

Kansas City Life Insurance Company

2010 First 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 \$1.0 million or \$0.08 per share in the first quarter of 2010 compared with a net loss of \$4.5 million or \$0.40 per share for the same quarter in the prior year. The increase in earnings in the first quarter of 2010 was primarily due to a \$4.4 million decrease in realized investment losses and a \$4.8 million decrease in policyholder benefits and expenses. Partially offsetting these improvements was a \$4.4 million increase in income tax expense.

Insurance revenues increased \$0.5 million or 1%, reflecting an increase of \$0.7 million in premiums on life insurance and immediate annuities net of reinsurance. The increase was realized through recruiting of new agencies and agents, along with the improving economy.

Premiums from new policies in the first quarter of 2010 were \$13.3 million, an increase of 27% from the first quarter of 2009. Included in these results was a \$0.7 million or 20% increase in individual life insurance, a \$1.0 million or 24% increase in new immediate annuities, and a \$0.9 million or 39% increase in group accident and health insurance premiums. The increase in individual life insurance sales largely resulted from new policies from Old American Insurance Company, while the increase in group accident and health insurance premiums primarily resulted from increases in the group dental business. Renewal premiums declined \$1.4 million or 4%, primarily due to declines in group life and group disability insurance in the Group segment.

Led by a \$1.6 million or 88% increase in sales of universal life products and a \$3.1 million or 107% increase in new variable annuities, new deposits from interest sensitive and variable products increased 1% compared with the first quarter of 2009. Partially offsetting these increases, new fixed deferred annuity deposits declined \$4.3 million. The improvements in new universal life and variable annuity sales reflect an increased confidence in the markets from consumers.

Investment revenues increased \$0.2 million compared with the first quarter of 2009, driven by an increase in investment assets. In addition, the continued improvement in the general economic environment has led to an improvement in fair values of many investment securities and reduced other-than-temporary impairment losses. During the first quarter, other-than-temporary impairments recognized in earnings declined \$4.5 million versus the prior year. Further, the investment portfolio was in a net unrealized gain position of \$40.4 million at March 31, 2010, an improvement of \$40.2 million from December 31, 2009 and a \$242.6 million improvement from March 31, 2009.

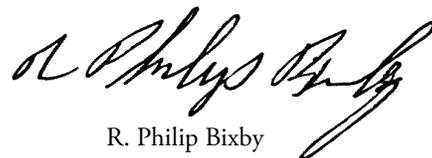
Policyholder benefits declined \$0.9 million during the first quarter versus the prior year, largely from improved mortality experience. In addition, amortization of deferred acquisition costs (DAC) and value of business acquired (VOBA) declined \$2.0 million and operating expenses also declined \$2.0 million.



The reduced mortality and death benefits in the first quarter were mostly offset by increased policyholder reserves. The decrease in the amortization of DAC and VOBA largely reflected an improvement in the market value of variable life and annuity policies, and a 7% decline in operating expenses primarily reflected a reduction in salaries and benefits.

On April 26, 2010, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on May 12, 2010 to stockholders of record on May 6, 2010.

The Company is focused on continuing growth in new sales of life insurance, particularly through increased recruiting and expansion of the Company's general agent relationships. As the economy has transitioned in recent periods, the improvement in demand for protection products has been encouraging. Further, the improvement in the general economy and strengthening of the financial markets has helped improve both the Company's investment results and policyholder account values. These changes, in combination with the Company's traditions of financial strength, maintaining a competitive and diversified portfolio of financial protection and accumulation products, and long-term relationships with our agents, places the Company in an excellent position to capitalize on growth opportunities in 2010 and beyond.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>March 31</u> 2010	<u>December 31</u> 2009
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,539,151	\$ 2,469,272
Equity securities available for sale, at fair value	37,826	36,876
Mortgage loans	456,489	457,582
Real estate	115,017	114,076
Policy loans	84,896	85,585
Short-term investments	106,770	138,704
Total investments	<u>3,340,149</u>	<u>3,302,095</u>
Cash	5,809	4,981
Accrued investment income	37,300	32,989
Deferred acquisition costs	198,540	209,495
Value of business acquired	60,325	66,114
Reinsurance receivables	183,373	179,365
Property and equipment	24,066	24,393
Income taxes	3,762	8,784
Other assets	33,146	35,145
Separate account assets	324,924	312,824
Total assets	<u>\$ 4,211,394</u>	<u>\$ 4,176,185</u>
LIABILITIES		
Future policy benefits	\$ 872,987	\$ 866,889
Policyholder account balances	2,044,534	2,048,828
Policy and contract claims	33,667	33,484
Other policyholder funds	142,606	137,847
Income taxes	30,336	21,851
Other liabilities	122,484	126,099
Separate account liabilities	324,924	312,824
Total liabilities	<u>3,571,538</u>	<u>3,547,822</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	41,072	41,068
Retained earnings	755,077	757,225
Accumulated other comprehensive loss	(20,721)	(36,477)
Treasury stock, at cost (2010 - 7,000,390 shares;		
2009 - 6,931,589 shares)	(158,693)	(156,574)
Total stockholders' equity	<u>639,856</u>	<u>628,363</u>
Total liabilities and stockholders' equity	<u>\$ 4,211,394</u>	<u>\$ 4,176,185</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 March 31	
	2010	2009
	(Unaudited)	
REVENUES		
Insurance revenues:		
Premiums	\$ 47,929	\$ 46,540
Contract charges	26,679	26,768
Reinsurance ceded	(13,302)	(12,539)
Total insurance revenues	61,306	60,769
Investment revenues:		
Net investment income	43,304	43,139
Realized investment gains, excluding impairment losses	1,323	1,414
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(1,591)	(21,406)
Portion of impairment losses recognized in other comprehensive income	5	15,288
Net impairment losses recognized in earnings	(1,586)	(6,118)
Total investment revenues	43,041	38,435
Other revenues	2,420	2,431
Total revenues	106,767	101,635
 BENEFITS AND EXPENSES		
Policyholder benefits	47,791	48,687
Interest credited to policyholder account balances	21,200	21,174
Amortization of deferred acquisition costs and value of business acquired	10,519	12,479
Operating expenses	24,290	26,254
Total benefits and expenses	103,800	108,594
 Income (loss) before income tax expense (benefit)	 2,967	 (6,959)
Income tax expense (benefit)	2,004	(2,411)
 NET INCOME (LOSS)	 \$ 963	 \$ (4,548)
 Comprehensive income (loss), net of taxes:		
Change in net unrealized gains and (losses) on securities available for sale	\$ 15,756	\$ 442
Other comprehensive income	15,756	442
 COMPREHENSIVE INCOME (LOSS)	 \$ 16,719	 \$ (4,106)
 Basic and diluted earnings per share:		
Net income (loss)	\$ 0.08	\$ (0.40)

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

