

Kansas City Life Insurance Company

2013 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



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

Kansas City Life Insurance Company recorded net income of \$5.2 million or \$0.47 per share in the first quarter of 2013, a decline of \$14.3 million or \$1.25 per share relative to the same quarter in the prior year. This change was primarily due to \$15.4 million of lower realized investment gains in 2013 compared to 2012. Increased policyholder benefits in the first quarter of 2013 also contributed significantly to the change in earnings.

Insurance revenues increased \$5.2 million or 9% in the first quarter of 2013, largely due to a \$4.8 million increase in the sale of immediate annuities. Immediate annuities provide a valuable source of lifetime income to policyholders, and this product is an important part of the Company's array of life insurance offerings.

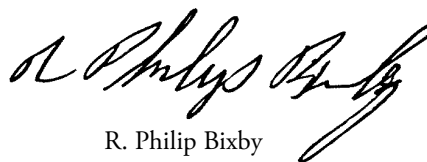
New universal life deposits increased \$2.1 million or 64% in the first quarter, and new variable universal life deposits increased \$0.4 million. Offsetting these improvements in life insurance sales, deposits from fixed deferred annuity products decreased \$10.5 million and new variable annuity deposits decreased \$1.0 million.

Net investment income decreased \$1.8 million or 4% versus the same period one year earlier. Investment income results reflected a decrease in market yields that more than offset an increase in average invested assets during the quarter.

Policyholder benefits increased \$7.0 million or 18% for the first quarter of 2013 compared with the same period one year earlier. This increase was largely the result of unfavorable mortality. In addition, benefit and contract reserves increased due to the establishment of reserves on the improved sale of immediate annuities. Partially offsetting these items, interest credited to policyholder account balances decreased \$0.9 million or 4%.

Finally, operating expenses increased \$2.5 million or 11% in the first quarter of 2013 versus the prior year. This increase was the result of several factors, most notably including pension expenses.

On April 22, 2013, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on May 8, 2013 to stockholders of record on May 2, 2013.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>March 31</u> 2013	<u>December 31</u> 2012
ASSETS	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,764,263	\$ 2,788,141
Equity securities available for sale, at fair value	25,470	20,061
Mortgage loans	675,106	674,034
Real estate	131,348	124,742
Policy loans	75,809	77,133
Short-term investments	14,592	24,902
Other investments	<u>2,167</u>	<u>2,572</u>
Total investments	3,688,755	3,711,585
Cash	7,672	7,026
Accrued investment income	37,387	34,747
Deferred acquisition costs	189,398	176,275
Reinsurance recoverables	192,030	190,613
Property and equipment	17,954	18,343
Other assets	54,714	47,063
Separate account assets	<u>360,497</u>	<u>340,093</u>
Total assets	<u>\$ 4,548,407</u>	<u>\$ 4,525,745</u>
 LIABILITIES		
Future policy benefits	\$ 900,973	\$ 889,107
Policyholder account balances	2,105,286	2,128,002
Policy and contract claims	38,381	29,813
Other policyholder funds	152,191	155,749
Other liabilities	229,060	232,580
Separate account liabilities	<u>360,497</u>	<u>340,093</u>
Total liabilities	<u>3,786,388</u>	<u>3,775,344</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	40,973	40,969
Retained earnings	807,942	805,730
Accumulated other comprehensive income	63,866	54,094
Treasury stock, at cost (2013 - 7,473,564 shares;		
2012 - 7,463,823 shares)	<u>(173,883)</u>	<u>(173,513)</u>
Total stockholders' equity	<u>762,019</u>	<u>750,401</u>
 Total liabilities and stockholders' equity	<u>\$ 4,548,407</u>	<u>\$ 4,525,745</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	
	2013	2012
	(Unaudited)	
REVENUES		
Insurance revenues:		
Net premiums	\$ 38,700	\$ 32,704
Contract charges	24,348	25,133
Total insurance revenues	63,048	57,837
Investment revenues:		
Net investment income	42,410	44,209
Net realized investment gains, excluding other-than-temporary impairment losses	446	15,837
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(187)	(268)
Portion of impairment losses recognized in other comprehensive income	58	108
Net other-than-temporary impairment losses recognized in earnings	(129)	(160)
Total investment revenues	42,727	59,886
Other revenues	2,233	2,185
Total revenues	108,008	119,908
 BENEFITS AND EXPENSES		
Policyholder benefits	45,432	38,470
Interest credited to policyholder account balances	19,663	20,558
Amortization of deferred acquisition costs	8,865	7,901
Operating expenses	26,504	23,962
Total benefits and expenses	100,464	90,891
 Income before income tax expense	 7,544	 29,017
Income tax expense	2,356	9,576
NET INCOME	\$ 5,188	\$ 19,441
 COMPREHENSIVE INCOME, NET OF TAXES		
Change in net unrealized gains on securities available for sale	\$ 9,473	\$ 2,092
Change in future policy benefits	287	(1,467)
Change in policyholder account balances	12	(75)
Other comprehensive income	9,772	550
COMPREHENSIVE INCOME	\$ 14,960	\$ 19,991
 Basic and diluted earnings per share:		
Net income	\$ 0.47	\$ 1.72

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

