

# Kansas City Life Insurance Company

## 2010 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 \$10.1 million or \$0.88 per share in the second quarter of 2010, improving from net income of \$8.0 million or \$0.70 per share for the same quarter in the prior year. The increase in earnings in the second quarter of 2010 was primarily due to increased revenues of \$4.5 million or 4%. Net income for the first six months of 2010 was \$11.0 million or \$0.96 per share, an increase from net income \$3.5 million or \$0.30 per share for the same period in 2009. The largest factor in the improved six-month results was the decline of net realized losses on investments from \$6.1 million in 2009 to \$0.1 million during the first half of 2010.

Insurance revenues increased \$4.4 million or 8% in the second quarter and \$4.9 million or 4% for the six months. The increase in the second quarter reflected an increase of \$5.1 million in premiums on life insurance, immediate annuities and accident and health products. Partially offsetting these increases was a related increase in reinsurance ceded.

Premiums from new policies in the second quarter of 2010 were \$12.4 million, an increase of 59% from the prior year. Included in these results was a \$0.7 million or 20% increase in individual life insurance, a \$2.9 million or 178% increase in immediate annuities, and a \$0.8 million or 35% increase in group accident and health insurance premiums. The increase in individual life insurance sales largely resulted from new policies in the Old American segment, while the increase in group accident and health insurance premiums primarily resulted from increases in group dental and disability business. Renewal premiums increased \$0.5 million or 1%, primarily due to an increase in group accident and health premiums.

Premiums from new policies in the six months of 2010 were \$25.6 million, an increase of 41% from the prior year. Included in these results was a \$1.3 million or 20% increase in individual life insurance, a \$3.9 million or 66% increase in immediate annuities, and a \$1.8 million or 37% increase in group accident and health insurance premiums. The Old American segment again led the increase in individual life insurance sales with growth in new premiums of \$1.4 million or 35%, while the increase in group accident and health insurance premiums primarily resulted from increases in group dental and disability business. Renewal premiums decreased \$0.9 million or 1%, primarily due to a decrease in group life premiums.

New universal life deposits increased \$0.9 million or 44% and variable products increased \$0.6 million or 12% during the second quarter. The rise in variable product deposits is primarily reflective of an increase in variable annuities. Similarly, new universal life deposits increased \$2.5 million or 64%



and new variable products increased \$3.5 million or 41% for the six-month period. However, total new deposits declined for both periods as a result of a 62% and 50% decline in fixed deferred annuity deposits for the quarter and six-month periods, respectively. The decrease in fixed deferred annuity sales was due to exceptionally strong sales during both periods in 2009.

Investment revenues increased \$0.3 million compared with the second quarter of 2009 and \$4.9 million for the six months, driven by reduced realized investment losses. Included in these changes, net investment income declined \$1.3 million for the quarter and \$1.2 million for the six months due to lower yields. While the lower interest rate environment has caused declines in net investment income, the lower rates have also generated increased values within the investment portfolio. Specifically, the Company's investment portfolio had a net unrealized gain position of \$114.7 million at June 30, 2010, an improvement of \$114.5 million from December 31, 2009. Further, the portfolio's value has improved \$228.0 million from June 30, 2009.

Policyholder benefits and interest credited to policyholder account balances increased \$6.1 million during the second quarter and \$5.2 million for the six months versus the prior year. The increase in both the second quarter and six months was largely due to an increase in benefit and contract reserves, primarily resulting from increased sales of immediate annuities. The increase in benefit and contract reserves was partially offset by a decrease in death benefits, which declined \$0.6 million for the second quarter and \$3.3 million for the six months.

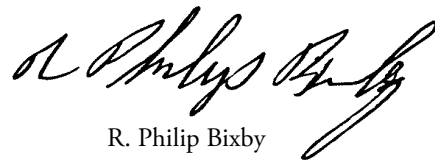
The Company had a \$3.0 million decrease in the amortization of deferred acquisition costs (DAC) and value of business acquired (VOBA) in the second quarter and a \$5.0 million decrease for the six months compared with the prior year. These decreases were largely associated with an unlocking of the assumptions of the DAC asset. These assumptions are reassessed no less often than annually, and unlocking occurs when it is concluded that the historical results are no longer consistent with the current assumptions about product performance. The unlocking in this period related primarily to improved mortality results, and the unlocking resulted in reduced amortization of DAC.

Finally, insurance operating expenses declined \$1.9 million or 8% for the second quarter and \$3.8 million or 8% for the six months compared with the prior year. This decrease in both periods primarily reflects reduced salaries, benefits and separation costs associated with staffing changes that were made during 2009.

On July 26, 2010, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 11, 2010 to stockholders of record on August 5, 2010.



The impact of the recent economic downturn, which began in earnest about three full years ago, has been significant upon Kansas City Life, its general agents and agents, and policyholders. While many of the effects of the recession have been corrected, reduced or mitigated, many effects continue to impact all of us. Throughout this period, the Company has continued to focus on expanding new sales of life insurance, maintaining a strong balance sheet, and improving competitiveness through difficult but important decisions regarding staffing and other costs. Although the current economic environment is presenting new challenges, the Company believes that recent results are indicative of progress and the rewards of maintaining an appropriate focus on long-term priorities.



R. Philip Bixby



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

(amounts in thousands, except share data)

	<u>June 30</u> 2010	<u>December 31</u> 2009
<b>ASSETS</b>	(Unaudited)	
<b>Investments:</b>		
Fixed maturity securities available for sale, at fair value	\$ 2,652,110	\$ 2,469,272
Equity securities available for sale, at fair value	37,527	36,876
Mortgage loans	463,953	457,582
Real estate	117,683	114,076
Policy loans	84,877	85,585
Short-term investments	<u>82,453</u>	<u>138,704</u>
Total investments	3,438,603	3,302,095
Cash	8,940	4,981
Accrued investment income	34,413	32,989
Deferred acquisition costs	190,057	209,495
Value of business acquired	54,109	66,114
Reinsurance receivables	182,366	179,365
Property and equipment	23,807	24,393
Income taxes	1,754	8,784
Other assets	31,112	35,145
Separate account assets	297,269	312,824
Total assets	<u>\$ 4,262,430</u>	<u>\$ 4,176,185</u>
<b>LIABILITIES</b>		
Future policy benefits	\$ 878,062	\$ 866,889
Policyholder account balances	2,048,604	2,048,828
Policy and contract claims	33,512	33,484
Other policyholder funds	147,676	137,847
Income taxes	46,683	21,851
Other liabilities	134,396	126,099
Separate account liabilities	<u>297,269</u>	<u>312,824</u>
Total liabilities	<u>3,586,202</u>	<u>3,547,822</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	41,076	41,068
Retained earnings	762,041	757,225
Accumulated other comprehensive income (loss)	9,637	(36,477)
Treasury stock, at cost (2010 - 7,029,207 shares;		
2009 - 6,931,589 shares)	<u>(159,647)</u>	<u>(156,574)</u>
Total stockholders' equity	<u>676,228</u>	<u>628,363</u>
Total liabilities and stockholders' equity	<u>\$ 4,262,430</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		Six Months Ended	
	June 30		June 30	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
<b>REVENUES</b>				
Insurance revenues:				
Premiums	\$ 48,251	\$ 43,176	\$ 96,180	\$ 89,716
Contract charges	26,661	26,202	53,340	52,970
Reinsurance ceded	(14,730)	(13,599)	(28,032)	(26,138)
Total insurance revenues	<u>60,182</u>	<u>55,779</u>	<u>121,488</u>	<u>116,548</u>
Investment revenues:				
Net investment income	43,272	44,605	86,576	87,744
Realized investment gains, excluding impairment losses	1,493	2,592	2,816	4,006
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(1,458)	(4,425)	(3,049)	(25,831)
Portion of impairment losses recognized in other comprehensive income	134	403	139	15,691
Net impairment losses recognized in earnings	<u>(1,324)</u>	<u>(4,022)</u>	<u>(2,910)</u>	<u>(10,140)</u>
Total investment revenues	<u>43,441</u>	<u>43,175</u>	<u>86,482</u>	<u>81,610</u>
Other revenues	<u>2,361</u>	<u>2,485</u>	<u>4,781</u>	<u>4,916</u>
Total revenues	<u>105,984</u>	<u>101,439</u>	<u>212,751</u>	<u>203,074</u>
<b>BENEFITS AND EXPENSES</b>				
Policyholder benefits	42,622	36,400	90,413	85,087
Interest credited to policyholder account balances	21,540	21,700	42,740	42,874
Amortization of deferred acquisition costs and value of business acquired	3,711	6,727	14,230	19,206
Operating expenses	<u>22,276</u>	<u>24,132</u>	<u>46,566</u>	<u>50,386</u>
Total benefits and expenses	<u>90,149</u>	<u>88,959</u>	<u>193,949</u>	<u>197,553</u>
Income before income tax expense	15,835	12,480	18,802	5,521
Income tax expense	<u>5,775</u>	<u>4,436</u>	<u>7,779</u>	<u>2,025</u>
<b>NET INCOME</b>	<u>\$ 10,060</u>	<u>\$ 8,044</u>	<u>\$ 11,023</u>	<u>\$ 3,496</u>
Comprehensive income, net of taxes:				
Change in net unrealized gains and (losses) on securities available for sale	<u>\$ 30,358</u>	<u>\$ 44,689</u>	<u>\$ 46,114</u>	<u>\$ 45,131</u>
Other comprehensive income	<u>30,358</u>	<u>44,689</u>	<u>46,114</u>	<u>45,131</u>
<b>COMPREHENSIVE INCOME</b>	<u>\$ 40,418</u>	<u>\$ 52,733</u>	<u>\$ 57,137</u>	<u>\$ 48,627</u>
Basic and diluted earnings per share:				
Net income	<u>\$ 0.88</u>	<u>\$ 0.70</u>	<u>\$ 0.96</u>	<u>\$ 0.30</u>

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

