

Kansas City Life Insurance Company

2014 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

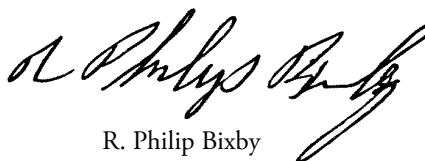


Message *from the President, CEO and Chairman of the Board*

Kansas City Life Insurance Company recorded net income of \$7.7 million or \$0.71 per share in the fourth quarter of 2014, an increase of \$1.2 million or \$0.11 per share relative to the same quarter in the prior year. This improvement was primarily the result of an increase in revenue from the sale of certain assets at its broker-dealer subsidiary. The Company also experienced lower annuity premiums and an offsetting decline in policyholder benefits from reduced deferred annuity conversions.

The Company recorded net income of \$30.0 million or \$2.74 per share for the year ended 2014. This represents a decline of less than \$0.1 million and a \$0.01 per share increase from 2013. The result for the year reflected reduced operating expenses from lower salary and benefit costs, as well as reduced policyholder benefits and interest credited to policyholder account balances. In addition, the Company also had an increase in contract charges for the year, largely due to the reinsurance transaction that occurred in 2013. Partially offsetting these items was a decrease in total investment revenues, primarily due to the persistent low interest rate environment, and a decrease in net insurance premiums.

On January 26, 2015, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that was paid on February 11, 2015 to stockholders of record on February 5, 2015.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	December 31	
	2014	2013
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	2,726,731	\$ 2,618,620
Equity securities available for sale, at fair value	24,881	23,116
Mortgage loans	541,180	629,256
Real estate	181,082	137,630
Policy loans	83,553	83,518
Short-term investments	39,107	40,712
Other investments	462	12,517
Total investments	3,596,996	3,545,369
Cash	11,011	8,197
Accrued investment income	33,078	33,795
Deferred acquisition costs	249,195	256,386
Reinsurance recoverables	194,425	191,055
Property and equipment	17,527	17,524
Other assets	63,134	64,018
Separate account assets	406,501	393,416
Total assets	\$ 4,571,867	\$ 4,509,760
LIABILITIES		
Future policy benefits	\$ 930,761	\$ 910,228
Policyholder account balances	2,072,041	2,096,212
Policy and contract claims	37,452	36,783
Other policyholder funds	165,062	160,421
Other liabilities	217,291	190,377
Separate account liabilities	406,501	393,416
Total liabilities	3,829,108	3,787,437
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	41,007	40,989
Retained earnings	838,508	820,327
Accumulated other comprehensive income	23,040	14,170
Treasury stock, at cost (2014 - 7,671,475 shares;		
2013 - 7,527,841 shares)	(182,917)	(176,284)
Total stockholders' equity	742,759	722,323
Total liabilities and stockholders' equity	\$ 4,571,867	\$ 4,509,760

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		
	2014	2013	2012
REVENUES			
Insurance revenues:			
Net premiums	\$ 165,548	\$ 186,530	\$ 136,089
Contract charges	118,649	113,454	99,894
Total insurance revenues	<u>284,197</u>	<u>299,984</u>	<u>235,983</u>
Investment revenues:			
Net investment income	164,968	169,740	176,154
Net realized investment gains, excluding other-than-temporary impairment losses	4,902	5,005	20,154
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(2,176)	(1,032)	(2,526)
Portion of impairment losses recognized in other comprehensive income (loss)	643	(101)	808
Net other-than-temporary impairment losses recognized in earnings	<u>(1,533)</u>	<u>(1,133)</u>	<u>(1,718)</u>
Total investment revenues	<u>168,337</u>	<u>173,612</u>	<u>194,590</u>
Other revenues	<u>12,485</u>	<u>9,997</u>	<u>9,354</u>
Total revenues	<u>465,019</u>	<u>483,593</u>	<u>439,927</u>
BENEFITS AND EXPENSES			
Policyholder benefits	202,946	211,994	160,178
Interest credited to policyholder account balances	76,463	79,294	82,043
Amortization of deferred acquisition costs	40,888	37,228	28,042
Operating expenses	<u>101,738</u>	<u>110,622</u>	<u>110,169</u>
Total benefits and expenses	<u>422,035</u>	<u>439,138</u>	<u>380,432</u>
Income before income tax expense	42,984	44,455	59,495
Income tax expense	<u>12,994</u>	<u>14,392</u>	<u>18,345</u>
NET INCOME	<u>\$ 29,990</u>	<u>\$ 30,063</u>	<u>\$ 41,150</u>
COMPREHENSIVE INCOME (LOSS), NET OF TAXES			
Change in net unrealized gains on securities available for sale	\$ 31,641	\$ (63,538)	\$ 35,088
Change in future policy benefits	(6,928)	8,421	(8,562)
Change in policyholder account balances	(242)	408	(362)
Change in benefit plan obligations	<u>(15,601)</u>	<u>14,785</u>	<u>(2,156)</u>
Other comprehensive income (loss)	<u>8,870</u>	<u>(39,924)</u>	<u>24,008</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 38,860</u>	<u>\$ (9,861)</u>	<u>\$ 65,158</u>
Basic and diluted earnings per share:			
Net income	<u>\$ 2.74</u>	<u>\$ 2.73</u>	<u>\$ 3.71</u>

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