KANSAS CITY LIFE INSURANCE COMPANY

A Missouri Corporation

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Kansas City, MO 64111

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QUARTERLY REPORT

FOR THE QUARTER ENDED JUNE 30, 2017

ISSUER'S EQUITY SECURITIES

Common Stock
Par Value $1.25 per Share
36,000,000 Shares Authorized
9,683,414 Shares Outstanding as of June 30, 2017

Kansas City Life Insurance Company is responsible for the content of this Quarterly Report. The securities described in this document are not registered with, and the information contained in this report has not been filed with, or approved by, the U.S. Securities and Exchange Commission.

KANSAS CITY LIFE INSURANCE COMPANY

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Statement on Forward-Looking Information

This report reviews the consolidated financial condition and results of operations of Kansas City Life Insurance Company. Historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include “forward-looking statements.” Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance, or achievements rather than historical facts and may contain words like “believe,” “expect,” “estimate,” “project,” “forecast,” “anticipate,” “plan,” “will,” “shall,” and other words, phrases, or expressions with similar meaning.

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause future results to differ materially from expected results include, but are not limited to:

- Changes in general economic conditions, including the performance of financial markets and interest rates;
- Increasing competition and changes in consumer behavior, which may affect our ability to sell our products and retain business;
- Increasing competition in the recruitment and retention of general agents and agents;
- Customer and agent response to new products, distribution channels, and marketing initiatives;
- Fluctuations in experience regarding current mortality, morbidity, persistency, and interest rates relative to expected amounts used in pricing our products;
- Changes in assumptions related to deferred acquisition costs (DAC), value of business acquired (VOBA), and deferred revenue liability (DRL);
- Regulatory, accounting, or tax changes that may affect the cost of, or the demand for, our products or services; and
- Unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations.

No assurances can be given that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Item 1. The Exact Name of the Issuer and Address and Telephone Number of Issuer's Principal Office

Issuer's Exact Name:	Kansas City Life Insurance Company
Issuer's Address:	3520 Broadway Kansas City, Missouri 64111
Issuer's Telephone:	Telephone: (816) 753-7000 Fax: (816) 753-4902
Issuer's Website:	*www.kclife.com*
Investor Relations:	A. Craig Mason Jr. Secretary Telephone: (816) 753-7000 ext. 8308 Email: Communications@*kclife.com*

Item 2. Shares Outstanding

Common Stock

	June 30, 2017
Number of Shares Authorized	36,000,000
Number of Shares Outstanding	9,683,414
Freely Tradable Shares (Public Float)	2,486,339
Total Number of Shareholders of Record	169

We have more than 100 beneficial shareholders of record owning at least 100 shares.

Item 3. Interim Consolidated Financial Statements

The interim consolidated financial statements of Kansas City Life Insurance Company as of June 30, 2017 are attached hereto as Exhibit 3.1 and are hereby incorporated by reference into this Quarterly Report, including:

- Consolidated Balance Sheets
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

The interim consolidated financial statements and the accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The interim consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. As permitted under GAAP, certain footnotes or other financial information are condensed or omitted in the interim consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our 2016 Annual Report, which is available on the OTCQX website (*www.otcmarkets.com/stock/KCLI/filings*). The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2017 and 2016 are unaudited. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

Amounts are stated in thousands, except share data, or as otherwise noted.

Management's Discussion and Analysis of Financial Condition and Results of Operations provides, in narrative form, the perspective of the management of Kansas City Life Insurance Company on its financial condition, results of operations, liquidity, and certain other factors that may affect its future results. The terms "the Company," "we," "us," and "our" are used to refer to Kansas City Life Insurance Company and its subsidiaries. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. The Company also has non-insurance subsidiaries that individually and collectively are not material.

The following is a discussion and analysis of the results of operations for the second quarters and six months ended June 30, 2017 and 2016 and the financial condition of the Company at June 30, 2017. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes included in this document, as well as our 2016 Annual Report.

Overview

Our profitability depends on many factors, which include but are not limited to:

- The sale of traditional and interest sensitive life, annuity, and accident and health products;
- The rate of mortality, lapse, and surrender of future policy benefits and policyholder account balances;
- The rate of morbidity, disability, and incurrence of other policyholder benefits;
- Interest rates credited to policyholders;
- The effectiveness of reinsurance programs;
- The amount of investment assets under management;
- The ability to maximize investment returns and manage risks such as interest rate risk, credit risk, and equity risk;
- Timely and cost-effective access to liquidity; and
- Management of distribution costs and operating expenses.

General economic conditions may affect future results. Market fluctuations, which often can be extreme in nature, can significantly impact the financial markets and our investments, revenues, and policyholder benefits. The sustained low interest rate environment and volatile equity markets have presented significant challenges to the financial markets as a whole and specifically to companies invested in fixed maturity securities and other fixed income investments. These conditions may continue and the stressed economic and market environment may persist into the future, affecting our financial position and financial statements.

Consolidated Results of Operations

Summary of Results

We earned net income of $5.6 million in the second quarter of 2017 compared to $5.2 million in the second quarter of 2016. Net income per share was $0.58 in the second quarter of 2017 versus $0.54 in the same period in the prior year. Net income for the first six months of 2017 was $10.8 million compared to $9.5 million in the same period in the prior year. Net income per share for the first six months of 2017 was $1.11 versus $0.98 one year earlier.

The following table presents condensed consolidated results of operations for the quarters and six months ended June 30, 2017 and 2016.

	Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	2017	2016	% Change
Revenues:						
Insurance and other revenues	$ 77,383	$ 70,209	10 %	$ 150,961	$ 142,207	6 %
Net investment income	36,875	38,317	(4)%	74,053	76,425	(3)%
Net realized investment gains (losses)	1,019	(2)	— %	1,500	2,446	(39)%
Benefits and expenses:						
Policyholder benefits and interest credited to policyholder account balances	71,037	75,115	(5)%	143,403	147,489	(3)%
Amortization of deferred acquisition costs	10,036	2,200	356 %	18,181	11,759	55 %
Operating expenses	26,287	23,687	11 %	49,759	48,075	4 %
Income tax expense	2,305	2,280	1 %	4,391	4,256	3 %
Net income	$ 5,612	$ 5,242	7 %	$ 10,780	$ 9,499	13 %

Insurance Revenues

Insurance revenues consist of premiums, net of reinsurance, from the sale of traditional individual and group life insurance products, immediate annuities, and accident and health products, as well as contract charges from interest sensitive and deposit-type products. Insurance revenues are impacted by the level of new sales, the type of products sold, the persistency of policies, general economic conditions, and competitive forces.

The following table presents gross premiums on new and renewal business, less reinsurance ceded. New premiums are also detailed by product.

	Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	2017	2016	% Change
New premiums:						
Traditional life insurance	$ 5,110	$ 5,085	— %	$ 10,292	$ 9,944	3 %
Immediate annuities	8,311	6,326	31 %	14,786	12,809	15 %
Group life insurance	785	719	9 %	1,596	1,440	11 %
Group accident and health insurance	2,844	3,447	(17)%	5,668	7,237	(22)%
Total new premiums	17,050	15,577	9 %	32,342	31,430	3 %
Renewal premiums	43,433	41,109	6 %	86,377	81,388	6 %
Total premiums	60,483	56,686	7 %	118,719	112,818	5 %
Reinsurance ceded	(15,003)	(14,620)	3 %	(29,056)	(28,650)	1 %
Net premiums	$ 45,480	$ 42,066	8 %	$ 89,663	$ 84,168	7 %

Consolidated total premiums increased $3.8 million or 7% in the second quarter of 2017 compared with the second quarter of 2016. New premiums increased $1.5 million or 9% in the second quarter of 2017 versus one year earlier due to a $2.0 million or 31% increase in new immediate annuity premiums. Partially offsetting this was a $0.6 million or 17% decline in new group accident and health premiums, largely from the long-term disability line. New long-term disability premiums were higher in 2016 due to a block of business that was received from a third-party distributor. Renewal premiums increased $2.3 million or 6% in the second quarter of 2017 versus the prior year. Renewal traditional life insurance premiums increased $1.2 million or 4% in the second quarter of 2017, mainly from Old American. Renewal group accident and health insurance premiums increased $1.0 million or 9% in the second quarter, principally from the long-term disability line.

Consolidated total premiums increased $5.9 million or 5% in the first six months of 2017 compared with the prior year. New premiums increased $0.9 million or 3%. This improvement reflected a $2.0 million or 15% increase in new immediate annuity premiums and a $0.3 million or 3% increase in new traditional life premiums. These were partially offset by a $1.6 million or 22% decline in new group accident and health premiums, mainly from the long-term disability block of business received in 2016 mentioned above. Renewal premiums increased $5.0 million or 6% in the first six months of 2017 compared to one year earlier. Renewal traditional life premiums increased $2.4 million or 4%, largely from Old American. In addition, renewal group life premiums increased $0.5 million or 9% and renewal group accident and health premiums increased $2.1 million or 11%, primarily from the long-term disability line.

Deposits related to interest sensitive life (universal life, indexed universal life, and variable universal life), fixed deferred annuity contracts, and investment-type products are not recorded as revenue. Revenues from such contracts consist of amounts assessed on policyholder account balances for mortality, policy administration, and surrender charges, and are recognized in the period in which the benefits and services are provided as contract charges in the Consolidated Statements of Comprehensive Income. The following table provides detail by new and renewal deposits. New deposits are also detailed by product.

	Quarter Ended June 30			Six Months Ended June 30		
	2017	2016	% Change	2017	2016	% Change
New deposits:						
Interest sensitive life	$ 3,893	$ 3,623	7 %	$ 7,660	$ 6,629	16 %
Fixed annuities	16,071	12,002	34 %	30,329	23,255	30 %
Variable annuities	2,658	1,370	94 %	4,677	5,140	(9)%
Total new deposits	22,622	16,995	33 %	42,666	35,024	22 %
Renewal deposits	35,260	35,394	— %	72,010	71,385	1 %
Total deposits	$ 57,882	$ 52,389	10 %	$ 114,676	$ 106,409	8 %

General economic conditions and interest rates available in the marketplace influence new deposits on interest sensitive products. In addition, fluctuations in the equity markets influence the variable life and annuity products. Generally, low interest rate environments present significant challenges to products such as these, and potential sizeable fluctuations in new sales can result.

Total new deposits increased $5.6 million or 33% in the second quarter of 2017 compared with the second quarter of 2016. This improvement resulted from a $4.1 million or 34% increase in new fixed annuity deposits and a $1.3 million or 94% increase in new variable annuity deposits. Total renewal deposits were essentially flat in the second quarter of 2017 compared to the prior year.

Total new deposits increased $7.6 million or 22% in the first six months of 2017 compared with the prior year. This result was due to a $7.1 million or 30% increase in new fixed annuity deposits and a $1.0 million or 16% increase in new interest sensitive life deposits. The increase in new interest sensitive life deposits was largely from the indexed universal life product, which was introduced in 2015. Partially offsetting these improvements, new variable annuity deposits declined $0.5 million or 9% compared with one year earlier. Total renewal deposits increased $0.6 million or 1% as renewal fixed annuity deposits increased $0.8 million or 8%.

Contract charges result from charges and fees on interest-sensitive and deposit-type products. Contract charges consist of cost of insurance, expense loads, the amortization of unearned revenues, and surrender charges on policyholder account balances. We maintain both open blocks and closed blocks of business. The closed blocks of business reflect products and entities that have been purchased and for which we are not actively pursuing marketing efforts to generate new sales. We continue to service these policies to support customers and to meet long-term profit objectives as these blocks of business decline over time.

Total contract charges increased $3.7 million or 14% in the second quarter and $3.1 million or 6% in the first six months of 2017 compared to one year earlier. Contract charges on open blocks increased $4.1 million or 27% and contract charges on closed blocks declined $0.4 million or 3% in the second quarter of 2017 compared to the prior year. Contract charges on open blocks increased $3.8 million or 12% and contract charges on closed blocks declined $0.7 million or 3% in the first six months of 2017 compared to the first six months of 2016. The largest factor in the increases in contract charges on open blocks was the variance in deferred revenue unlocking adjustments and refinements in estimates during the second quarter of 2017 compared to the second quarter of 2016. Deferred revenue unlocking adjustments and refinements in estimates increased contract charges $2.0 million in the second quarter of 2017, primarily due to the implementation of specific cost of insurance charges for certain plans. Unlocking adjustments and refinements in estimates in the second quarter of 2016 decreased contract charges $1.0 million primarily due to changes in earned rate expectations. The declines in contract charges on closed blocks reflect the runoff of the business.

Total contract charges on closed blocks equaled 36% of total consolidated contract charges during the second quarter of 2017, down from 43% in the second quarter of 2016. Total contract charges on closed blocks made up 38% of total consolidated contract charges during the first six months of 2017, down from 42% in the first six months of 2016.

Investment Revenues
Gross investment income decreased $1.0 million or 2% in the second quarter and $1.9 million or 2% in the first six months of 2017 compared with the same periods in 2016. These declines reflected lower overall yields earned and available on certain investments that were partially offset by higher average invested assets.

Fixed maturity securities provide a majority of our investment income. Fixed maturity securities comprised 72% of total investments at June 30, 2017 and 73% at December 31, 2016. Income from these investments declined $1.9 million or 7% in the second quarter and $3.3 million or 6% in the first six months of 2017 compared to the prior year, due to lower average invested assets and lower yields earned.

Investment income from commercial mortgage loans decreased less than $0.1 million or 1% in the second quarter and $1.0 million or 6% in the first six months of 2017 compared to the same periods one year earlier. These declines reflected lower prepayment fees and lower yields earned that were partially offset by a higher average mortgage loan portfolio balance compared to the prior year.

Investment income from real estate increased $1.1 million or 25% in the second quarter and $2.4 million or 27% in the first six months of 2017 compared to one year earlier. These improvements reflect higher rental income from the acquisition of new properties, increased occupancy, and lease rates. The Company purchased $29.6 million in new real estate investments in the second half of 2016 that have increased rental income in 2017.

We recorded a net realized investment gain of $1.0 million in the second quarter of 2017, compared with a net realized investment loss of less than $0.1 million in the second quarter of 2016. During the second quarter of 2017, we recorded $1.4 million in gains, largely from sales, tenders, and calls of investment securities. Net realized investment gains for the first six months of 2017 totaled $1.5 million compared to $2.4 million in the first six months of 2016. Gains recorded in the first six months of 2017 included $2.1 million from sales, tenders, and calls of investment securities.

Policyholder Benefits
Policyholder benefits, net of reinsurance, consist of death benefits, immediate annuity benefits, accident and health benefits, surrenders, other benefits, and the associated increase or decrease in reserves for future policy benefits. The largest component of policyholder benefits was death benefits for the periods presented. Death benefits reflect mortality results, after consideration of the impact of reinsurance.

Policyholder benefits decreased $4.1 million or 7% in the second quarter of 2017 compared to the prior year. The largest factor in this decrease was a $2.6 million decline in benefits, net of reinsurance, paid to policyholders, reflecting favorable mortality experience. In addition, benefit and contract reserves decreased $1.9 million or 20% in the second quarter of 2017 compared to the second quarter of 2016. Changes in the fair value of the guaranteed minimum withdrawal benefit (GMWB) rider liability resulted in a $1.5 million decrease in benefit and contract reserves compared to the prior year. This change included a $0.3 million increase in reserves in the second quarter of 2017 compared to a $1.8 million increase in reserves in the second quarter of 2016. The decrease in 2017 was primarily driven by decreases in risk-free swap rates and spreads used for issuer discount. These were partially offset by improvements in capital market performance. Also contributing to the reserve change was a $2.0 million increase in immediate annuity premiums, which results in an increase to the change in reserves on an equal and offsetting basis. In addition, the change in reserves included a $0.3 million increase in reserves on interest bonuses for certain policies that resulted from unlocking and refinements in the second quarter of 2017. This compares to a $1.1 million increase in reserves on interest bonuses for certain policies and a $2.6 million reserve increase on the secondary guaranteed universal life product that resulted from unlocking and refinements in the second quarter of 2016. The difference in these unlocking and refinements resulted in a net decrease in reserves of $3.4 million in the second quarter of 2017 compared to the second quarter of 2016.

Policyholder benefits decreased $4.1 million or 4% in the first six months of 2017 compared to the same period one year earlier. The largest factor in this decline was a $4.1 million or 32% decrease in benefit contract reserves. Changes in the fair value of the GMWB rider resulted in a $3.6 million decrease in benefit and contract reserves compared to the prior year. This change compared a $3.5 million increase in reserves in the first six months of 2016 to a decrease of less than $0.1 million in the first six months of 2017. The results in 2017 reflected improvements in the capital markets that were partially offset by decreases in risk-free swap rates and an increase in volatilities used for volatility managed funds. Also contributing to the reserve change was a $2.0 million increase in immediate annuity premiums. In addition, the change in reserves included a $0.3 million increase in reserves on interest bonuses for certain policies that resulted from unlocking and refinements in the first six months of 2017. This compares to a $1.1 million increase in reserves on interest bonuses for certain policies and a $2.6 million reserve increase on the secondary guaranteed universal life product that resulted from unlocking and refinements in the first six months of 2016. The difference in these unlocking and refinements resulted in a net decrease in reserves of $3.4 million in the first six months of 2017 compared to the first six months of 2016. Also contributing to the decrease in policyholder benefits in the first six months of 2017 versus the same period in 2016 was a $0.8 million decline in benefits, net of reinsurance, paid to policyholders, largely from favorable mortality experience. Partially offsetting these decreases was a $0.8 million increase in life surrenders compared to the prior year.

Amortization of DAC

The amortization of DAC increased $7.8 million in the second quarter and $6.4 million in the first six months of 2017 compared to the prior year. These increases primarily reflect unlocking adjustments and refinements in estimates that increased DAC amortization $1.7 million in the second quarter of 2017 compared to unlocking adjustments and refinements in estimates that decreased DAC amortization $5.9 million in the second quarter of 2016. The unlocking in 2017 was primarily driven by low interest rates and the implementation of specific cost of insurance charges for certain plans. The unlocking in 2016 was associated with favorable adjustments for mortality, partially offset by adjustments related to interest rates.

Unlocking and Refinements in Estimates

At least annually, we review the models and the assumptions used to develop expected gross profits for interest sensitive and variable insurance products based upon management's current view of future events. Key assumptions analyzed include net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses, net of reinsurance. We also consider refinements in estimates due to improved capabilities resulting from administrative or actuarial system enhancements.

The following tables summarize the effects of the refinements in estimates on all products and unlocking of assumptions on interest sensitive products in the Consolidated Statements of Comprehensive Income. Positive numbers are increases to income and negative numbers are reductions to income.

	Six Months Ended June 30, 2017			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ (344)	$ (1,246)	$ (46)	$ (1,636)
Refinement in estimate	(1,378)	—	2,004	626
	$ (1,722)	$ (1,246)	$ 1,958	$ (1,010)

	Six Months Ended June 30, 2016			
	DAC Amortization	VOBA Amortization	DRL Contract Charges	Net Impact to Pre-Tax Income
Unlocking	$ 5,918	$ 536	$ (1,153)	$ 5,301
Refinement in estimate	(82)	—	178	96
	$ 5,836	$ 536	$ (975)	$ 5,397

The unlocking and refinements in estimates resulted in a net $1.0 million reduction to pre-tax income in the first six months of 2017. In addition, we had a $0.3 million reserve increase in the first six months of 2017 related to the impacts of unlocking, as described above in Policyholder Benefits. The pre-tax income impact of all adjustments related to unlocking and refinements in estimates, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was a decrease to pre-tax income of $1.3 million in the first six months of 2017.

The unlocking and refinements in estimates resulted in a net $5.4 million increase to pre-tax income in the first six months of 2016. In addition, we had a $3.7 million reserve increase related to the impacts of unlocking, as described above in Policyholder Benefits. The pre-tax income impact of all adjustments related to unlocking and refinements in estimates, including insurance revenues, amortization of DAC and VOBA, and policyholder benefits, was an increase to pre-tax income of $1.7 million in the first six months of 2016.

Operating Expenses

Operating expenses consist of incurred commission expense from the sale of insurance products, net of the deferral of certain commissions and certain expenses directly associated with the successful acquisition of new business, expenses from operations, the amortization of VOBA, and other expenses. In total, operating expenses increased $2.6 million or 11% in the second quarter and $1.7 million or 4% in the first six months of 2017 compared to the same periods in 2016. The increase in both periods was largely due to higher amortization of VOBA. In addition, the increase in the second quarter of 2017 included higher compensation costs.

VOBA is evaluated on an ongoing basis for unlocking adjustments. If necessary, adjustments are made to the current period VOBA amortization. The amortization of VOBA increased $1.6 million in the second quarter and $1.4 million in the first six months of 2017 compared to the prior year. The increase in both periods was primarily due to unlocking adjustments that increased VOBA amortization $1.2 million in the second quarter of 2017. This compares to unlocking adjustments that decreased VOBA amortization $0.5 million in the second quarter of 2016. The unlocking in 2017 was primarily driven by lower interest rates. The unlocking in 2016 was associated with favorable adjustments for mortality, expenses, surrenders, and premium persistency, partially offset by adjustments related to interest rates.

Income Taxes

We recorded income tax expense of $2.3 million or 29% of income before tax in the second quarter of 2017, compared to income tax expense of $2.3 million or 30% of income before tax for the prior year period. The decrease in the effective tax rate was primarily due to the variance in actual versus assumed results that impacted taxes for the quarter ended June 30, 2017.

We recorded income tax expense for the six months ended June 30, 2017 of $4.4 million or 29% of income before tax, compared to income tax expense of $4.3 million or 31% of income before tax for the prior year period. The decrease in the effective tax rate was primarily due to the variance in actual versus assumed results that impacted taxes for the six months ended June 30, 2017.

The effective income tax rate was lower than the prevailing corporate federal income tax rate of 35% in both the second quarters and six months of 2017 and 2016, primarily due to tax credits from affordable housing investments and permanent differences, which include the dividends-received deduction. For additional information, please see Note 10 - Income Taxes.

Analysis of Investments

This analysis of investments should be read in conjunction with Note 3 - Investments included in Exhibit 3.1.

The following table provides asset class detail of the investment portfolio. Fixed maturity and equity securities represented 72% of the investment portfolio at June 30, 2017 and 73% at December 31, 2016.

	June 30 2017	% of Total	December 31 2016	% of Total
Fixed maturity securities	$ 2,521,290	71%	$ 2,530,907	72%
Equity securities	20,773	1%	23,996	1%
Mortgage loans	661,486	19%	630,889	18%
Real estate	195,533	6%	195,621	6%
Policy loans	78,659	2%	79,893	2%
Short-term investments	36,226	1%	27,526	1%
Other investments	1,749	—	1,388	—
Total	$ 3,515,716	100%	$ 3,490,220	100%

Fixed maturity securities were the largest component of total investments at June 30, 2017. The largest categories of fixed maturity securities at June 30, 2017 consisted of 80% in corporate obligations, 7% in municipal securities, and 7% in U.S. Treasury securities and other obligations of the U.S. Government. Fixed maturity securities had unrealized gains of $117.4 million and unrealized losses of $10.4 million at June 30, 2017.

We use actual or equivalent Standard & Poor's ratings to determine the investment grading of fixed maturity securities. Fixed maturity securities that were rated above investment grade represented 97% of total securities at June 30, 2017 and 96% at December 31, 2016.

The fair value of fixed maturity securities with unrealized losses was $386.9 million at June 30, 2017, compared with $516.9 million at December 31, 2016. This decrease primarily reflected changes in interest rates and market spreads during 2017. At June 30, 2017, 92% of security investments with an unrealized loss were investment grade and accounted for 76% of the total unrealized losses. At December 31, 2016, 94% of securities with an unrealized loss were investment grade and accounted for 85% of the total unrealized losses.

At June 30, 2017, we had $118.9 million in gross unrealized gains on fixed maturity and equity securities that offset gross unrealized losses of $10.4 million. At December 31, 2016, we had $111.9 million in gross unrealized gains on fixed maturity and equity securities that offset $19.0 million in gross unrealized losses. At June 30, 2017, 85% of the fixed maturity and equity securities portfolio had unrealized gains, an increase from 79% at December 31, 2016. We had a decrease in gross unrealized losses in most categories from December 31, 2016 to June 30, 2017 due to changes in interest rates and market spreads during 2017. Gross unrealized losses on fixed maturity and equity securities for less than 12 months accounted for $5.2 million or 50% of the security values in a gross unrealized loss position at June 30, 2017 compared to $12.5 million or 66% at December 31, 2016. Gross unrealized losses on fixed maturity and equity security investments of 12 months or longer decreased from $6.5 million at December 31, 2016 to $5.2 million at June 30, 2017.

Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 33% of the below investment grade total at June 30, 2017, compared to 34% at December 31, 2016.

We have written down certain investments in previous periods. Fixed maturity securities written down and still owned at June 30, 2017 and December 31, 2016 were not material.

The current status of all investments previously written down was evaluated to determine whether we believe that these investments remained credit-impaired to the extent previously recorded. Our evaluation process is similar to our impairment evaluation process. If evidence exists that we will receive the contractual cash flows from securities previously written down, the accretion of income is adjusted. We did not change our evaluation of any investments under this process during 2017 or 2016.

Investments in mortgage loans totaled $661.5 million at June 30, 2017, up from $630.9 million at December 31, 2016. The commercial mortgage loan portfolio increased $30.6 million during the first six months of 2017, as new loans exceeded regularly scheduled payments and the volume of prepaid loans. Mortgage loan fundings increased $35.3 million in the first six months of 2017 compared to the prior year. Our mortgage loans are secured by commercial real estate. These loans are stated at the outstanding principal balance, adjusted for amortization of premium and accretion of discount, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.9 million at June 30, 2017 and $3.3 million at December 31, 2016.

Investments in real estate totaled $195.5 million at March 31, 2017 and $195.6 million at December 31, 2016.

Liquidity and Capital Resources

Liquidity

Statements made in our 2016 Annual Report remain pertinent, as our liquidity position is materially unchanged from year-end 2016.

Net cash provided by operating activities was $1.7 million for the six months ended June 30, 2017. The primary sources of cash from operating activities in the first six months of 2017 were premium receipts and net investment income. The primary uses of cash from operating activities in the first six months of 2017 were for the payment of policyholder benefits and operating expenses. Net cash used by investing activities was $9.4 million. The primary sources of cash from investing activities were sales, maturities, calls, and principal paydowns of investments totaling $199.2 million. Investment purchases, including new mortgage loans and new policy loans, totaled $198.7 million. In addition, net sales of short-term investments totaled $8.7 million. Net cash from financing activities was $7.2 million, primarily including $2.6 million of net transfers from separate accounts and $12.7 million of deposits, net of withdrawals, on policyholder account balances. These were partially offset by the payment of $5.2 million in stockholder dividends.

Capital Resources

We believe existing capital resources provide adequate support for the current level of business activities, as identified in the following table.

	June 30 2017	December 31 2016
Total assets, excluding separate accounts	$ 4,099,130	$ 4,076,157
Total stockholders' equity	700,831	685,583
Ratio of stockholders' equity to assets, excluding separate accounts	17%	17%

Stockholders' equity increased $15.2 million from year-end 2016, primarily due to net income and an increase in net unrealized gains. Stockholders' equity per share, or book value, equaled $72.37 at June 30, 2017, an increase from $70.80 at year-end 2016.

Net unrealized gains on available for sale securities, which are included as part of accumulated other comprehensive income (loss) and as a component of stockholders' equity (net of unrealized losses on investments, related taxes, policyholder account balances, future policy benefits, DAC, VOBA, and DRL), totaled $45.8 million at June 30, 2017, a $9.7 million increase from December 31, 2016.

Our statutory equity exceeds the minimum capital deemed necessary to support our insurance business, as determined by the risk-based capital calculations and guidelines established by the National Association of Insurance Commissioners. We believe these statutory limitations impose no practical restrictions on future dividend payment plans.

In January 2017, the Board of Directors authorized the purchase of up to one million of our shares on the open market through January 2018. We did not purchase any shares under the stock repurchase authorization during the first six months of 2017.

On July 24, 2017, the Board of Directors declared a quarterly dividend of $0.27 per share payable on August 9, 2017 to stockholders of record on August 3, 2017.

Item 5. Legal Proceedings

There are no current, past, pending or threatened legal proceedings or administrative actions either by or against Kansas City Life Insurance Company that could be expected to have a material effect on our business, financial condition or operations. Our securities are not subject to any past or pending trading suspensions by a securities regulator. Please see the section entitled "Contingent Liabilities, Guarantees, and Indemnifications" in Note 16 of the financial statements shown in Exhibit 3.1.

Item 6. Defaults upon Senior Securities

None

Item 7. Other Information

None

Item 8. Exhibits

3.1 Interim Consolidated Financial Statements

Item 9. Issuer's Certifications

I, R. Philip Bixby, certify that:

1. I have reviewed this quarterly disclosure statement of Kansas City Life Insurance Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: July 27, 2017

/s/ R. Philip Bixby
R. Philip Bixby
President, Chief Executive Officer,
and Chairman of the Board

I, Philip A. Williams, certify that:

1. I have reviewed this quarterly disclosure statement of Kansas City Life Insurance Company;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in the light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: July 27, 2017

/s/ Philip A. Williams
Philip A. Williams
Senior Vice President, Finance

Exhibit 3.1 Interim Consolidated Financial Statements

Amounts in thousands, except share data, security counts, or as otherwise noted.

Kansas City Life Insurance Company
Consolidated Balance Sheets

	June 30 2017 (Unaudited)	December 31 2016
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,521,290	$ 2,530,907
Equity securities available for sale, at fair value	20,773	23,996
Mortgage loans	661,486	630,889
Real estate	195,533	195,621
Policy loans	78,659	79,893
Short-term investments	36,226	27,526
Other investments	1,749	1,388
Total investments	3,515,716	3,490,220
Cash	9,152	9,630
Accrued investment income	31,456	31,586
Deferred acquisition costs	270,973	271,089
Reinsurance recoverables	185,752	187,941
Property and equipment	16,236	15,853
Other assets	69,845	69,838
Separate account assets	392,746	373,256
Total assets	$ 4,491,876	$ 4,449,413
LIABILITIES		
Future policy benefits	$ 950,743	$ 943,643
Policyholder account balances	2,051,817	2,051,728
Policy and contract claims	31,117	34,553
Other policyholder funds	173,246	178,806
Other liabilities	191,376	181,844
Separate account liabilities	392,746	373,256
Total liabilities	3,791,045	3,763,830
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	41,025	41,025
Retained earnings	873,605	868,054
Accumulated other comprehensive income (loss)	4,381	(5,316)
Treasury stock, at cost (2017 and 2016 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders’ equity	700,831	685,583
Total liabilities and stockholders’ equity	$ 4,491,876	$ 4,449,413

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Comprehensive Income

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	$ 45,480	$ 42,066	$ 89,663	$ 84,168
Contract charges	30,338	26,617	58,129	55,040
Total insurance revenues	75,818	68,683	147,792	139,208
Investment revenues:				
Net investment income	36,875	38,317	74,053	76,425
Net realized investment gains, excluding other-than-temporary impairment losses	1,019	571	1,507	3,043
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	—	(546)	—	(563)
Portion of impairment losses recognized in other comprehensive income	—	(27)	(7)	(34)
Net other-than-temporary impairment losses recognized in earnings	—	(573)	(7)	(597)
Total investment revenues	37,894	38,315	75,553	78,871
Other revenues	1,565	1,526	3,169	2,999
Total revenues	115,277	108,524	226,514	221,078
BENEFITS AND EXPENSES				
Policyholder benefits	52,917	56,985	107,273	111,339
Interest credited to policyholder account balances	18,120	18,130	36,130	36,150
Amortization of deferred acquisition costs	10,036	2,200	18,181	11,759
Operating expenses	26,287	23,687	49,759	48,075
Total benefits and expenses	107,360	101,002	211,343	207,323
Income before income tax expense	7,917	7,522	15,171	13,755
Income tax expense	2,305	2,280	4,391	4,256
NET INCOME	$ 5,612	$ 5,242	$ 10,780	$ 9,499
COMPREHENSIVE INCOME, NET OF TAXES				
Change in net unrealized gains on securities available for sale, net of DAC, VOBA, and DRL	$ 5,997	$ 26,320	$ 9,729	$ 56,576
Change in future policy benefits	246	(4,548)	(63)	(9,213)
Change in policyholder account balances	48	(222)	31	(371)
Other comprehensive income	6,291	21,550	9,697	46,992
COMPREHENSIVE INCOME	$ 11,903	$ 26,792	$ 20,477	$ 56,491
Basic and diluted earnings per share:				
Net income	$ 0.58	$ 0.54	$ 1.11	$ 0.98

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2017	2016
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 10,780	$ 9,499
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of investment premium and discount	1,484	2,163
Depreciation	2,864	2,660
Acquisition costs capitalized	(20,710)	(20,924)
Amortization of deferred acquisition costs	18,181	11,759
Net realized investment gains	(1,500)	(2,446)
Changes in assets and liabilities:		
Reinsurance recoverables	2,189	1,262
Future policy benefits	7,002	7,920
Policyholder account balances	(15,401)	(11,492)
Income taxes payable and deferred	1,396	2,756
Other, net	(4,572)	4,046
Net cash provided	1,713	7,203
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(110,102)	(123,640)
Equity securities	(45)	(3)
Mortgage loans	(79,757)	(47,590)
Real estate	(2,796)	(1,755)
Policy loans	(5,477)	(5,236)
Other investments	(529)	(361)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	139,091	123,820
Equity securities	4,059	118
Mortgage loans	48,600	69,131
Real estate	—	1,745
Policy loans	6,707	6,836
Other investments	745	18
Net purchases of short-term investments	(8,700)	(34,294)
Acquisition of property and equipment	(1,155)	(317)
Net cash used	(9,359)	(11,528)

Kansas City Life Insurance Company
Consolidated Statements of Cash Flows (Continued)

	Six Months Ended June 30	
	2017	2016
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 114,676	$ 106,409
Withdrawals from policyholder account balances	(101,935)	(104,365)
Net transfers from separate accounts	2,601	4,456
Change in other deposits	(2,945)	2,213
Cash dividends to stockholders	(5,229)	(5,229)
Net cash provided	7,168	3,484
Decrease in cash	(478)	(841)
Cash at beginning of year	9,630	7,851
Cash at end of period	$ 9,152	$ 7,010

See accompanying Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation
The interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company), which primarily consists of three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries. The Company also has non-insurance subsidiaries that individually and collectively are not material. The terms "the Company," "we," "us," and "our" are used in these consolidated financial statements to refer to Kansas City Life Insurance Company and its subsidiaries.

The interim consolidated financial statements were prepared on the basis of GAAP for interim financial reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these interim consolidated financial statements should be read in conjunction with our 2016 Annual Report, which is available on the OTCQX website. The interim consolidated financial statements and the accompanying notes for the quarters and six months ended June 30, 2017 and 2016 are unaudited. Management believes that the disclosures included herein are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position and the results of operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of operating results for a full year. Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to prior period results to conform with the current period's presentation.

The interim consolidated financial statements include estimates and assumptions relating to the reported amounts of certain assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of certain revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Significant Accounting Policies
Please refer to our 2016 Annual Report for a full discussion of our significant accounting policies. No significant updates or changes to these policies occurred during the quarter or six months ended June 30, 2017.

2. New Accounting Pronouncements

Accounting Pronouncements Issued, Not Yet Adopted
In May 2014, the Financial Accounting Standards Board (FASB) issued guidance regarding accounting for revenue recognition that identifies the accounting treatment for an entity’s contracts with customers. Certain contracts, including insurance contracts, are specifically excluded from this guidance. However, certain other types of contracts may impact the financial statements of insurance providers. In August 2015, the FASB deferred the effective date of this guidance for public entities to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. As an insurance enterprise, we have determined that our primary sources of revenue are excluded from this guidance, including insurance premiums, contract charges, and most investment revenues. While we have other non-insurance revenue that will be impacted, our adoption of this guidance is not expected to have a material impact on our consolidated financial statements. Our ongoing evaluation includes identifying the contracts that are within the scope of this guidance and documentation of our accounting for those contracts.

In January 2016, the FASB issued guidance regarding accounting for recognition and measurement of financial assets and financial liabilities. The new standard significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption allowed. We are currently evaluating this guidance.

In February 2016, the FASB issued guidance regarding leases. This guidance includes a lessee model that will cause most leases to be reported on the balance sheet. In addition, the guidance aligns existing GAAP pertaining to leases with the new revenue recognition model that will be effective for periods beginning after December 15, 2017. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. We are currently evaluating this guidance.

In June 2016, the FASB issued guidance regarding the measurement of credit losses on financial instruments. Under this guidance, the incurred loss impairment methodology used under current GAAP for loans and other financial instruments will be replaced by a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Additional disclosures will be required to provide additional information regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. This guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. We are currently evaluating this guidance.

In August 2016, the FASB issued guidance regarding the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We are currently evaluating this guidance. We do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued guidance regarding restricted cash. This guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. We are currently evaluating this guidance. We do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued guidance to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. This guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We are currently evaluating this guidance. We do not believe that the adoption of this guidance will have a material impact on our consolidated financial statements.

In March 2017, the FASB issued guidance to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period for premiums is being shortened to the earliest call date. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. We are currently evaluating this guidance.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent to us at this time or were not expected to have a material impact to the consolidated financial statements.

3. Investments

Fixed Maturity and Equity Securities Available for Sale

Securities by Asset Class

The following table provides amortized cost and fair value of securities by asset class at June 30, 2017.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 159,802	$ 5,926	$ 411	$ 165,317
Federal agency issued residential mortgage-backed securities [1]	27,807	2,523	2	30,328
Subtotal	187,609	8,449	413	195,645
Corporate obligations:				
Industrial	482,855	22,585	815	504,625
Energy	187,931	8,398	2,091	194,238
Communications and technology	236,525	13,635	449	249,711
Financial	201,107	9,832	600	210,339
Consumer	564,987	18,184	1,699	581,472
Public utilities	262,940	12,489	1,644	273,785
Subtotal	1,936,345	85,123	7,298	2,014,170
Corporate private-labeled residential mortgage-backed securities	37,828	3,021	—	40,849
Municipal securities	146,166	19,524	233	165,457
Other	91,822	891	2,446	90,267
Redeemable preferred stocks	14,524	404	26	14,902
Fixed maturity securities	2,414,294	117,412	10,416	2,521,290
Equity securities	19,253	1,520	—	20,773
Total	$ 2,433,547	$ 118,932	$ 10,416	$ 2,542,063

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The following table provides amortized cost and fair value of securities by asset class at December 31, 2016.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 148,468	$ 5,246	$ 849	$ 152,865
Federal agencies [1]	19,796	515	—	20,311
Federal agency issued residential mortgage-backed securities [1]	25,868	2,973	1	28,840
Subtotal	194,132	8,734	850	202,016
Corporate obligations:				
Industrial	506,218	20,445	2,176	524,487
Energy	201,416	7,880	2,778	206,518
Communications and technology	234,280	12,630	1,193	245,717
Financial	200,124	9,928	919	209,133
Consumer	564,868	16,431	2,989	578,310
Public utilities	239,719	13,132	2,562	250,289
Subtotal	1,946,625	80,446	12,617	2,014,454
Corporate private-labeled residential mortgage-backed securities	41,969	2,563	—	44,532
Municipal securities	147,384	17,546	696	164,234
Other	94,062	1,122	2,989	92,195
Redeemable preferred stocks	14,546	125	1,195	13,476
Fixed maturity securities	2,438,718	110,536	18,347	2,530,907
Equity securities	23,289	1,386	679	23,996
Total	$ 2,462,007	$ 111,922	$ 19,026	$ 2,554,903

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

Contractual Maturities

The following table provides the distribution of maturities for fixed maturity securities available for sale. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 197,121	$ 200,533	$ 177,007	$ 180,934
Due after one year through five years	752,934	788,200	751,986	788,759
Due after five years through ten years	978,256	1,012,098	1,020,233	1,043,340
Due after ten years	374,597	401,234	372,488	394,254
Securities with variable principal payments	96,862	104,323	102,458	110,144
Redeemable preferred stocks	14,524	14,902	14,546	13,476
Total	$ 2,414,294	$ 2,521,290	$ 2,438,718	$ 2,530,907

No material derivative financial instruments were held as of June 30, 2017 or December 31, 2016.

Unrealized Losses on Investments

At the end of each quarter, all securities are reviewed to determine whether impairments exist and whether other-than-temporary impairments should be recorded. This quarterly process includes an assessment of the credit quality of each investment in the entire securities portfolio. Additional reporting and review procedures are conducted for those securities where fair value is less than 90% of amortized cost. A formal review document is prepared no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost. Additional information on our process and considerations, as well as related accounting when other-than-temporary impairments are identified, is provided in Note 3 - Investments of our 2016 Annual Report.

The following table provides information regarding fixed maturity and equity securities available for sale with unrealized losses by asset class and by length of time at June 30, 2017.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 25,306	$ 411	$ 3	$ —	$ 25,309	$ 411
Federal agency issued residential mortgage-backed securities [1]	5,018	1	34	1	5,052	2
Subtotal	30,324	412	37	1	30,361	413
Corporate obligations:						
Industrial	52,258	784	3,058	31	55,316	815
Energy	31,569	307	28,362	1,784	59,931	2,091
Communications and technology	13,215	127	8,970	322	22,185	449
Financial	18,214	204	5,490	396	23,704	600
Consumer	83,263	1,699	—	—	83,263	1,699
Public utilities	40,063	1,413	4,666	231	44,729	1,644
Subtotal	238,582	4,534	50,546	2,764	289,128	7,298
Municipal securities	14,177	233	—	—	14,177	233
Other	2,983	18	43,308	2,428	46,291	2,446
Redeemable preferred stocks	6,979	26	—	—	6,979	26
Fixed maturity securities	293,045	5,223	93,891	5,193	386,936	10,416
Equity securities	110	—	—	—	110	—
Total	$ 293,155	$ 5,223	$ 93,891	$ 5,193	$ 387,046	$ 10,416

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The following table provides information regarding fixed maturity and equity securities available for sale with unrealized losses by asset class and by length of time at December 31, 2016.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 37,557	$ 849	$ 4	$ —	$ 37,561	$ 849
Federal agency issued residential mortgage-backed securities [1]	180	—	41	1	221	1
Subtotal	37,737	849	45	1	37,782	850
Corporate obligations:						
Industrial	91,106	2,054	2,976	122	94,082	2,176
Energy	31,575	600	37,984	2,178	69,559	2,778
Communications and technology	35,985	745	6,953	448	42,938	1,193
Financial	21,914	199	5,165	720	27,079	919
Consumer	121,552	2,989	—	—	121,552	2,989
Public utilities	46,917	2,479	1,038	83	47,955	2,562
Subtotal	349,049	9,066	54,116	3,551	403,165	12,617
Municipal securities	16,948	696	—	—	16,948	696
Other	4,943	64	44,190	2,925	49,133	2,989
Redeemable preferred stocks	9,851	1,195	—	—	9,851	1,195
Fixed maturity securities	418,528	11,870	98,351	6,477	516,879	18,347
Equity securities	11,430	679	—	—	11,430	679
Total	$ 429,958	$ 12,549	$ 98,351	$ 6,477	$ 528,309	$ 19,026

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The following table provides information regarding the number of fixed maturity and equity security issues with unrealized losses at June 30, 2017 and December 31, 2016.

	June 30 2017	December 31 2016
Below cost for less than one year	110	160
Below cost for one year or more and less than three years	19	20
Below cost for three years or more	9	8
Total	138	188

We do not consider the unrealized losses related to these securities to be credit-related. The unrealized losses at June 30, 2017 primarily relate to changes in interest rates and market spreads subsequent to purchase. A substantial portion of investment securities that have unrealized losses are either corporate debt issued with investment grade credit ratings or other investment securities. Included in other investment securities are commercial mortgage-backed securities and asset-backed securities.

The following table summarizes investments in fixed maturity and equity securities available for sale with unrealized losses at June 30, 2017.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 385,432	$ 376,494	$ 8,938
Unrealized losses of 20% or less and greater than 10%	7,866	6,905	961
Subtotal	393,298	383,399	9,899
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	1,998	1,540	458
Twelve months or greater	—	—	—
Total below investment grade	1,998	1,540	458
Unrealized losses greater than 20%	1,998	1,540	458
Subtotal	395,296	384,939	10,357
Securities owned with realized impairment:			
Unrealized losses of 10% or less	2,166	2,107	59
Unrealized losses of 20% or less and greater than 10%	—	—	—
Subtotal	2,166	2,107	59
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	2,166	2,107	59
Total	$ 397,462	$ 387,046	$ 10,416

The following table summarizes investments in fixed maturity and equity securities available for sale with unrealized losses at December 31, 2016.

	Amortized Cost	Fair Value	Gross Unrealized Losses
Securities owned without realized impairment:			
Unrealized losses of 10% or less	$ 517,145	$ 501,873	$ 15,272
Unrealized losses of 20% or less and greater than 10%	26,552	23,093	3,459
Subtotal	543,697	524,966	18,731
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	908	715	193
Total investment grade	908	715	193
Below investment grade:			
Less than twelve months	130	104	26
Twelve months or greater	—	—	—
Total below investment grade	130	104	26
Unrealized losses greater than 20%	1,038	819	219
Subtotal	544,735	525,785	18,950
Securities owned with realized impairment:			
Unrealized losses of 10% or less	2,526	2,464	62
Unrealized losses of 20% or less and greater than 10%	74	60	14
Subtotal	2,600	2,524	76
Unrealized losses greater than 20%:			
Investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total investment grade	—	—	—
Below investment grade:			
Less than twelve months	—	—	—
Twelve months or greater	—	—	—
Total below investment grade	—	—	—
Unrealized losses greater than 20%	—	—	—
Subtotal	2,600	2,524	76
Total	$ 547,335	$ 528,309	$ 19,026

The following table provides information on fixed maturity securities available for sale with gross unrealized losses by actual or equivalent Standard & Poor's rating at June 30, 2017.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 27,108	7%	$ 509	5%
AA	62,077	16%	2,149	21%
A	126,785	33%	2,172	21%
BBB	139,775	36%	3,077	29%
Total investment grade	355,745	92%	7,907	76%
BB	14,219	4%	1,529	15%
B and below	16,972	4%	980	9%
Total below investment grade	31,191	8%	2,509	24%
	$ 386,936	100%	$ 10,416	100%

The following table provides information on fixed maturity securities available for sale with gross unrealized losses by actual or equivalent Standard & Poor's rating at December 31, 2016.

	Fair Value	% of Total	Gross Unrealized Losses	% of Total
AAA	$ 27,051	5%	$ 983	5%
AA	87,400	17%	3,389	19%
A	135,619	26%	4,841	26%
BBB	234,305	46%	6,430	35%
Total investment grade	484,375	94%	15,643	85%
BB	14,359	3%	1,592	9%
B and below	18,145	3%	1,112	6%
Total below investment grade	32,504	6%	2,704	15%
	$ 516,879	100%	$ 18,347	100%

Our residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities that were rated below investment grade were 33% of total below investment grade securities at June 30, 2017, down from 34% at December 31, 2016.

The following table provides the distribution of maturities for fixed maturity securities available for sale with unrealized losses. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	June 30, 2017		December 31, 2016	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities available for sale:				
Due in one year or less	$ 9,462	$ 7	$ 3,727	$ 113
Due after one year through five years	37,353	267	43,474	516
Due after five years through ten years	209,481	5,384	344,940	9,525
Due after ten years	118,606	4,730	114,661	6,997
Total	374,902	10,388	506,802	17,151
Securities with variable principal payments	5,055	2	226	1
Redeemable preferred stocks	6,979	26	9,851	1,195
Total	$ 386,936	$ 10,416	$ 516,879	$ 18,347

We monitor structured securities through a combination of an analysis of vintage, credit ratings, and other factors. Structured securities include asset-backed, residential mortgage-backed securities, collateralized debt obligations, and other collateralized obligations.

The following tables identify structured securities by credit ratings for all vintages owned.

	June 30, 2017		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS:			
Investment grade	$ 9,048	$ 8,765	$ 283
Below investment grade	36,379	33,684	2,695
Total residential & non-agency MBS	45,427	42,449	2,978
Other structured securities:			
Investment grade	61,240	61,950	(710)
Below investment grade	14,112	15,000	(888)
Total other structured securities	75,352	76,950	(1,598)
Total structured securities	$ 120,779	$ 119,399	$ 1,380

	December 31, 2016		
	Fair Value	Amortized Cost	Unrealized Gains (Losses)
Residential & non-agency MBS:			
Investment grade	$ 9,949	$ 9,610	$ 339
Below investment grade	39,932	37,758	2,174
Total residential & non-agency MBS	49,881	47,368	2,513
Other structured securities:			
Investment grade	61,810	63,092	(1,282)
Below investment grade	13,450	15,317	(1,867)
Total other structured securities	75,260	78,409	(3,149)
Total structured securities	$ 125,141	$ 125,777	$ (636)

The following table provides a reconciliation of credit losses recognized in earnings on fixed maturity securities for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Credit losses on securities held at beginning of the period	$ 9,399	$ 15,962	$ 13,224	$ 20,350
Additions for increases in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	—	27	7	51
Reductions for securities sold	(129)	—	(3,955)	(4,407)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(5)	(6)	(11)	(11)
Credit losses on securities held at the end of the period	$ 9,265	$ 15,983	$ 9,265	$ 15,983

Realized Gains (Losses)
The following table provides detail concerning realized investment gains and losses.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Gross gains resulting from:				
Sales of investment securities	$ 484	$ 659	$ 790	$ 907
Investment securities called and other	935	84	1,303	1,346
Real estate	—	—	—	1,020
Total gross gains	1,419	743	2,093	3,273
Gross losses resulting from:				
Sales of investment securities	—	(1)	—	(87)
Investment securities called and other	(3)	(5)	(4)	(6)
Sale of real estate and joint ventures	(1)	(34)	(1)	(34)
Mortgage loans	—	(91)	(5)	(95)
Total gross losses	(4)	(131)	(10)	(222)
Change in allowance for loan losses	(368)	1	(528)	77
Amortization of DAC, VOBA, and DRL	(28)	(42)	(48)	(85)
Net realized investment gains, excluding other-than-temporary impairment losses	1,019	571	1,507	3,043
Net impairment losses recognized in earnings:				
Other-than-temporary impairment losses on fixed maturity and equity securities	—	(546)	—	(563)
Portion of loss recognized in other comprehensive income	—	(27)	(7)	(34)
Net other-than-temporary impairment losses recognized in earnings	—	(573)	(7)	(597)
Net realized investment gains (losses)	$ 1,019	$ (2)	$ 1,500	$ 2,446

The portion of loss recognized in other comprehensive income represents the non-credit portion of current or prior other-than-temporary impairment. Corporate private-labeled residential mortgage-backed and other securities had impairments recorded in earnings of less than $0.1 million in the quarters ended June 30, 2017 and June 30, 2016. The other-than-temporary impairments recorded in earnings were determined based upon the present value of projected future cash flows.

Proceeds from Sales of Investment Securities
The following table provides proceeds from the sale of fixed maturity and equity securities, excluding maturities and calls.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Proceeds	$ 18,673	$ 10,599	$ 26,797	$ 18,473

Non-Cash Investing Activity
There were no non-cash investing transactions in the second quarter or six months of 2017. Non-cash investing transactions in the second quarter and six months of 2016 consisted of a $3.0 million bond exchange with an issuer.

Mortgage Loans
Investments in mortgage loans totaled $661.5 million at June 30, 2017, compared to $630.9 million at December 31, 2016. Our mortgage loans are secured by commercial real estate and are stated at cost, adjusted for premium amortization and discount accretion, less an allowance for loan losses. We believe this allowance is at a level adequate to absorb estimated credit losses and was $3.9 million at June 30, 2017 and $3.3 million at December 31, 2016. We had 19% of our total investments in commercial mortgage loans at June 30, 2017, compared to 18% at December 31, 2016. In addition to the subject collateral underlying the mortgage, we may require some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. The average loan-to-value ratio for the overall portfolio was 47% at June 30, 2017 and 48% at December 31, 2016. These ratios are based upon the current balance of loans relative to the appraisal of value at the time the loan was originated or acquired. Additionally, we may receive fees when borrowers prepay their mortgage loans.

We may refinance commercial mortgage loans prior to contractual maturity as a means of originating new loans that meet our underwriting and pricing parameters. We did not refinance loans during the quarter ended June 30, 2017. We refinanced one loan with an outstanding balance of $0.6 million during the quarter ended June 30, 2016. We refinanced one loan with an outstanding balance of $2.4 million during the six months ended June 30, 2017 and four loans with outstanding balances of $7.1 million during the six months ended June 30, 2016.

In the normal course of business, we commit to fund commercial mortgage loans generally up to 120 days in advance. These commitments typically have fixed expiration dates. A small percentage of commitments expire due to the borrower's failure to deliver the requirements of the commitment by the expiration date. In these cases, the commitment fee is retained. For additional information, please see Note 16 - Commitments, Contingent Liabilities, Guarantees, and Indemnifications.

4. Fair Value Measurements

Under GAAP, fair value represents the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. We maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We follow the fair value hierarchy under existing GAAP requirements. No changes were made to our categories as disclosed in our Annual Report. Please refer to our 2016 Annual Report for a full discussion of the fair value hierarchy and our policies regarding fair value measurements.

The following tables present the fair value hierarchy for those assets and liabilities reported at fair value on a recurring basis.

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,298	$ 153,019	$ —	$ 165,317
Federal agency issued residential mortgage-backed securities [1]	—	30,328	—	30,328
Subtotal	12,298	183,347	—	195,645
Corporate obligations:				
Industrial	—	504,625	—	504,625
Energy	—	194,238	—	194,238
Communications and technology	—	249,711	—	249,711
Financial	—	210,339	—	210,339
Consumer	—	581,472	—	581,472
Public utilities	—	273,785	—	273,785
Subtotal	—	2,014,170	—	2,014,170
Corporate private-labeled residential mortgage-backed securities	—	40,849	—	40,849
Municipal securities	—	165,457	—	165,457
Other	—	90,267	—	90,267
Redeemable preferred stocks	—	14,902	—	14,902
Fixed maturity securities	12,298	2,508,992	—	2,521,290
Equity securities	5,170	15,603	—	20,773
Separate account assets	—	392,746	—	392,746
Total	$ 17,468	$ 2,917,341	$ —	$ 2,934,809
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (2,204)	$ (2,204)
Separate account liabilities	—	392,746	—	392,746
Total	$ —	$ 392,746	$ (2,204)	$ 390,542

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,108	$ 140,757	$ —	$ 152,865
Federal agencies [1]	—	20,311	—	20,311
Federal agency issued residential mortgage-backed securities [1]	—	28,840	—	28,840
Subtotal	12,108	189,908	—	202,016
Corporate obligations:				
Industrial	—	524,487	—	524,487
Energy	—	206,518	—	206,518
Communications and technology	—	245,717	—	245,717
Financial	—	209,133	—	209,133
Consumer	—	578,310	—	578,310
Public utilities	—	250,289	—	250,289
Subtotal	—	2,014,454	—	2,014,454
Corporate private-labeled residential mortgage-backed securities	—	44,532	—	44,532
Municipal securities	—	164,234	—	164,234
Other	—	91,795	400	92,195
Redeemable preferred stocks	—	13,476	—	13,476
Fixed maturity securities	12,108	2,518,399	400	2,530,907
Equity securities	4,950	19,046	—	23,996
Separate account assets	—	373,256	—	373,256
Total	$ 17,058	$ 2,910,701	$ 400	$ 2,928,159
Percent of total	1%	99%	—%	100%
Liabilities:				
Other policyholder funds:				
Guaranteed minimum withdrawal benefits	$ —	$ —	$ (2,158)	$ (2,158)
Separate account liabilities	—	373,256	—	373,256
Total	$ —	$ 373,256	$ (2,158)	$ 371,098

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized below:

	Quarter Ended June 30, 2017	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ —	$ (2,581)
Included in earnings	—	372
Included in other comprehensive income	—	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	90
Sales	—	—
Other dispositions	—	(85)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (2,204)

	Quarter Ended June 30, 2016	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 650	$ (1,094)
Included in earnings	—	2,026
Included in other comprehensive income	98	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	124
Sales	—	—
Other dispositions	(150)	(312)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ 598	$ 744

	Six Months Ended June 30, 2017	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 400	$ (2,158)
Included in earnings	11	(42)
Included in other comprehensive income	(83)	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	150
Sales	—	—
Other dispositions	(328)	(154)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ —	$ (2,204)

	Six Months Ended June 30, 2016	
	Assets	Liabilities
	Fixed maturity securities available for sale	GMWB
Beginning balance	$ 577	$ (2,778)
Included in earnings	—	3,860
Included in other comprehensive income	171	—
Purchases, issuances, sales and other dispositions:		
Purchases	—	—
Issuances	—	287
Sales	—	—
Other dispositions	(150)	(625)
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Ending balance	$ 598	$ 744

Depending upon the availability of Level 1 or Level 2 pricing, specific securities may transfer into or out of Level 3. We did not have any transfers between any levels at June 30, 2017 or June 30, 2016.

The GMWB liability is sensitive to changes in observable and unobservable inputs. Observable inputs include risk-free rates, index returns, volatilities, and correlations. Increases in risk-free rates and equity returns reduce the liability, while increases in volatilities increase the liability. Unobservable inputs include mortality, lapse, benefit utilization, and nonperformance risk adjustments. Increases in mortality, lapses, and credit spreads used for nonperformance risk reduce the liability, while increases in benefit utilization increase the liability. Please refer to the 2016 Annual Report for information regarding the valuation method for the GMWB liability and the unobservable inputs and ranges used in the valuation of those financial instruments. The valuation method, unobservable inputs, and ranges used had not materially changed at June 30, 2017.

Following are estimates of the impact from changes in unobservable inputs on the GMWB liability.

	June 30 2017	December 31 2016
	Increase/(Decrease) in millions	
A 10% increase in the mortality assumption	$ (0.1)	$ (0.1)
A 10% decrease in the lapse assumption	0.2	0.2
A 10% increase in the benefit utilization	1.0	0.7
A 10 basis point increase in the credit spreads used for non-performance	(0.3)	(0.3)

The following tables present a summary of fair value estimates for financial instruments. Assets and liabilities that are not financial instruments are not included in this disclosure. The total of the fair value calculations presented below may not be indicative of the value that can be obtained.

	June 30, 2017				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 12,298	$ 2,508,992	$ —	$ 2,521,290	$ 2,521,290
Equity securities available for sale	5,170	15,603	—	20,773	20,773
Mortgage loans	—	—	672,305	672,305	661,486
Policy loans	—	—	78,659	78,659	78,659
Cash and short-term investments	45,378	—	—	45,378	45,378
Separate account assets	—	392,746	—	392,746	392,746
Liabilities:					
Individual and group annuities	—	—	1,057,170	1,057,170	1,076,391
Supplementary contracts and annuities without life contingencies	—	—	52,808	52,808	53,995
Separate account liabilities	—	392,746	—	392,746	392,746
Other policyholder funds - GMWB	—	—	(2,204)	(2,204)	(2,204)

	December 31, 2016				
	Fair Value				Carrying Value
	Level 1	Level 2	Level 3	Total	
Assets:					
Investments:					
Fixed maturity securities available for sale	$ 12,108	$ 2,518,399	$ 400	$ 2,530,907	$ 2,530,907
Equity securities available for sale	4,950	19,046	—	23,996	23,996
Mortgage loans	—	—	636,801	636,801	630,889
Policy loans	—	—	79,893	79,893	79,893
Cash and short-term investments	37,156	—	—	37,156	37,156
Separate account assets	—	373,256	—	373,256	373,256
Liabilities:					
Individual and group annuities	—	—	1,056,759	1,056,759	1,075,576
Supplementary contracts and annuities without life contingencies	—	—	53,167	53,167	54,483
Separate account liabilities	—	373,256	—	373,256	373,256
Other policyholder funds - GMWB	—	—	(2,158)	(2,158)	(2,158)

5. Financing Receivables

We have financing receivables with specific maturity dates that are recognized as assets in the Consolidated Balance Sheets.

The following table identifies financing receivables by classification amount.

	June 30 2017	December 31 2016
Receivables:		
Agent receivables, net (allowance $821; 2016 - $660)	$ 1,755	$ 1,661
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,861; 2016 - $3,333)	661,486	630,889
Total financing receivables	$ 663,241	$ 632,550

Agent Receivables
We have certain agent receivables that are classified as financing receivables. These receivables from agents are long-term in nature and are specifically assessed for collectibility and are reduced by an allowance for doubtful accounts.

The following table details the gross receivables, allowance, and net receivables for the two types of agent receivables.

	June 30, 2017			December 31, 2016		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Agent specific loans	$ 1,269	$ 611	$ 658	$ 988	$ 346	$ 642
Other agent receivables	1,307	210	1,097	1,333	314	1,019
Total	$ 2,576	$ 821	$ 1,755	$ 2,321	$ 660	$ 1,661

The following table details the activity within the allowance for doubtful accounts on agent receivables. Any recoveries are included as deductions.

	June 30 2017	December 31 2016
Beginning of year	$ 660	$ 1,197
Additions	285	210
Deductions	(124)	(747)
End of period	$ 821	$ 660

Mortgage Loans
We classify our mortgage loan portfolio as long-term financing receivables.

The following table details the mortgage loan portfolio as collectively or individually evaluated for impairment.

	June 30 2017	December 31 2016
Mortgage loans collectively evaluated for impairment	$ 588,049	$ 566,865
Mortgage loans individually evaluated for impairment	77,298	67,357
Allowance for loan losses	(3,861)	(3,333)
Carrying value	$ 661,486	$ 630,889

The following table presents an aging schedule for delinquent payments for both principal and interest by property type.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
June 30, 2017					
Industrial	$ 500	$ 5	$ —	$ —	$ 5
Office	—	—	—	—	—
Medical	4,922	75	75	1,050	1,200
Other	—	—	—	—	—
Total	$ 5,422	$ 80	$ 75	$ 1,050	$ 1,205
December 31, 2016					
Industrial	$ —	$ —	$ —	$ —	$ —
Office	—	—	—	—	—
Medical	4,922	75	75	600	750
Other	—	—	—	—	—
Total	$ 4,922	$ 75	$ 75	$ 600	$ 750

There were two mortgage loans that were over 30 days past due at June 30, 2017. Payment was subsequently received on one loan. One mortgage loan was over 90 days past due and in the process of foreclosure at June 30, 2017 and December 31, 2016. We had no troubled loans that were restructured or modified during the quarters or six months ended June 30, 2017 or 2016.

The following table details the activity within the allowance for mortgage loan losses. Any recoveries are reflected as deductions.

	June 30 2017	December 31 2016
Beginning of year	$ 3,333	$ 2,659
Provision	528	674
Deductions	—	—
End of period	$ 3,861	$ 3,333

Please refer to our 2016 Annual Report for additional information regarding our mortgage loans.

6. Variable Interest Entities (VIEs)

We invest in certain affordable housing and real estate joint ventures. These VIEs are included in Real Estate in the Consolidated Balance Sheets. Please refer to our 2016 Annual Report for a full discussion of our VIEs.

We amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the Consolidated Statements of Comprehensive Income as a component of income tax expense. The tax credits reduce tax expense.

The following table provides information regarding our VIEs.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Federal income tax credits realized	$ 688	$ 688	$ 1,376	$ 1,376
Amortization	383	435	766	775

Investments in the affordable housing and real estate joint ventures are interests that absorb portions of the VIE's expected losses. These investments also receive portions of expected residual returns of the VIE's net assets exclusive of variable interests. We make an assessment of whether we are the primary beneficiary of a VIE at the time of the initial investment and on an ongoing basis thereafter.

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which we hold a variable interest, but are not the primary beneficiary, and which had not been consolidated at June 30, 2017 and December 31, 2016. The table includes investments in five real estate joint ventures and 19 affordable housing real estate joint ventures at both June 30, 2017 and December 31, 2016.

	June 30 2017		December 31 2016	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 21,813	$ 21,813	$ 21,098	$ 21,098
Affordable housing real estate joint ventures	9,014	33,444	9,784	34,215
Total	$ 30,827	$ 55,257	$ 30,882	$ 55,313

The maximum exposure to loss relating to the real estate joint ventures and affordable housing real estate joint ventures is equal to the carrying amounts plus any unfunded equity commitments, exposure to potential recapture of tax credits, guarantees of debt, or other obligations of the VIE with recourse. Unfunded equity and loan commitments typically require financial or operating performance by other parties and have not yet become due or payable but which may become due in the future.

At June 30, 2017 and December 31, 2016, we had no equity commitments outstanding to the real estate joint venture VIEs. We have contingent commitments to fund additional equity contributions for operating support to certain real estate joint venture VIEs, which could result in additional exposure to loss. However, we are unable to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at June 30, 2017 included $15.4 million of losses which could be realized if the tax credits received by the VIEs were recaptured, compared to $14.6 million at December 31, 2016. Recapture events would cause us to reverse some or all of the benefit previously recognized by us or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. Guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to our interests in the VIE may mitigate the potential exposure due to recapture.

7. Separate Accounts

Separate account assets and liabilities arise from the sale of variable universal life insurance and variable annuity products. The separate account represents funds segregated for the benefit of certain policyholders who bear the investment risk. The assets are legally segregated and are not subject to claims which may arise from any other business of the Company. The separate account assets and liabilities, which are equal, are recorded at fair value based upon the net asset value (NAV) of the underlying investment holdings as derived from closing prices on a national exchange or as provided by the issuer. Policyholder account deposits and withdrawals, investment income, and realized investment gains and losses are excluded from the amounts reported in the Consolidated Statements of Comprehensive Income. Revenues from separate accounts consist principally of contract charges, which include maintenance charges, administrative fees, and mortality and expense charges.

We have a GMWB rider that can be added to new or existing variable annuity contracts. The value of the separate accounts with the GMWB rider was recorded at fair value of $122.0 million at June 30, 2017. The fair value of the separate accounts with the GMWB rider was $116.5 million at December 31, 2016. The GMWB guarantee liability was $(2.2) million at both June 30, 2017 and December 31, 2016. The change in this value is included in Policyholder Benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in Separate Account Liabilities, and the value of the rider is included in Other Policyholder Funds in the Consolidated Balance Sheets.

We have two blocks of variable universal life policies and variable annuity contracts from which fees are received. The fees are based upon both specific transactions and the fund value of the blocks of policies. We have a direct block of ongoing business identified in the Consolidated Balance Sheets as separate account assets, totaling $392.7 million at June 30, 2017 and $373.3 million at December 31, 2016, and corresponding separate account liabilities of an equal amount. The fixed-rate funds for these policies are included in our general account as Future Policy Benefits. The Future Policy Benefits for the direct block approximated $0.4 million at both June 30, 2017 and December 31, 2016.

In addition, we have an assumed closed block of variable universal life business that totaled $313.0 million at June 30, 2017 and $295.7 million at December 31, 2016. As required under modified coinsurance transaction accounting, the assumed separate account fund balances are not recorded as separate accounts on our consolidated financial statements. Rather, the assumed fixed-rate funds for these policies are included in our general account as Future Policy Benefits. The Future Policy Benefits for the assumed block approximated $0.6 million at both June 30, 2017 and December 31, 2016.

8. Unpaid Claims Liability and Short-Duration Contracts

The liability for unpaid claims is included with Policy and Contract Claims and Future Policy Benefits in the Consolidated Balance Sheets. Claim adjustment expenditures are expensed as incurred and were not material in any period presented.

The following tables present activity in the accident and health portion of the unpaid claims liability for the consolidated entity and the Group Insurance segment. The activity for the Individual Insurance and the Old American segments was not material for any period presented. Classified as policy and contract claims, but excluded from these tables, are amounts recorded for group life, individual life, and deferred annuities.

	Consolidated			
	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Gross liability at beginning of the period	$ 33,010	$ 34,181	$ 32,146	$ 33,172
Less reinsurance recoverable	(26,152)	(27,366)	(25,555)	(26,791)
Net liability at beginning of the period	6,858	6,815	6,591	6,381
Incurred benefits related to:				
Current year	6,995	6,673	13,635	13,433
Prior years [1]	(315)	(150)	(152)	25
Total incurred benefits	6,680	6,523	13,483	13,458
Paid benefits related to:				
Current year	6,100	6,040	10,400	10,369
Prior years	502	460	2,738	2,632
Total paid benefits	6,602	6,500	13,138	13,001
Net liability at end of the period	6,936	6,838	6,936	6,838
Reinsurance recoverable	26,213	27,025	26,213	27,025
Gross liability at end of the period	$ 33,149	$ 33,863	$ 33,149	$ 33,863

[1] The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

	Group Insurance Segment			
	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Gross liability at beginning of the period	$ 26,689	$ 27,278	$ 26,020	$ 26,045
Less reinsurance recoverable	(20,238)	(20,904)	(19,850)	(20,142)
Net liability at beginning of the period	6,451	6,374	6,170	5,903
Incurred benefits related to:				
Current year	6,960	6,605	13,572	13,335
Prior years [1]	(278)	(125)	(142)	82
Total incurred benefits	6,682	6,480	13,430	13,417
Paid benefits related to:				
Current year	6,096	6,009	10,394	10,334
Prior years	473	445	2,642	2,586
Total paid benefits	6,569	6,454	13,036	12,920
Net liability at end of the period	6,564	6,400	6,564	6,400
Reinsurance recoverable	20,585	20,947	20,585	20,947
Gross liability at end of the period	$ 27,149	$ 27,347	$ 27,149	$ 27,347

[1] The incurred benefits related to prior years' unpaid accident and health claims reflect the change in these liabilities.

The following table presents the reconciliation of amounts in the above tables to Policy and Contract Claims and claim reserves that are included in Future Policy Benefits as presented in the Consolidated Balance Sheets.

	June 30 2017	June 30 2016
Individual Insurance Segment:		
Individual accident and health	$ 699	$ 868
Individual life	13,129	20,424
Deferred annuity	3,657	4,518
Subtotal	17,485	25,810
Group Insurance Segment:		
Group accident and health	27,149	27,347
Group life	1,504	1,730
Subtotal	28,653	29,077
Old American Segment:		
Individual accident and health	5,301	5,648
Individual life	5,944	6,306
Subtotal	11,245	11,954
Total	$ 57,383	$ 66,841

For short-duration contracts, incurred-but-not-reported liabilities for the group long-term disability product that were included in the liability for unpaid claims and claim adjustment expenses, net of reinsurance, totaled $0.6 million at both June 30, 2017 and December 31, 2016.

9. Debt

We had no notes payable outstanding at June 30, 2017 or December 31, 2016.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.8 million at June 30, 2017, we have the ability to borrow on a collateralized basis from the FHLB. An insignificant amount of dividends were received on the capital investment in both the second quarters and six months of 2017 and 2016.

We have unsecured revolving lines of credit with two major commercial banks. The lines of credit available totaled $70.0 million at June 30, 2017 and December 31, 2016, with no balances outstanding. The lines of credit are at variable interest rates based upon short-term indices. One line of credit for $20.0 million will mature in June of 2018. Two lines of credit totaling $50.0 million will mature in September of 2017. We anticipate renewing these lines of credit as they come due.

10. Income Taxes

The following table provides a reconciliation of the federal income tax rate to our effective income tax rate.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Federal income tax rate	35 %	35 %	35 %	35 %
Tax credits, net of equity adjustment	(5)%	(4)%	(5)%	(5)%
Permanent differences and other	(1)%	(1)%	(1)%	1 %
Effective income tax rate	29 %	30 %	29 %	31 %

The following table provides information about taxes paid.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Cash paid for income taxes	$ 2,000	$ 500	$ 3,000	$ 1,500

We had no material uncertain tax positions at June 30, 2017 or December 31, 2016.

At June 30, 2017, we had a current tax asset of $1.3 million and a $73.4 million net deferred tax liability, compared to a $1.9 million current tax asset and a $68.2 million net deferred tax liability at December 31, 2016.

11. Pensions and Other Postemployment Benefits (OPEB)

The following table provides the components of net periodic benefit cost.

	Pension Benefits		OPEB	
	Quarter Ended June 30		Quarter Ended June 30	
	2017	2016	2017	2016
Service cost	$ —	$ —	$ 76	$ 129
Interest cost	1,181	1,333	227	363
Expected return on plan assets	(2,409)	(2,350)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	660	662	(207)	24
Unrecognized prior service credit	(17)	—	(206)	(244)
Net periodic benefit cost (credit)	$ (585)	$ (355)	$ (110)	$ 272

	Pension Benefits		OPEB	
	Six Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Service cost	$ —	$ —	$ 153	$ 259
Interest cost	2,362	2,666	455	726
Expected return on plan assets	(4,819)	(4,701)	—	—
Amortization of:				
Unrecognized actuarial net (gain) loss	1,319	1,324	(415)	48
Unrecognized prior service credit	(33)	—	(413)	(488)
Net periodic benefit cost (credit)	$ (1,171)	$ (711)	$ (220)	$ 545

12. Share-Based Payment

We have an omnibus incentive plan that includes a long-term incentive benefit for senior management. The plan design includes a cash award to participants that may be paid, in part, based on the increase in the share price of our common stock through units (phantom shares) assigned by the Board of Directors. Please refer to our 2016 Annual Report for additional information regarding this plan.

During the first six months of 2017, the plan made cash payments totaling $0.5 million for the three-year interval ended December 31, 2016. During the first six months of 2016, the plan made cash payments totaling $1.7 million for the three-year interval ended December 31, 2015.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The cost of share-based compensation, net of tax, accrued as an operating expense in the second quarter of 2017 was $0.4 million, net of tax. The cost of share-based compensation, net of tax, accrued as an operating expense was $0.1 million in the second quarter of 2016. The cost of share-based compensation, net of tax, accrued as an operating expense was $0.3 million for the six months ended June 30, 2017. The cost of share-based compensation, net of tax, accrued as an operating expense was $0.1 million for the six months ended June 30, 2016.

13. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes the unrealized investment gains or losses on securities available for sale (net of reclassifications for realized investment gains or losses), net of adjustments to DAC, VOBA, DRL, future policy benefits, and policyholder account balances. In addition, other comprehensive income includes the change in the liability for benefit plan obligations. Other comprehensive income reflects these items net of tax.

The following tables provide information about comprehensive income.

	Quarter Ended June 30, 2017		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 11,001	$ 3,851	$ 7,150
Equity securities	239	84	155
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,187	416	771
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	—
Net unrealized gains excluding impairment losses	10,053	3,519	6,534
Effect on DAC, VOBA, and DRL	(827)	(290)	(537)
Future policy benefits	379	133	246
Policyholder account balances	74	26	48
Other comprehensive income	$ 9,679	$ 3,388	$ 6,291
Net income			5,612
Comprehensive income			$ 11,903

	Quarter Ended June 30, 2016		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 43,236	$ 15,132	$ 28,104
Equity securities	837	293	544
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	707	247	460
Other-than-temporary impairment losses recognized in earnings	(546)	(191)	(355)
Other-than-temporary impairment losses recognized in other comprehensive income	(27)	(10)	(17)
Net unrealized gains excluding impairment losses	43,939	15,379	28,560
Effect on DAC, VOBA, and DRL	(3,447)	(1,207)	(2,240)
Future policy benefits	(6,997)	(2,449)	(4,548)
Policyholder account balances	(341)	(119)	(222)
Other comprehensive income	$ 33,154	$ 11,604	$ 21,550
Net income			5,242
Comprehensive income			$ 26,792

	Six Months Ended June 30, 2017		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 16,293	$ 5,704	$ 10,589
Equity securities	813	285	528
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	1,493	523	970
Other-than-temporary impairment losses recognized in earnings	—	—	—
Other-than-temporary impairment losses recognized in other comprehensive income	(7)	(2)	(5)
Net unrealized gains excluding impairment losses	15,620	5,468	10,152
Effect on DAC, VOBA, and DRL	(651)	(228)	(423)
Future policy benefits	(97)	(34)	(63)
Policyholder account balances	48	17	31
Other comprehensive income	$ 14,920	$ 5,223	$ 9,697
Net income			10,780
Comprehensive income			$ 20,477

	Six Months Ended June 30, 2016		
	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Net unrealized gains arising during the period:			
Fixed maturity securities	$ 95,140	$ 33,299	$ 61,841
Equity securities	950	333	617
Less reclassification adjustments:			
Net realized investment gains, excluding impairment losses	2,120	742	1,378
Other-than-temporary impairment losses recognized in earnings	(563)	(197)	(366)
Other-than-temporary impairment losses recognized in other comprehensive income	(34)	(12)	(22)
Net unrealized gains excluding impairment losses	94,567	33,099	61,468
Effect on DAC, VOBA, and DRL	(7,527)	(2,635)	(4,892)
Future policy benefits	(14,174)	(4,961)	(9,213)
Policyholder account balances	(570)	(199)	(371)
Other comprehensive income	$ 72,296	$ 25,304	$ 46,992
Net income			9,499
Comprehensive income			$ 56,491

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at June 30, 2017, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 58,633	$ 1,750	$ (41,448)	$ (9,492)	$ (14,453)	$ (306)	$ (5,316)
Other comprehensive income (loss) before reclassification	8,955	232	—	(392)	(63)	31	8,763
Amounts reclassified from accumulated other comprehensive income (loss)	970	(5)	—	(31)	—	—	934
Net current-period other comprehensive income (loss)	9,925	227	—	(423)	(63)	31	9,697
End of period	$ 68,558	$ 1,977	$ (41,448)	$ (9,915)	$ (14,516)	$ (275)	$ 4,381

The following table provides accumulated balances related to each component of accumulated other comprehensive income (loss) at December 31, 2016, net of tax.

	Unrealized Gain on Non-Impaired Securities	Unrealized Gain on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA/ DRL Impact	Future Policy Benefits	Policyholder Account Balances	Total
Beginning of year	$ 59,163	$ 3,085	$ (53,600)	$ (11,069)	$ (12,493)	$ (296)	$ (15,210)
Other comprehensive income (loss) before reclassification	(3,870)	(932)	12,152	1,689	(1,960)	(10)	7,069
Amounts reclassified from accumulated other comprehensive income (loss)	3,340	(403)	—	(112)	—	—	2,825
Net current-period other comprehensive income (loss)	(530)	(1,335)	12,152	1,577	(1,960)	(10)	9,894
End of year	$ 58,633	$ 1,750	$ (41,448)	$ (9,492)	$ (14,453)	$ (306)	$ (5,316)

The following table presents the pre-tax and the related income tax benefit (expense) components of the amounts reclassified from accumulated other comprehensive income (loss) to the Consolidated Statements of Comprehensive Income.

	Quarter Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Reclassification adjustments related to unrealized gains (losses) on investment securities:				
Net realized investment gains, excluding impairment losses[1]	$ 1,187	$ 707	$ 1,493	$ 2,120
Income tax expense [2]	(416)	(247)	(523)	(742)
Net of taxes	771	460	970	1,378
Other-than-temporary impairment losses[1]	—	(573)	(7)	(597)
Income tax benefit [2]	—	201	2	209
Net of taxes	—	(372)	(5)	(388)
Reclassification adjustment related to DAC, VOBA, and DRL [1]	(28)	(42)	(48)	(85)
Income tax benefit [2]	10	15	17	30
Net of taxes	(18)	(27)	(31)	(55)
Total pre-tax reclassifications	1,159	92	1,438	1,438
Total income tax expense	(406)	(31)	(504)	(503)
Total reclassification, net taxes	$ 753	$ 61	$ 934	$ 935

[1] (Increases) decreases net realized investment gains (losses) on the Consolidated Statements of Comprehensive Income.

[2] (Increases) decreases income tax expense on the Consolidated Statements of Comprehensive Income.

14. Earnings Per Share

Due to our capital structure and the absence of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the periods reported. The average number of shares outstanding for both the second quarters and six months ended June 30, 2017 and 2016 was 9,683,414. The number of shares outstanding at both June 30, 2017 and December 31, 2016 was 9,683,414.

15. Segment Information

The following schedules provide selected financial statement items for each of our operating segments. Intercompany transactions have been eliminated to arrive at Consolidated Statements of Comprehensive Income.

	Quarter Ended June 30, 2017			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 39,026	$ 14,699	$ 22,093	$ 75,818
Interest credited to policyholder account balances	18,120	—	—	18,120
Amortization of deferred acquisition costs	5,680	—	4,356	10,036
Income tax expense	1,529	356	420	2,305
Net income	4,170	666	776	5,612

	Quarter Ended June 30, 2016			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 33,424	$ 14,220	$ 21,039	$ 68,683
Interest credited to policyholder account balances	18,130	—	—	18,130
Amortization of deferred acquisition costs	(1,753)	—	3,953	2,200
Income tax expense	1,771	39	470	2,280
Net income	4,279	74	889	5,242

	Six Months Ended June 30, 2017			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 74,675	$ 29,202	$ 43,915	$ 147,792
Interest credited to policyholder account balances	36,130	—	—	36,130
Amortization of deferred acquisition costs	9,214	—	8,967	18,181
Income tax expense	3,796	411	184	4,391
Segment net income	9,674	766	340	10,780

	Six Months Ended June 30, 2016			
	Individual Insurance	Group Insurance	Old American	Consolidated
Insurance revenues	$ 69,070	$ 28,498	$ 41,640	$ 139,208
Interest credited to policyholder account balances	36,150	—	—	36,150
Amortization of deferred acquisition costs	3,200	—	8,559	11,759
Income tax expense (benefit)	4,274	(74)	56	4,256
Segment net income (loss)	9,531	(136)	104	9,499

16. Commitments, Contingent Liabilities, Guarantees, and Indemnifications

Commitments

In the normal course of business, we have open purchase and sale commitments. At June 30, 2017, we had purchase commitments to fund mortgage loans of $11.2 million.

After June 30, 2017, we entered into commitments to fund additional mortgage loans of $4.0 million.

Contingent Liabilities, Guarantees, and Indemnifications

Please refer to our 2016 Annual Report for information regarding our contingent liabilities, guarantees, and indemnifications. There have been no significant changes to these items during the quarter or six months ended June 30, 2017.

17. Subsequent Events

The Company evaluated events that occurred subsequent to June 30, 2017 through July 27, 2017, the date the consolidated financial statements were issued.

On July 24, 2017, the Kansas City Life Board of Directors declared a quarterly dividend of $0.27 per share, payable on August 9, 2017 to stockholders of record on August 3, 2017.

There have been no other subsequent events that occurred during such period that require disclosure in, or adjustment to, the consolidated financial statements as of and for the quarter and six months ended June 30, 2017.