\$ 4,597,286	\$ 4,514,666
LIABILITIES		
Future policy benefits	\$ 926,526	\$ 910,228
Policyholder account balances	2,091,954	2,096,212
Policy and contract claims	37,545	36,783
Other policyholder funds	161,865	160,421
Other liabilities	203,832	192,202
Separate account liabilities	410,700	393,416
Total liabilities	3,832,422	3,789,262
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	40,998	40,989
Retained earnings	831,443	823,408
Accumulated other comprehensive income	45,637	14,170
Treasury stock, at cost (2014 - 7,528,693 shares;		
2013 - 7,527,841 shares)	(176,335)	(176,284)
Total stockholders' equity	764,864	725,404
Total liabilities and stockholders' equity	\$ 4,597,286	\$ 4,514,666

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 June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$ 41,334	\$ 43,350	\$ 83,121	\$ 97,766
Contract charges	30,834	30,611	59,632	54,959
Total insurance revenues	72,168	73,961	142,753	152,725
Investment revenues:				
Net investment income	41,351	42,878	82,042	85,288
Net realized investment gains, excluding other-than-temporary impairment losses	784	1,732	2,449	2,178
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(243)	(272)	(456)	(459)
Portion of impairment losses recognized in other comprehensive income (loss)	136	41	187	99
Net other-than-temporary impairment losses recognized in earnings	(107)	(231)	(269)	(360)
Total investment revenues	42,028	44,379	84,222	87,106
Other revenues	2,343	2,558	4,676	4,791
Total revenues	116,539	120,898	231,651	244,622
BENEFITS AND EXPENSES				
Policyholder benefits	50,153	47,585	102,907	108,733
Interest credited to policyholder account balances	19,260	19,865	38,206	39,528
Amortization of deferred acquisition costs	12,529	10,904	21,357	19,769
Operating expenses	22,113	26,504	48,733	53,008
Total benefits and expenses	104,055	104,858	211,203	221,038
Income before income tax expense	12,484	16,040	20,448	23,584
Income tax expense	4,027	5,189	6,489	7,545
NET INCOME	\$ 8,457	\$ 10,851	\$ 13,959	\$ 16,039
COMPREHENSIVE INCOME (LOSS) , NET OF TAXES				
Change in net unrealized gains on securities available for sale	\$ 18,908	\$ (53,348)	\$ 38,273	\$ (43,875)
Change in future policy benefits	(2,929)	6,637	(6,562)	6,924
Change in policyholder account balances	(113)	310	(244)	322
Change in benefit plan obligations	-	5,010	-	5,010
Other comprehensive income (loss)	15,866	(41,391)	31,467	(31,619)
COMPREHENSIVE INCOME (LOSS)	\$ 24,323	\$ (30,540)	\$ 45,426	\$ (15,580)
Basic and diluted earnings per share:				
Net income	\$ 0.77	\$ 0.98	\$ 1.27	\$ 1.45

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

