

Kansas City Life Insurance Company

2013 Fourth Quarter Report

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Includes our subsidiaries:

Sunset Life Insurance Company of America

Old American Insurance Company

Sunset Financial Services, Inc.

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



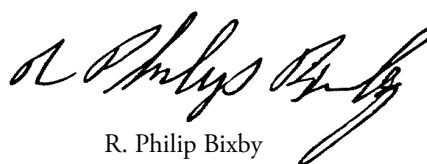
Message *from the President, CEO and Chairman of the Board*

Kansas City Life Insurance Company recorded net income of \$6.4 million or \$0.59 per share in the fourth quarter of 2013, a decrease of \$1.5 million or \$0.12 per share relative to the fourth quarter of 2012. The decrease was primarily due to increased policyholder benefits, lower investment revenues, and increased operating expenses.

Net income for the year was \$29.6 million or \$2.69 per share compared to \$39.9 million or \$3.59 per share in 2012. The decrease was primarily the result of the elevated realized investment gains in the first quarter of 2012, resulting from the sale of real estate investment properties. Other significant changes included an increase in insurance revenues, lower net investment income, and increases in policyholder benefits and amortization of deferred acquisition costs.

The fourth quarter and full-year results also reflect the favorable impact of the reinsurance transaction that occurred earlier in 2013 for a closed block of variable universal life policies and variable annuity contracts.

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



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	December 31	
	2013	2012
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,618,620	\$ 2,788,141
Equity securities available for sale, at fair value	34,386	20,061
Mortgage loans	629,256	674,034
Real estate	142,536	124,742
Policy loans	83,518	77,133
Short-term investments	40,712	24,902
Other investments	1,247	2,572
Total investments	3,550,275	3,711,585
Cash	8,197	7,026
Accrued investment income	33,795	34,747
Deferred acquisition costs	256,386	176,275
Reinsurance recoverables	191,055	190,613
Property and equipment	17,524	18,343
Other assets	64,018	47,063
Separate account assets	393,416	340,093
Total assets	\$ 4,514,666	\$ 4,525,745
LIABILITIES		
Future policy benefits	\$ 910,228	\$ 889,107
Policyholder account balances	2,096,212	2,128,002
Policy and contract claims	36,783	29,813
Other policyholder funds	160,421	155,749
Other liabilities	192,202	232,580
Separate account liabilities	393,416	340,093
Total liabilities	3,789,262	3,775,344
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	40,989	40,969
Retained earnings	823,408	805,730
Accumulated other comprehensive income	14,170	54,094
Treasury stock, at cost (2013 - 7,527,841 shares;		
2012 - 7,463,823 shares)	(176,284)	(173,513)
Total stockholders' equity	725,404	750,401
Total liabilities and stockholders' equity	\$ 4,514,666	\$ 4,525,745

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



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(amounts in thousands, except share data)

	Year Ended December 31		
	2013	2012	2011
REVENUES			
Insurance revenues:			
Net premiums	\$ 186,530	\$ 136,089	\$ 127,338
Contract charges	113,454	99,894	101,061
Total insurance revenues	<u>299,984</u>	<u>235,983</u>	<u>228,399</u>
Investment revenues:			
Net investment income	169,740	176,154	177,228
Net realized investment gains, excluding other-than-temporary impairment losses	5,005	20,154	5,151
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(1,032)	(2,526)	(2,952)
Portion of impairment losses recognized in other comprehensive income (loss)	<u>(101)</u>	<u>808</u>	<u>943</u>
Net other-than-temporary impairment losses recognized in earnings	<u>(1,133)</u>	<u>(1,718)</u>	<u>(2,009)</u>
Total investment revenues	<u>173,612</u>	<u>194,590</u>	<u>180,370</u>
Other revenues	9,997	9,354	10,274
Total revenues	<u>483,593</u>	<u>439,927</u>	<u>419,043</u>
BENEFITS AND EXPENSES			
Policyholder benefits	211,994	160,178	155,813
Interest credited to policyholder account balances	79,294	82,043	83,446
Amortization of deferred acquisition costs	37,228	28,042	33,966
Operating expenses	110,622	110,169	106,120
Total benefits and expenses	<u>439,138</u>	<u>380,432</u>	<u>379,345</u>
Income before income tax expense	44,455	59,495	39,698
Income tax expense	<u>14,888</u>	<u>19,628</u>	<u>13,565</u>
NET INCOME	<u>\$ 29,567</u>	<u>\$ 39,867</u>	<u>\$ 26,133</u>
COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Change in net unrealized gains on securities available for sale	\$ (63,538)	\$ 35,088	\$ 43,266
Change in future policy benefits	8,421	(8,562)	(5,721)
Change in policyholder account balances	408	(362)	(162)
Change in benefit plan obligations	14,785	(2,156)	(15,104)
Other comprehensive income (loss)	<u>(39,924)</u>	<u>24,008</u>	<u>22,279</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ (10,357)</u>	<u>\$ 63,875</u>	<u>\$ 48,412</u>
Basic and diluted earnings per share:			
Net income	<u>\$ 2.69</u>	<u>\$ 3.59</u>	<u>\$ 2.29</u>

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