

Kansas City Life Insurance Company

2015 Second Quarter Report



Includes our subsidiaries:

Sunset Life Insurance Company of America
Old American Insurance Company
Sunset Financial Services, Inc.

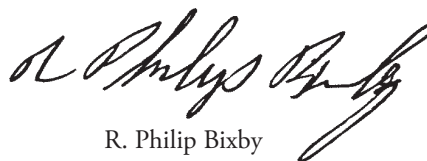
Post Office Box 219139
Kansas City, Missouri 64121-9139
Listing: NASDAQ
Stock Symbol:KCLI
www.kclife.com



Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$10.9 million or \$1.01 per share in the second quarter of 2015, an increase of \$2.3 million or \$0.23 per share relative to the same quarter in the prior year. Net income totaled \$17.7 million or \$1.64 per share in the first six months of 2015, an increase of \$3.4 million or \$0.34 per share relative to the same period one year earlier. The improvement in both periods reflected reductions in policyholder benefits and amortization of deferred acquisition costs. These reductions were the result of a decline in the fair value of the Company's guaranteed minimum withdrawal benefit rider and an unlocking of deferred acquisition costs that primarily reflected improvements in interest rates and mortality, respectively. Partially offsetting these favorable factors in both periods were decreases in insurance revenues, primarily from reduced contract charges and lower annuity and accident and health premiums, and a decrease in total investment income. The decline in investment income was primarily due to the continuing low interest rate environment. In addition, operating expenses increased in both periods, largely due to changes in amortization of the value of business previously acquired.

On July 27, 2015, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 12, 2015 to stockholders of record on August 6, 2015.



R. Philip Bixby



Kansas City Life Insurance Company
Consolidated Balance Sheets
(amounts in thousands, except share data)

	June 30 2015 (Unaudited)	December 31 2014
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,703,822	\$ 2,726,731
Equity securities available for sale, at fair value	24,804	24,881
Mortgage loans	550,724	541,180
Real estate	179,403	181,082
Policy loans	82,537	83,553
Short-term investments	23,508	39,107
Other investments	318	462
Total investments	3,565,116	3,596,996
Cash	9,238	11,011
Accrued investment income	34,213	33,078
Deferred acquisition costs	261,836	249,195
Reinsurance recoverables	189,598	194,425
Property and equipment	16,997	17,527
Other assets	57,923	63,134
Separate account assets	403,406	406,501
Total assets	\$ 4,538,327	\$ 4,571,867
LIABILITIES		
Future policy benefits	\$ 930,257	\$ 930,761
Policyholder account balances	2,063,783	2,072,041
Policy and contract claims	31,585	37,452
Other policyholder funds	171,174	165,062
Other liabilities	208,037	217,291
Separate account liabilities	403,406	406,501
Total liabilities	3,808,242	3,829,108
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	41,021	41,007
Retained earnings	850,369	838,508
Accumulated other comprehensive income	7,181	23,040
Treasury stock, at cost (2015 - 7,862,679 shares; 2014 - 7,671,475 shares)	(191,607)	(182,917)
Total stockholders' equity	730,085	742,759
Total liabilities and stockholders' equity	\$ 4,538,327	\$ 4,571,867

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



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	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$ 39,842	\$ 41,334	\$ 80,818	\$ 83,121
Contract charges	26,443	30,834	54,835	59,632
Total insurance revenues	<u>66,285</u>	<u>72,168</u>	<u>135,653</u>	<u>142,753</u>
Investment revenues:				
Net investment income	40,206	41,351	79,898	82,042
Net realized investment gains, excluding other-than-temporary impairment losses	2,277	784	2,249	2,449
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(1,770)	(243)	(1,770)	(456)
Portion of impairment losses recognized in other comprehensive income (loss)	<u>(155)</u>	<u>136</u>	<u>(162)</u>	<u>187</u>
Net other-than-temporary impairment losses recognized in earnings	<u>(1,925)</u>	<u>(107)</u>	<u>(1,932)</u>	<u>(269)</u>
Total investment revenues	<u>40,558</u>	<u>42,028</u>	<u>80,215</u>	<u>84,222</u>
Other revenues	<u>2,030</u>	<u>2,343</u>	<u>3,810</u>	<u>4,676</u>
Total revenues	<u>108,873</u>	<u>116,539</u>	<u>219,678</u>	<u>231,651</u>
BENEFITS AND EXPENSES				
Policyholder benefits	47,804	50,153	98,146	102,907
Interest credited to policyholder account balances	18,590	19,260	37,029	38,206
Amortization of deferred acquisition costs	1,958	12,529	10,342	21,357
Operating expenses	<u>24,965</u>	<u>22,113</u>	<u>49,083</u>	<u>48,733</u>
Total benefits and expenses	<u>93,317</u>	<u>104,055</u>	<u>194,600</u>	<u>211,203</u>
Income before income tax expense	15,556	12,484	25,078	20,448
Income tax expense	<u>4,657</u>	<u>3,859</u>	<u>7,401</u>	<u>6,151</u>
NET INCOME	<u>\$ 10,899</u>	<u>\$ 8,625</u>	<u>\$ 17,677</u>	<u>\$ 14,297</u>
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains on securities available for sale, net of DAC and VOBA	\$ (33,178)	\$ 18,908	\$ (17,158)	\$ 38,273
Change in future policy benefits	4,139	(2,929)	1,150	(6,562)
Change in policyholder account balances	247	(113)	149	(244)
Other comprehensive income (loss)	<u>(28,792)</u>	<u>15,866</u>	<u>(15,859)</u>	<u>31,467</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (17,893)</u>	<u>\$ 24,491</u>	<u>\$ 1,818</u>	<u>\$ 45,764</u>
Basic and diluted earnings per share:				
Net income	<u>\$ 1.01</u>	<u>\$ 0.78</u>	<u>\$ 1.64</u>	<u>\$ 1.30</u>

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

