

Kansas City Life Insurance Company

2009 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 \$2.1 million or \$0.18 per share in the fourth quarter of 2009 compared with a net loss of \$7.2 million or \$0.62 per share for the same quarter in the prior year. The increase in earnings in the fourth quarter of 2009 was primarily due to an \$11.9 million decrease in realized investment losses and a \$4.2 million improvement in net investment income. Partially offsetting these improvements was a \$2.4 million increase in operating expenses and a \$5.4 million increase in income tax expense.

Net income for 2009 was \$10.7 million or \$0.93 per share compared with a net loss of \$17.1 million or \$1.47 per share in the prior year. This significant improvement was primarily due to decreased realized investment losses, which declined \$42.2 million, along with an increase in insurance revenues of \$5.5 million. Insurance revenues improved primarily due to sales of new individual life products at Old American Insurance Company (OAIC) and increased sales of immediate annuity products. Partially offsetting these improvements were an increase in operating expenses of \$5.0 million, an increase in reserves associated with the sale of immediate annuities and an increase in income tax expense.

The financial markets improved significantly during 2009. This enabled improved strengthening of consumer demand for insurance products and the Company's investment performance. Premiums from new sales during the fourth quarter were \$12.7 million, an increase of \$2.8 million or 28% versus the prior year. Sales growth in the fourth quarter resulted from increased sales of new life insurance in the OAIC segment, which improved \$0.6 million or 32% compared to one year ago. In addition, sales of immediate annuities increased \$1.7 million or 47% and new group accident and health premiums increased \$0.4 million or 17%. Renewal premiums for the fourth quarter declined \$1.1 million or 3%, primarily from decreases in individual life and group accident and health products. New premiums for 2009 increased \$10.0 million or 26% compared to 2008. This growth reflected strong immediate annuity sales, which grew \$9.5 million or 75%, and a \$1.5 million or 20% increase in life insurance sales from OAIC. Partially offsetting these increases were declines in new group life and group accident and health products.

New universal life sales increased 11% for the comparative fourth quarters. In addition, these fourth quarter sales were the strongest period of production during both 2008 and 2009. Total new deposits for the year increased \$34.8 million or 51%, primarily from a \$46.2 million increase in fixed deferred annuity sales.

The Company's investment performance improved through increased net investment income, reduced realized investment losses and increased values on securities owned. Net investment income increased \$4.2 million in the fourth quarter compared with a year ago and was flat for the year versus the prior year. In the fourth quarter, the Company experienced an improvement in rates earned, primarily from yields on an alternative investment fund. Realized investment losses totaled \$2.8 million for the fourth quarter, which was an \$11.9 million improvement compared with the prior year's fourth quarter. Likewise, realized investment losses were \$10.1 million for the year compared with realized investment losses of



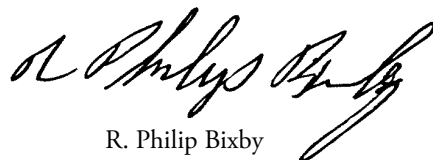
\$52.3 million one year earlier. A significant factor in the reduced realized investment losses was improved market values on a broad range of asset classes and sectors. During 2009, the Company's investment securities improved \$192.3 million, ending the year in an unrealized gain position of \$0.2 million.

Total benefits and expenses decreased less than 1% for the fourth quarter but increased 1% for the year. Most significantly, death benefits improved in the fourth quarter and for the year compared with the prior year and quarter. Interest credited to policyholder account balances increased \$0.2 million or less than 1% in the fourth quarter, reflecting a slight increase in crediting rates on selected products. Interest credited on policyholder account balances for the year was down \$0.2 million or less than 1%.

Operating expenses increased \$2.4 million or 11% during the fourth quarter, primarily reflecting an increase in pension expense. Operating expenses increased \$5.0 million or 5% for the year, reflecting increases in pension expense, separation costs related to a reduction in staff and increased legal fees.

On January 25, 2010, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that was paid on February 10, 2010 to stockholders of record on February 4, 2010.

After beginning the year in a period of deep recession, the economy began to stabilize during 2009. Accordingly, Kansas City Life experienced improved sales and investment performance. The Company's strong capital and liquidity position offered it the ability to withstand the difficult economic pressures. The Company's securities portfolio maintained a position of high quality with 94% of these investments rated as investment grade at December 31, 2009. Stockholders' equity improved \$101.3 million, primarily reflecting the change to a net unrealized gain position on security investments. Further, the Company's relative competitive position and financial strength improved during this economic downturn. These improvements included increased agency recruiting and production, new investments, a reduced operating expense structure, and positioning of the Company for both organic growth and opportunistic investments. The Company has not wavered from its commitment to the protection of its policyholders, to return value to its investors and to be a strong and viable business partner to its agents and general agents. The Company continues to offer value and opportunity to its customers while also offering the desired strength and stability of the past. *Security Assured* is the Company's goal of today and the promise of tomorrow.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	December 31	
	2009	2008
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,469,272	\$ 2,350,834
Equity securities available for sale, at fair value	36,876	36,576
Mortgage loans	457,582	445,389
Real estate	114,076	99,576
Policy loans	85,585	88,304
Short-term investments	138,704	35,138
Total investments	3,302,095	3,055,817
Cash	4,981	9,720
Accrued investment income	32,989	33,689
Deferred acquisition costs	209,495	263,756
Value of business acquired	66,114	82,855
Reinsurance receivables	179,365	168,390
Property and equipment	24,393	25,922
Income taxes	8,784	39,628
Other assets	35,145	28,749
Separate account assets	312,824	258,565
Total assets	\$ 4,176,185	\$ 3,967,091
LIABILITIES		
Future policy benefits	\$ 866,889	\$ 853,456
Policyholder account balances	2,048,828	2,030,656
Policy and contract claims	33,484	34,913
Other policyholder funds	137,847	125,826
Notes payable	-	2,900
Income taxes	21,851	-
Other liabilities	126,099	133,668
Separate account liabilities	312,824	258,565
Total liabilities	3,547,822	3,439,984
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	41,068	36,281
Retained earnings	757,225	750,600
Accumulated other comprehensive loss	(36,477)	(130,799)
Treasury stock, at cost (2009 - 6,931,589 shares;		
2008 - 7,061,476 shares)	(156,574)	(152,096)
Total stockholders' equity	628,363	527,107
Total liabilities and stockholders' equity	\$ 4,176,185	\$ 3,967,091

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



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except share data)

	Year Ended December 31		
	2009	2008	2007
REVENUES			
Insurance revenues:			
Premiums	\$ 190,799	\$ 180,782	\$ 175,460
Contract charges	105,716	109,007	111,422
Reinsurance ceded	(54,851)	(53,616)	(54,988)
Total insurance revenues	<u>241,664</u>	<u>236,173</u>	<u>231,894</u>
Investment revenues:			
Net investment income	177,428	177,419	190,405
Realized investment gains, excluding impairment losses	10,979	10,422	9,462
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(37,125)	(62,693)	(4,036)
Portion of impairment losses recognized in other comprehensive income (loss)	16,070	-	-
Net impairment losses recognized in earnings	<u>(21,055)</u>	<u>(62,693)</u>	<u>(4,036)</u>
Total investment revenues	<u>167,352</u>	<u>125,148</u>	<u>195,831</u>
Other revenues	<u>10,579</u>	<u>13,005</u>	<u>11,499</u>
Total revenues	<u>419,595</u>	<u>374,326</u>	<u>439,224</u>
BENEFITS AND EXPENSES			
Policyholder benefits	178,971	178,749	166,458
Interest credited to policyholder account balances	86,713	86,899	91,215
Amortization of deferred acquisition costs and value of business acquired	39,654	42,084	40,333
Operating expenses	97,805	92,808	88,307
Total benefits and expenses	<u>403,143</u>	<u>400,540</u>	<u>386,313</u>
Income (loss) before income tax expense (benefit)	16,452	(26,214)	52,911
Income tax expense (benefit)	<u>5,720</u>	<u>(9,164)</u>	<u>17,250</u>
NET INCOME (LOSS)	<u>\$ 10,732</u>	<u>\$ (17,050)</u>	<u>\$ 35,661</u>
Comprehensive income (loss), net of taxes:			
Change in net unrealized gains and (losses) on securities available for sale	\$ 89,709	\$ (89,921)	\$ 6,396
Change in benefit plan obligations	11,212	(21,067)	(1,089)
Other comprehensive income (loss)	100,921	(110,988)	5,307
COMPREHENSIVE INCOME (LOSS)	<u>\$ 111,653</u>	<u>\$ (128,038)</u>	<u>\$ 40,968</u>
Basic and diluted earnings per share:			
Net income (loss)	<u>\$ 0.93</u>	<u>\$ (1.47)</u>	<u>\$ 3.01</u>

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