

# Kansas City Life Insurance Company

## 2009 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](http://www.kclife.com)



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

Kansas City Life Insurance Company recorded net income of \$8.0 million or \$0.70 per share in the second quarter of 2009, an increase of \$6.4 million from net income of \$1.7 million or \$0.14 per share for the same quarter in the prior year. The improved earnings in the second quarter of 2009 were largely due to lower realized losses from the write-down of investments, favorable changes in policyholder benefits from reduced death benefit payments and contract reserves, and reduced amortization of deferred acquisition costs and value of business acquired.

Net income for the first six months of 2009 was \$3.5 million or \$0.30 per share compared with \$5.3 million or \$0.45 per share in the prior year. Realized investment losses decreased \$2.2 million and policyholder benefits declined \$6.0 million. These favorable changes were partially offset by a decline in insurance revenues and net investment income, along with increased operating expenses.

Premiums from new sales of individual life insurance increased 5% during the second quarter and 4% for the first half of 2009, and total renewal premiums increased 1% and 2% for the same respective periods. These results were driven by increases in new life insurance sales of 17% and 13% in the Old American segment during the second quarter and six months, respectively. Old American primarily sells traditional life insurance to the senior market. On a consolidated basis, total insurance revenues declined by \$2.3 million for the quarter and \$0.7 million for the six months, due to reduced sales of immediate annuities, new group life, and new group accident and health insurance. Also contributing to the decrease were contract charges, which declined 1% for the quarter and 2% for the six months. The reduced contract charges reflected a decline in account balances on variable contracts and the runoff of closed blocks of business.

Total deposits increased \$19.2 million or 39% for the quarter and \$24.5 million or 25% for the six months, due to increased sales of fixed deferred annuities. These increases were partially offset by lower sales of universal life insurance, variable life insurance, and variable annuities for both periods.

Net investment income declined versus the prior year in both the second quarter and six months, reflecting the difficult recessionary environment. Lower yields and a lower volume of investment assets for these respective periods resulted in the reduced net investment income. However, improvements in the market conditions led to reduced write-downs on investments from other-than-temporary impairments in both the quarter and six months. Realized investment losses declined \$7.0 million in the quarter and \$2.2 million for the six months.

Total benefits and expenses decreased \$6.8 million or 7% for the second quarter and \$0.9 million or less than 1% for the six months, compared with the same period a year earlier. The decline in benefits was largely the result of lower policyholder benefits from improved mortality experience and lower benefit and contract reserves in both the second quarter and six months.

The amortization of deferred policy acquisition costs (DAC) and the value of business acquired (VOBA) declined \$0.9 million for the second quarter but increased \$0.5 million for the six months. In 2008, the Company unlocked interest margins and mortality assumptions that reduced the amortization of DAC

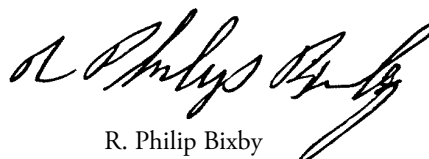


by \$3.0 million. In 2009, the Company unlocked assumptions and reduced the amortization of VOBA in the amount of \$0.2 million, along with a \$2.5 million reduction in the amortization of VOBA due to a refined method of calculating VOBA amortization. The refinement to the amortization methodology is intended to provide for improved matching of the amortization to the business in-force on selected products.

Operating expenses increased \$3.3 million in the second quarter and \$5.1 million for the six months. The increase during the second quarter was primarily due to increased legal and pension costs. The increase for the six months primarily reflected increased severance costs associated with reductions in staff and higher pension costs.

On July 27, 2009, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 12, 2009 to stockholders of record as of August 6, 2009.

The financial markets and economy showed definite signs of stabilization and improvement during the first half of 2009, particularly during the second quarter. Evidence of these changes can be seen in the Company's improved earnings for the second quarter and the net unrealized loss position on the Company's investment securities, which improved by approximately \$78.8 million or 41% before tax at June 30, 2009 relative to December 31, 2008. Further, the Company continues to maintain a high-quality investment portfolio and a strong capital position. These attributes allow the Company to actively consider opportunities for growth while remaining focused on our long-term commitment of providing Security Assured, our promise to our valued customers.



R. Philip Bixby



**KANSAS CITY LIFE INSURANCE COMPANY**  
**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

	<u>June 30</u> 2009	<u>December 31</u> 2008
<b>ASSETS</b>	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,416,429	\$ 2,342,873
Equity securities available for sale, at fair value	41,600	44,537
Mortgage loans	442,319	445,389
Real estate	108,444	99,576
Policy loans	86,886	88,304
Short-term investments	<u>63,057</u>	<u>35,138</u>
Total investments	3,158,735	3,055,817
Cash	10,237	9,720
Accrued investment income	34,890	33,689
Deferred acquisition costs	238,487	263,756
Value of business acquired	76,948	82,855
Reinsurance receivables	168,365	168,390
Property and equipment	24,891	25,922
Income taxes	12,908	39,628
Other assets	29,731	28,749
Separate account assets	<u>268,865</u>	<u>258,565</u>
Total assets	<u><u>\$ 4,024,057</u></u>	<u><u>\$ 3,967,091</u></u>
 <b>LIABILITIES</b>		
Future policy benefits	\$ 847,334	\$ 853,456
Policyholder account balances	2,035,306	2,030,656
Policy and contract claims	33,568	34,913
Other policyholder funds	133,136	125,826
Other liabilities	134,854	136,568
Separate account liabilities	<u>268,865</u>	<u>258,565</u>
Total liabilities	<u><u>3,453,063</u></u>	<u><u>3,439,984</u></u>
 <b>STOCKHOLDERS' EQUITY</b>		
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	39,646	36,281
Retained earnings	756,274	750,600
Accumulated other comprehensive loss	(92,267)	(130,799)
Treasury stock, at cost (2009 - 6,958,608 shares;		
2008 - 7,061,476 shares)	<u>(155,780)</u>	<u>(152,096)</u>
Total stockholders' equity	<u><u>570,994</u></u>	<u><u>527,107</u></u>
 Total liabilities and stockholders' equity	<u><u>\$ 4,024,057</u></u>	<u><u>\$ 3,967,091</u></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 INCOME**

(amounts in thousands, except share data)

	Quarter Ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
<b>REVENUES</b>				
Insurance revenues:				
Premiums	\$ 43,176	\$ 45,462	\$ 89,716	\$ 89,949
Contract charges	26,202	26,527	52,970	53,827
Reinsurance ceded	(13,262)	(13,546)	(25,801)	(26,206)
Total insurance revenues	56,116	58,443	116,885	117,570
Investment revenues:				
Net investment income	44,605	45,616	87,744	92,079
Realized investment gains, excluding impairment losses	2,592	1,816	4,006	1,936
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(4,425)	(10,225)	(25,831)	(10,225)
Portion of impairment losses recognized in comprehensive loss	403	-	15,691	-
Net impairment losses recognized in earnings	(4,022)	(10,225)	(10,140)	(10,225)
Total investment revenues	43,175	37,207	81,610	83,790
Other revenues	2,459	2,639	4,890	5,248
Total revenues	101,750	98,289	203,385	206,608
 <b>BENEFITS AND EXPENSES</b>				
Policyholder benefits	36,400	45,586	85,087	91,072
Interest credited to policyholder account balances	21,700	21,674	42,874	43,377
Amortization of deferred acquisition costs and value of business acquired	6,727	7,625	19,206	18,737
Operating expenses	24,443	21,164	50,697	45,560
Total benefits and expenses	89,270	96,049	197,864	198,746
 Income before income tax expense	12,480	2,240	5,521	7,862
Income tax expense	4,436	563	2,025	2,583
 <b>NET INCOME</b>	\$ 8,044	\$ 1,677	\$ 3,496	\$ 5,279
 Other comprehensive income (loss) net of taxes:				
Change in net unrealized gains and losses on securities available for sale	\$ 44,689	\$ (36,609)	\$ 45,131	\$ (51,350)
Other comprehensive income (loss)	44,689	(36,609)	45,131	(51,350)
 <b>COMPREHENSIVE INCOME (LOSS)</b>	\$ 52,733	\$ (34,932)	\$ 48,627	\$ (46,071)
 Basic and diluted earnings per share:				
Net income	\$ 0.70	\$ 0.14	\$ 0.30	\$ 0.45

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

