

Kansas City Life Insurance Company

2014 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

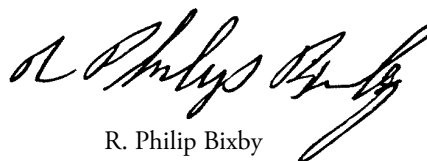


Message *from the President, CEO and Chairman of the Board*

Kansas City Life Insurance Company recorded net income of \$7.8 million or \$0.71 per share in the third quarter of 2014, an increase of \$0.7 million or \$0.06 per share relative to the same quarter in the prior year. This improvement reflected decreases in net death benefits, interest credited to policyholder account balances, and operating expenses. Partially offsetting these were increased group dental benefit payments, reduced net investment income from lower overall yields earned on certain investments, and a decline in net realized investment gains.

The Company recorded net income of \$21.7 million or \$1.98 per share for the first nine months of 2014, a decrease of \$1.4 million or \$0.12 per share compared to the prior year. This decrease reflected lower net investment income, as overall yields earned on certain investments declined, and an increase in certain policyholder benefits. Partially offsetting these items were increased contract charges, largely due to the reinsurance transaction that occurred in the second quarter of 2013, and lower operating expenses.

On October 27, 2014, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on November 12, 2014 to stockholders of record on November 6, 2014.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>September 30</u>	<u>December 31</u>
	<u>2014</u>	<u>2013</u>
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,751,916	\$ 2,618,620
Equity securities available for sale, at fair value	24,726	23,116
Mortgage loans	570,486	629,256
Real estate	143,275	142,536
Policy loans	83,254	83,518
Short-term investments	19,807	40,712
Other investments	604	12,517
Total investments	<u>3,594,068</u>	<u>3,550,275</u>
Cash	8,406	8,197
Accrued investment income	37,033	33,795
Deferred acquisition costs	248,827	256,386
Reinsurance recoverables	192,119	191,055
Property and equipment	17,671	17,524
Other assets	65,837	64,018
Separate account assets	404,621	393,416
Total assets	<u>\$ 4,568,582</u>	<u>\$ 4,514,666</u>
LIABILITIES		
Future policy benefits	\$ 927,307	\$ 910,228
Policyholder account balances	2,082,347	2,096,212
Policy and contract claims	35,698	36,783
Other policyholder funds	161,859	160,421
Other liabilities	199,086	192,202
Separate account liabilities	404,621	393,416
Total liabilities	<u>3,810,918</u>	<u>3,789,262</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	41,003	40,989
Retained earnings	836,274	823,408
Accumulated other comprehensive income	37,205	14,170
Treasury stock, at cost (2014 - 7,607,541 shares;		
2013 - 7,527,841 shares)	<u>(179,939)</u>	<u>(176,284)</u>
Total stockholders' equity	<u>757,664</u>	<u>725,404</u>
Total liabilities and stockholders' equity	<u>\$ 4,568,582</u>	<u>\$ 4,514,666</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	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$ 42,480	\$ 43,704	\$ 125,601	\$ 141,470
Contract charges	29,541	29,319	89,173	84,278
Total insurance revenues	72,021	73,023	214,774	225,748
Investment revenues:				
Net investment income	40,608	41,961	122,650	127,249
Net realized investment gains, excluding other-than-temporary impairment losses	981	1,956	3,430	4,134
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(765)	(116)	(1,221)	(575)
Portion of impairment losses recognized in other comprehensive income (loss)	433	21	620	120
Net other-than-temporary impairment losses recognized in earnings	(332)	(95)	(601)	(455)
Total investment revenues	41,257	43,822	125,479	130,928
Other revenues	2,385	2,604	7,061	7,395
Total revenues	115,663	119,449	347,314	364,071
BENEFITS AND EXPENSES				
Policyholder benefits	49,675	50,814	152,582	159,547
Interest credited to policyholder account balances	18,999	19,922	57,205	59,450
Amortization of deferred acquisition costs	9,797	9,247	31,154	29,016
Operating expenses	25,588	28,660	74,321	81,668
Total benefits and expenses	104,059	108,643	315,262	329,681
Income before income tax expense	11,604	10,806	32,052	34,390
Income tax expense	3,814	3,696	10,303	11,241
NET INCOME	\$ 7,790	\$ 7,110	\$ 21,749	\$ 23,149
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains on securities available for sale	\$ (9,096)	\$ (7,155)	\$ 29,177	\$ (51,030)
Change in future policy benefits	623	268	(5,939)	7,192
Change in policyholder account balances	41	28	(203)	350
Change in benefit plan obligations	-	-	-	5,010
Other comprehensive income (loss)	(8,432)	(6,859)	23,035	(38,478)
COMPREHENSIVE INCOME (LOSS)	\$ (642)	\$ 251	\$ 44,784	\$ (15,329)
Basic and diluted earnings per share:				
Net income	\$ 0.71	\$ 0.65	\$ 1.98	\$ 2.10

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