

KANSAS CITY LIFE INSURANCE COMPANY

2022 ANNUAL REPORT



KANSAS CITY LIFE

Message From The President



It is my pleasure to share with you our accomplishments and highlights for Kansas City Life Insurance Company in 2022.

During 2022, we incurred a net loss of \$16.2 million compared to net income of \$10.7 million in 2021. The 2022 results were impacted by an increase in operating expenses and a decrease in net investment gains. The increase in operating expenses was due to the establishment of a \$28.4 million legal reserve related to a class action lawsuit. Excluding the legal reserve accrual and related tax impact, net income for 2022 would have amounted to \$6.2 million. Partially offsetting these items, net investment income increased and policyholder benefits, namely death benefits, decreased.

The legal reserve was established following a verdict in favor of the plaintiffs. The court has not entered a judgment on the verdict, nor has it issued a final verdict in the case. We oppose the entry of the judgment and plan to challenge any judgment that may be entered by the court

both with the trial court and, if necessary, through the appellate process.

During 2022, we were able to complete the reinsurance of a sizeable block of fixed annuity contracts with higher guaranteed interest rates. This transaction allows us to reduce capital strain and to focus our efforts on our core business while managing risk. In addition, we also established reinsurance on the sale of new traditional life insurance at one of our subsidiaries. This provides ongoing additional surplus support, primarily on a statutory basis.

Although the economic environment continues to impact our financial results, total insurance revenues remained strong, exceeding \$330 million for the third straight year. The pandemic and related effects have also resulted in continued elevated policyholder benefits. However, during 2022 mortality experience improved, as policyholder benefits declined \$22.5 million compared to the prior year. In addition, the investment environment has been very volatile in 2022. While higher rates have created a better landscape for both new investments and the reinvestment opportunity into higher yielding investments, it has also resulted in a significant decline in the market value of existing fixed income assets. We continue to seek investment opportunities that allow for improved financial strength. Further, additional challenges exist from both increased inflation and the risk of a recession.

It is during these challenging times that our primary mission of Security Assured reflects our dedication to our customers and policyholders by providing quality insurance products and timely benefit payments. We remain committed to maintaining our financial security and financial strength, which allows us to fulfill these promises. As we look to the future, we continue to seek new opportunities to keep our company strong and viable, allowing us to help our agents, general agents, policyholders, and customers to meet their ongoing needs.

— **Walter E. Bixby, LLIF**

*President, Chief Executive Officer, and
Vice Chairman of the Board*

Corporate Highlights

Kansas City Life Insurance Company, like many others, has been through a number of changes throughout recent years. Between a global pandemic and fluctuations in interest rates, the Company continues to be there for policyholders during their time of need.

Remaining steadfast in its commitment to serving its customers, Kansas City Life will look back on 2022 and see renewed vigor and enthusiasm for that year and for those to come. With both new and continued leadership, the Company powers through into the future, ready for any highs and lows it may see.

Kansas City Life Insurance Company's long, storied history has set the foundation for the Company's present. For 127 years, the Company has maintained the values and determination required to succeed. These same values are in play today, heading into another year of continued success.

Individual Insurance

Kansas City Life's Individual Insurance segment provides financial security to consumers in 49 states. Life insurance products are distributed through two channels: the Company's field force and third-party marketing arrangements. The Individual Insurance segment consists of individual insurance products for Kansas City Life and Grange Life Insurance Company. Sunset Life Insurance Company of America was also included in the Individual Insurance segment until its sale on November 1, 2021.

Company's field force

The Company's field force is represented by independent agencies, which are operated by general agents and agents across the U.S. Kansas City Life provides each agency with a comprehensive product portfolio and the marketing support necessary to succeed in servicing consumers in their local markets.

The Company's product portfolio and individual one-on-one support from the Home Office are attractive recruiting resources, setting Kansas City Life apart from many in the industry.

Third-party alliances

Independent arrangements with GuideOne Mutual Insurance Company and AmeriLife Group LLC allow representatives from both companies to distribute Kansas City Life's products. These arrangements provide representatives with the complementary products and services they need to offer more complete financial security to their clients.

Life insurance sales

A measure of life insurance sales and new business production at Kansas City Life is from new premiums recorded and new deposits received. Premiums include receipts from traditional individual life insurance and immediate annuity products. Deposits are received from interest sensitive life insurance and fixed and variable annuity products.



KANSAS CITY LIFE INSURANCE

The Individual Insurance segment generated approximately 52% of consolidated insurance revenues in 2022, up from approximately 51% in 2021.

Total new premiums increased \$5.6 million or 25% in 2022 compared to 2021. This improvement reflected a \$6.6 million or 48% increase in new immediate annuity premiums that was partially offset by a \$1.0 million or 11% decrease in new traditional life premiums. Total renewal premiums declined \$0.3 million or less than 1% in 2022 compared to the prior year, largely from a decrease in renewal traditional life premiums.

Total new deposits declined \$5.1 million or 8% in 2022 compared to 2021. New fixed annuity deposits increased \$2.5 million or 6% while new variable annuity deposits decreased \$7.3 million or 40% and new interest sensitive life deposits decreased \$0.3 million or 3%. Total renewal deposits decreased \$3.3 million or 2% in 2022 compared to the prior year. Renewal interest sensitive deposits declined \$1.5 million or 1%, variable annuity deposits declined \$1.2 million or 13%, and renewal fixed annuity deposits declined \$0.6 million or 4%.

Future growth

The Individual Insurance segment is an essential part of Kansas City Life's core business, representing a majority of the Company's revenue. The Company plans to continue to grow the segment by recruiting talented general agents and agents and by adding more third-party alliances. Enhancements to the product portfolio, increased focus on sales development and superior marketing

support are elements that will be emphasized to attract new field representatives.

Group Insurance

Kansas City Life offers several insurance products in the Group Insurance segment, including dental, life, accident, critical illness, vision, and short- and long-term disability. These offerings encompass both traditional, employer-funded group insurance, as well as voluntary, employee-paid products.

The Group Insurance segment markets products primarily to small and mid-size organizations. Group products are sold through sales representatives who target a nationwide network of independent general agents and group brokers, along with the Company's career general agents. This sales network is this segment's core distribution system. The Company also markets Group products through select third-party marketing arrangements.

The Group Insurance segment generated 19% of the Company's consolidated insurance revenues in 2022, consistent with 2021. Total Group premiums increased by \$2.6 million or 4% in 2022, following a \$0.8 million or 1% decrease in 2021. The Group Insurance segment focuses on three primary areas of emphasis to improve sales:

- Growing inforce business through the Company's sales representatives.
- Improving administrative efficiency through greater use of customer-facing technology, designed to reduce expenses and improve customer service.

- Targeting higher-premium opportunities by pursuing groups with multiple lines of coverage and generating annualized premium in excess of \$50,000.

Old American Insurance Company

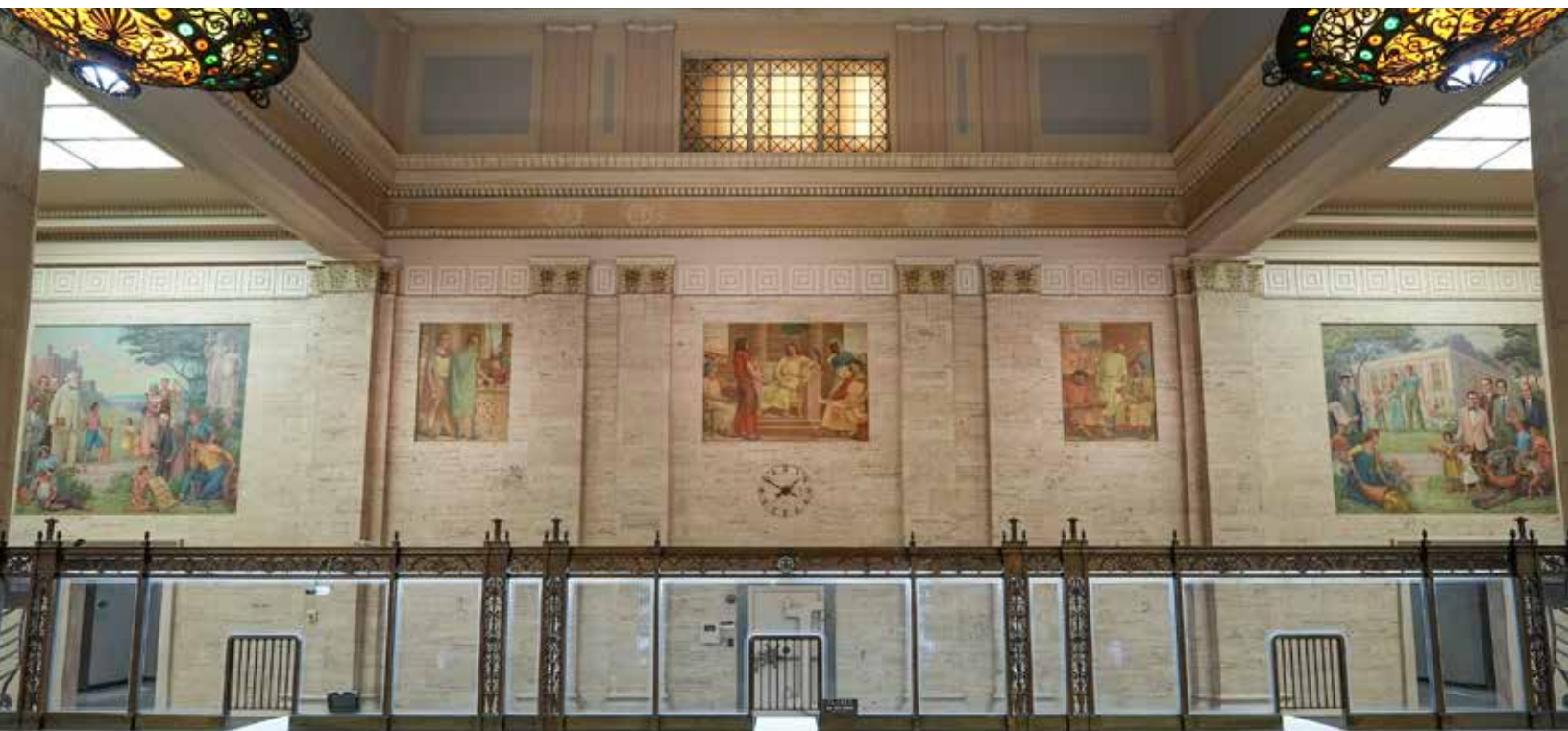
Founded in 1939, Old American Insurance Company has a long history of delivering final expense life insurance to its customers. Since the Company's inception, Old American's mission has been to provide present and future Peace of Mind to the senior market and, in turn, enhance the quality of life for both the client and their loved ones.

Old American's foundation is built on the philosophy that nobody should be considered uninsurable simply on the basis of age. That philosophy continues to resonate with its mission of providing financial protection and security to the senior market.

As a fourth-generation, family-oriented company, Old American is proud to help other families provide for future expenses and protect their loved ones. With values rooted in reliability, protection, and security, the Company continues to serve nearly 200,000 policyholders in 47 states and the District of Columbia. As a subsidiary of Kansas City Life Insurance Company, Old American also continues to support Kansas City Life's promise of providing Security Assured to its policyholders.

Sunset Financial Services, Inc.

Sunset Financial Services Inc. is Kansas City Life's distributing broker/dealer for its proprietary line of variable annuity and variable universal life products.



Consolidated Balance Sheets

Amounts in thousands, except share data

	December 31	
	2022	2021
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,204,819	\$ 3,088,197
Equity securities, at fair value	1,918	3,676
Mortgage loans	591,928	596,037
Real estate	141,649	142,278
Policy loans	82,739	82,060
Short-term investments	58,497	74,501
Other investments	18,749	12,840
Total investments	<u>3,100,299</u>	<u>3,999,589</u>
Cash	7,768	5,419
Accrued investment income	27,516	30,298
Deferred acquisition costs	327,544	292,027
Reinsurance recoverables	389,611	399,951
Deposit asset on reinsurance	484,410	—
Other assets	246,420	201,170
Separate account assets	381,581	504,976
Total assets	<u>\$ 4,965,149</u>	<u>\$ 5,433,430</u>
LIABILITIES		
Future policy benefits	\$ 1,388,924	\$ 1,397,111
Policyholder account balances	2,280,917	2,247,392
Policy and contract claims	56,975	69,787
Other policyholder funds	204,788	185,713
Other liabilities	160,271	198,017
Separate account liabilities	381,581	504,976
Total liabilities	<u>4,473,456</u>	<u>4,602,996</u>
STOCKHOLDERS' EQUITY		
Common stock, par value \$1.25 per share		
Authorized 36,000,000 shares, issued 18,496,680 shares	23,121	23,121
Additional paid in capital	41,025	41,025
Retained earnings	910,438	933,338
Accumulated other comprehensive income (loss)	(241,590)	74,251
Treasury stock, at cost (2022 and 2021 - 8,813,266 shares)	(241,301)	(241,301)
Total stockholders' equity	<u>491,693</u>	<u>830,434</u>
Total liabilities and stockholders' equity	<u>\$ 4,965,149</u>	<u>\$ 5,433,430</u>

Consolidated Statements of Comprehensive Income

	Year Ended December 31	
	2022	2021
REVENUES		
Insurance revenues:		
Net premiums	\$ 208,608	\$ 208,864
Contract charges	124,044	121,803
Total insurance revenues	332,652	330,667
Investment revenues:		
Net investment income	153,879	142,468
Net investment gains (losses)	(16,643)	25,417
Total investment revenues	137,236	167,885
Other revenues	6,754	12,760
Total revenues	476,642	511,312
BENEFITS AND EXPENSES		
Policyholder benefits	258,399	280,886
Interest credited to policyholder account balances	72,974	79,725
Amortization of deferred acquisition costs	40,593	33,217
Operating expenses	125,433	104,564
Total benefits and expenses	497,399	498,392
Income (loss) before income tax expense (benefit)	(20,757)	12,920
Income tax expense (benefit)	(4,539)	2,216
NET INCOME (LOSS)	\$ (16,218)	\$ 10,704
COMPREHENSIVE LOSS, NET OF TAXES		
Changes in:		
Net unrealized gains (losses) on securities available for sale	\$ (366,516)	\$ (100,859)
Effect on deferred acquisition costs, value of business acquired, and deferred revenue liabilities	31,334	7,946
Policyholder liabilities	26,765	9,247
Benefit plan obligations	(7,424)	5,115
Other comprehensive loss	(315,841)	(78,551)
COMPREHENSIVE LOSS	\$ (332,059)	\$ (67,847)
Basic and diluted earnings per share:		
Net income (loss)	\$ (1.67)	\$ 1.11

Condensed Consolidated Statements of Cash Flows

	Year Ended December 31	
	2022	2021
OPERATING ACTIVITIES		
Net cash used	\$ (54,331)	\$ (46,319)
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(441,308)	(434,696)
Equity securities	(8)	(259)
Mortgage loans	(69,974)	(103,942)
Real estate	(2,733)	(36,994)
Policy loans	(7,116)	(8,754)
Other investments	(14,553)	(5,828)
Property and equipment	(535)	(628)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	343,993	308,361
Equity securities	2,000	3,000
Mortgage loans	74,111	109,546
Real estate	843	72,439
Policy loans	6,437	11,141
Other investments	3,639	8,599
Property and equipment	25	71
Net sales of short-term investments	16,004	41,616
Proceeds from sale of subsidiary	–	28,468
Net cash used	(89,175)	(7,860)
FINANCING ACTIVITIES		
Policyholder account balances – deposits	207,231	215,598
Policyholder account balances – receipts from funding agreement	70,000	30,000
Withdrawals from policyholder account balances	(172,117)	(192,709)
Change in deposit asset on reinsurance, net	45,799	–
Net transfers from separate accounts	7,841	7,320
Change in other deposits	(6,217)	2,644
Cash dividends to stockholders	(6,682)	(10,458)
Net cash provided	145,855	52,395
Increase (decrease) in cash	2,349	(1,784)
Cash at beginning of year	5,419	7,203
Cash at end of year	\$ 7,768	\$ 5,419

These condensed consolidated financial statements should be read in conjunction with the Company's 2022 annual financial report that is available on the Company's website (www.kclife.com/Company/Financials) and the OTC Markets Group website (www.otcmarkets.com/stock/KCLI/filings).

Stockholder Information

CORPORATE HEADQUARTERS

Kansas City Life Insurance Company
3520 Broadway
P.O. Box 219139 | Kansas City, MO 64121-9139
Telephone: 816-753-7000 | Fax: 816-753-4902
Website: www.kclife.com | Email: communications@kclife.com

ANNUAL MEETING

The annual meeting of stockholders will be held at 9 a.m. on Thursday, April 20, 2023, at Kansas City Life Insurance Company's corporate headquarters. Please see the Notice of Annual Meeting of Stockholders and Proxy.

TRANSFER AGENT

Janice Poe, Stock Agent and Assistant Secretary
Kansas City Life Insurance Company
P.O. Box 219139 | Kansas City, MO 64121-9139

ANNUAL FINANCIAL REPORT REQUEST

The Company's annual financial report is available electronically on the Company's website (www.kclife.com/Company/Financials) and the OTC Markets Group website (www.otcmarkets.com/stock/KCLI/filings). Stockholders may request a free paper copy of Kansas City Life's annual financial report, as published on the OTCQX best marketplace, by writing to Secretary, Kansas City Life Insurance Company.

SECURITY HOLDERS

As of January 31, 2023, Kansas City Life had approximately 122 holders of record.

Stock and Dividend Information

The following table presents the high and low prices for the Company's common stock for the periods indicated and the dividends declared per share and paid during such periods. The Company's common stock is traded on the OTCQX best marketplace under the symbol "KCLI."

	High	Low	Dividend Paid
2022			
First quarter	\$ 44.50	\$ 40.06	\$ 0.27
Second quarter	43.62	30.05	0.14
Third quarter	33.00	29.01	0.14
Fourth quarter	30.10	26.10	0.14
			<u>\$ 0.69</u>
2021			
First quarter	\$ 46.05	\$ 36.05	\$ 0.27
Second quarter	46.00	43.00	0.27
Third quarter	44.60	41.60	0.27
Fourth quarter	45.50	40.75	0.27
			<u>\$ 1.08</u>

A quarterly dividend of \$0.14 per share was paid February 8, 2023.

The high and low market quotations are compiled according to Company records and may reflect inter-dealer prices, without markup, markdown, or commission and may not necessarily represent actual transactions.

The Kansas City Life Group of Companies



Kansas City Life Insurance Company

Since 1895, Kansas City Life Insurance Company (www.kclife.com) has been dedicated to the present and future financial security of our customers. Kansas City Life provides financial services, including life insurance and investments*, to consumers throughout 49 states and the District of Columbia. More than 2,500 general agents and agents serve individuals, families, small businesses, and corporations with a diverse range of products, including universal life, term life, whole life, variable life insurance*, variable annuities*, fixed deferred annuities, and group products. Kansas City Life has been providing Security Assured for more than 127 years.



Grange Life Insurance Company

Since 1968, Grange Life Insurance Company has operated in Columbus, Ohio. Grange Life specializes in life insurance protection that includes income replacement, mortgage protection, wealth transfer, and final expenses. Grange Life serves customers across 15 states.



Old American Insurance Company

Since 1939, for 83 years, the mission of Old American Insurance Company (www.oaic.com) has been to provide Peace of Mind to the senior market. Agents assist individuals ages 50 to 85 through final arrangements planning and communication, in order to enhance the quality of life for policyholders and relieve the emotional and financial burdens from their beneficiaries. In addition, Old American offers a whole life insurance policy for children two weeks to 15 years old, further extending Peace of Mind to parents and grandparents. Old American operates in 47 states and the District of Columbia.



Sunset Financial Services, Inc.

Sunset Financial Services Inc. is the distributing broker/dealer for Kansas City Life's line of variable annuity and variable universal life products.

Financial Rating, evaluated by A.M. Best

Kansas City Life Insurance Company: A- (Excellent; Negative Outlook)

Grange Life Insurance Company: B++ (Good; Negative Outlook)

Old American Insurance Company: B++ (Good; Stable Outlook)

These ratings represent A.M. Best's opinion of the financial strength and stability of Kansas City Life, Grange Life, and Old American Insurance Companies and each company's ability to meet ongoing obligations to policyholders, as of September 2022.

There are 13 financial strength ratings assigned by A.M. Best, ranging from A++ (Superior) to D (Poor).

**Kansas City Life's variable product series is distributed through Sunset Financial Services, Inc.*

Board of Directors Kansas City Life Insurance Company

Kevin G. Barth

Chairman and Chief Executive Officer
Commerce Bank
Kansas City, Mo.

R. Philip Bixby

Chairman of the Board
Kansas City Life Insurance Company
Kansas City, Mo.

Walter E. Bixby, LLIF

President, Chief Executive Officer, and
Vice Chairman of the Board
Kansas City Life Insurance Company
President
Old American Insurance Company
President and Chief Executive Officer
Grange Life Insurance Company
Kansas City, Mo.

William R. Blessing

Retired Senior Vice President,
Corporate Strategy and Development
Embarq
Overland Park, Kan.

Michael Braude

Retired President and Chief Executive Officer
Kansas City Board of Trade
Kansas City, Mo.

James T. Carr

President and Chief Executive Officer
National Association of
Intercollegiate Athletics
Kansas City, Mo.

Howard E. Cohen, CPA

Retired Partner
Deloitte
Kansas City, Mo.

John C. Cozad

President
Cozad Company, LLC
Platte City, Mo.

Nancy Bixby Hudson

Investor
Lander, Wyo.

David S. Kimmel

Managing Partner
Insurance Advisory Partners LLC
Rye, N.Y.

David A. Laird, CPA, FLMI

Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Mo.

A. Craig Mason Jr.

Senior Vice President, General Counsel
and Secretary
Kansas City Life Insurance Company
Kansas City, Mo.

Cecil R. Miller, CPA

Retired Partner
KPMG, LLP
Kansas City, Mo.

Mark A. Milton, FSA, CERA, MAAA

Senior Vice President and Actuary
Kansas City Life Insurance Company
Kansas City, Mo.

William A. Schalekamp, JD, CLU, FLMI

Retired Senior Vice President, General
Counsel and Secretary
Kansas City Life Insurance Company
Kansas City, Mo.

Senior Officers

Kansas City Life Insurance Company

R. Philip Bixby
Chairman of the Board

Walter E. Bixby, LLIF
President, Chief Executive Officer, and
Vice Chairman of the Board

Donald E. Krebs, MSM, CLU, ChFC, LLIF
Senior Vice President, Sales and Marketing

David A. Laird, CPA, FLMI
Senior Vice President, Finance

A. Craig Mason Jr.
Senior Vice President, General Counsel
and Secretary

Mark A. Milton, FSA, CERA, MAAA
Senior Vice President and Actuary

Stephen E. Ropp
Senior Vice President, Operations

James P. Bixby
Vice President, New Business Operations

Aaron L. Bush, ASA, MAAA
Vice President, Corporate Actuary

Thomas B. Deacy, CFA
Vice President, Investments

Thomas P. Morgan, CLF
Vice President, Agencies

John L. Nogalski, CPA, FLMI
Vice President, Taxes

Talva S. Parker
Vice President, Group

James L. Richardson
Vice President, IT

Ellee P. Sibbing
Vice President and Controller

Dwane Turnage, LUTCF
Vice President, Marketing

Old American Insurance Company

R. Philip Bixby
Chairman of the Board

Walter E. Bixby, LLIF
President

Bradley W. Cope, ACS, FMLI
Vice President, Sales and Marketing

David A. Laird, CPA, FLMI
Chief Financial Officer

Mark A. Milton, FSA, CERA, MAAA
Chief Actuary

Stephen E. Ropp
Vice President, Operations

Ellee P. Sibbing
Vice President and Controller

Malika S. Simmons
Vice President, Assistant General Counsel
and Secretary

Grange Life Insurance Company

R. Philip Bixby
Chairman of the Board

Walter E. Bixby, LLIF
President and Chief Executive Officer

David A. Laird, CPA, FLMI
Chief Financial Officer

A. Craig Mason Jr.
General Counsel and Secretary

Mark A. Milton, FSA, CERA, MAAA
Actuary

Ellee P. Sibbing
Controller

Kansas City Life
Insurance Company

Grange Life Insurance Company

Old American Insurance Company

Sunset Financial Services, Inc.

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Visit us on the Internet:
www.kclife.com
www.oaic.com





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