

Kansas City Life Insurance Company

2013 Second Quarter Report



Includes our subsidiaries:

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

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



Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$10.9 million or \$0.98 per share in the second quarter of 2013, an increase of \$2.5 million or \$0.20 per share relative to the same quarter in the prior year. This increase was primarily due to a \$5.8 million improvement in insurance revenues and a \$2.0 million decrease in policyholder benefits compared with the same period one year earlier. The second quarter and six month results were favorably impacted by the completion of a reinsurance transaction for a block of variable universal life insurance policies and variable annuity contracts.

The Company recorded net income of \$16.0 million or \$1.45 per share for the first six months of 2013 compared to \$27.8 million or \$2.50 per share in the same period of 2012. The decrease was primarily the result of a reduction in realized investment gains of \$15.1 million, largely from the sale of real estate properties, in the first quarter of 2012.

Insurance revenues increased \$5.8 million or 10% in the second quarter of 2013, primarily due to a \$5.0 million increase in contract charges. The growth in contract charges was the result of both new product sales and the recently completed reinsurance transaction. Insurance revenues for the six months of 2013 increased \$11.0 million or 9% compared with the first half of 2012, largely from the sale of immediate annuities in the first quarter of 2013.

Total new deposits increased \$4.7 million or 23% in the second quarter of 2013 compared with the second quarter of 2012, principally from a \$2.0 million increase in new variable annuities and a \$1.8 million increase in new universal life insurance sales. Total new deposits decreased \$4.2 million or 9% in the first six months of 2013 versus the prior year. This was largely the net result of a \$10.0 million or 32% decrease in fixed deferred annuities, a \$3.9 million or 63% increase in new universal life deposits and a \$1.9 million or 21% increase in new variable life and variable annuity deposits.

The increase in insurance revenues and universal life deposits for both the second quarter and six months reflects the Company's continued emphasis on the life insurance protection business. Further, the growth was the result of both organic production and acquisition of reinsured policy risks.

Total investment revenues, which includes net investment income and realized investment gains, decreased \$0.3 million or 1% for the second quarter of 2013 and \$17.4 million or 17% for the six months versus the prior year. The decreases were primarily the result of the reduction in realized investment gains from both periods in 2012.

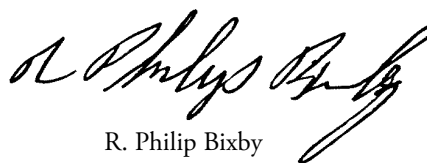


Policyholder benefits and interest credited to policyholder account balances decreased \$2.6 million or 4% for the second quarter of 2013 compared with the same period one year earlier. This decrease largely reflects the favorable result of the decline in the fair value of the Company's guaranteed minimum withdrawal benefit. This reduced obligation is primarily the result of increased interest rates during the period. In addition, interest crediting on policyholder account balances declined, also reflecting the decreased interest rates available in the market.

Policyholder benefits and interest credited to policyholder account balances increased \$3.5 million or 3% for the six months. This increase was partially the result of increased mortality costs. In addition, benefit and contract reserves increased due to the establishment of reserves on the improved sale of immediate annuities during the first quarter. Partially offsetting these items, interest credited to policyholder account balances decreased \$1.4 million or 3%.

In appreciation of 24 years of dedicated service, the Company offers congratulations and best wishes to Mr. Charles "Charlie" Duffy, Jr., FLMI, Senior Vice President, Operations, who will retire effective August 30, 2013. Mr. Duffy's deep industry experience, steadfast leadership, and commitment to service for our policyholders and agents will be missed.

On July 22, 2013, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 7, 2013 to stockholders of record on August 1, 2013.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>June 30</u> 2013	<u>December 31</u> 2012
ASSETS	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,646,651	\$ 2,788,141
Equity securities available for sale, at fair value	35,550	20,061
Mortgage loans	652,828	674,034
Real estate	138,964	124,742
Policy loans	83,746	77,133
Short-term investments	18,151	24,902
Other investments	1,831	2,572
Total investments	<u>3,577,721</u>	<u>3,711,585</u>
Cash	6,912	7,026
Accrued investment income	34,121	34,747
Deferred acquisition costs	248,562	176,275
Reinsurance recoverables	194,154	190,613
Property and equipment	17,856	18,343
Other assets	69,837	47,063
Separate account assets	359,559	340,093
Total assets	<u>\$ 4,508,722</u>	<u>\$ 4,525,745</u>
 LIABILITIES		
Future policy benefits	\$ 899,337	\$ 889,107
Policyholder account balances	2,114,841	2,128,002
Policy and contract claims	36,145	29,813
Other policyholder funds	156,574	155,749
Other liabilities	213,776	232,580
Separate account liabilities	359,559	340,093
Total liabilities	<u>3,780,232</u>	<u>3,775,344</u>
 STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share		
Authorized 36,000,000 shares,		
issued 18,496,680 shares	23,121	23,121
Additional paid in capital	40,977	40,969
Retained earnings	815,818	805,730
Accumulated other comprehensive income	22,475	54,094
Treasury stock, at cost (2013 - 7,473,914 shares;		
2012 - 7,463,823 shares)	(173,901)	(173,513)
Total stockholders' equity	<u>728,490</u>	<u>750,401</u>
 Total liabilities and stockholders' equity	<u>\$ 4,508,722</u>	<u>\$ 4,525,745</u>

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



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, except share data)

	Quarter Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Net premiums	\$ 34,995	\$ 34,205	\$ 73,695	\$ 66,909
Contract charges	30,611	25,590	54,959	50,723
Total insurance revenues	65,606	59,795	128,654	117,632
Investment revenues:				
Net investment income	42,878	43,435	85,288	87,644
Net realized investment gains, excluding other-than-temporary impairment losses	1,732	1,361	2,178	17,198
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(272)	(188)	(459)	(456)
Portion of impairment losses recognized in other comprehensive income (loss)	41	42	99	150
Net other-than-temporary impairment losses recognized in earnings	(231)	(146)	(360)	(306)
Total investment revenues	44,379	44,650	87,106	104,536
Other revenues	2,558	2,312	4,791	4,497
Total revenues	112,543	106,757	220,551	226,665
BENEFITS AND EXPENSES				
Policyholder benefits	39,230	41,276	84,662	79,746
Interest credited to policyholder account balances	19,865	20,377	39,528	40,935
Amortization of deferred acquisition costs	10,904	5,121	19,769	13,022
Operating expenses	26,504	27,078	53,008	51,040
Total benefits and expenses	96,503	93,852	196,967	184,743
Income before income tax expense	16,040	12,905	23,584	41,922
Income tax expense	5,189	4,508	7,545	14,084
NET INCOME	\$ 10,851	\$ 8,397	\$ 16,039	\$ 27,838
COMPREHENSIVE INCOME (LOSS), NET OF TAXES				
Change in net unrealized gains on securities available for sale	\$ (53,348)	\$ 15,925	\$ (43,875)	\$ 18,017
Change in future policy benefits	6,637	(3,502)	6,924	(4,969)
Change in policyholder account balances	310	(143)	322	(218)
Change in benefit plan obligations	5,010	-	5,010	-
Other comprehensive income (loss)	(41,391)	12,280	(31,619)	12,830
COMPREHENSIVE INCOME (LOSS)	\$ (30,540)	\$ 20,677	\$ (15,580)	\$ 40,668
 Basic and diluted earnings per share:				
Net income	\$ 0.98	\$ 0.78	\$ 1.45	\$ 2.50

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