

Kansas City Life Insurance Company

2009 Third 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



Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$5.2 million or \$0.45 per share in the third quarter of 2009, improving from a net loss of \$15.2 million or \$1.30 per share for the same quarter in the prior year. The increase in earnings in the third quarter of 2009 was primarily due to a \$28.2 million decrease in realized investment losses. Net income for the nine months was \$8.7 million or \$0.75 per share compared with a net loss of \$9.9 million or a loss of \$0.85 per share in the prior year. This significant improvement was primarily due to reduced realized investment losses, which decreased \$30.3 million between the two periods.

The Company benefited from the significant improvement in the financial markets in recent months, including reduced write-downs on investments, along with increased investment values and net investment income from investments. Realized investment losses, primarily from write-downs on securities, totaled \$1.1 million for the third quarter. This represented a \$28.2 million improvement compared with the prior year. Similarly, realized investment losses were \$7.3 million for the nine months of 2009 compared with realized investment losses of \$37.6 million one year earlier. Further, the Company's net unrealized loss on securities in the investment portfolio has improved by more than \$91.2 million, net of tax, during the past two quarters. This change moved the unrealized loss of \$88.4 million at March 31, 2009 to an unrealized gain of \$2.7 million at September 30, 2009. Net investment income also increased \$0.2 million in the third quarter, primarily due to improved yields on alternative investments. Net investment income declined 3% in the nine months, resulting from lower yields and a lower volume of investment assets.

Premiums from new sales during the third quarter were \$17.6 million, an increase of \$8.6 million versus the prior year. Virtually all of the increase resulted from an \$8.4 million increase in immediate annuities during the period. Premiums from new individual life insurance sales increased \$0.3 million or 8% during the quarter but new group sales decreased 4%. New premiums for the nine months increased 25%, largely from the increase in immediate annuities. In addition, new individual life insurance sales increased 6%, while new group life insurance declined 29%.

New deposits of universal life and deposit-type products increased 60% during the third quarter, primarily driven by new sales of fixed deferred annuities. However, new deposits in the third quarter from universal life sales declined 23% and new variable life and annuity sales declined 43%. New deposits for the nine months increased 73%, also reflecting the improved sales of fixed deferred annuities. New universal life sales declined 19% for the nine months, and new variable annuity sales declined 47%. The continued uncertainty in the financial markets has hampered products such as universal life and variable life and annuity products.


Total insurance revenues increased 11% for the third quarter and 3% for the nine months, largely due to the increase in immediate annuity premiums. Contract charges declined 3% in the third quarter and 2% for the nine months. The declines can be attributed to lower account balances on variable contracts which have been significantly reduced by the impacts from the financial markets and the runoff of closed blocks of business.



Total benefits and expenses increased \$3.6 million for the third quarter and \$2.7 million for the nine months compared with the same period a year earlier. The increase in both periods was primarily the result of increased immediate annuity sales, which require significant additions to future policy benefits. In addition, operating expenses decreased for the quarter, due to lower compensation and staffing. Operating expenses increased for the nine months, due to severance, pension and legal costs.

On October 26, 2009, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on November 11, 2009 to stockholders of record as of November 5, 2009.

During the third quarter, the Company continued to experience a welcomed increase in the market values of its securities and improvement in the financial markets. While the Company is pleased and cautiously optimistic about the resulting near-term effects, it is also continuing its long-held position of providing safety and protection. At September 30, 2009, the Company maintained 93% of its securities rated investment grade and had a net unrealized gain on the value of its securities portfolio. Further, the Company continues to offer a broad product portfolio to meet the needs of agents and consumers in all market environments. Since 1895 the Company has consistently weathered the highs and lows of the financial marketplace and remains dedicated to fulfilling the commitment of providing Security Assured.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>September 30</u> 2009	<u>December 31</u> 2008
ASSETS	(Unaudited)	
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,561,070	\$ 2,342,873
Equity securities available for sale, at fair value	44,495	44,537
Mortgage loans	446,369	445,389
Real estate	109,939	99,576
Policy loans	86,067	88,304
Short-term investments	37,950	35,138
Total investments	<u>3,285,890</u>	<u>3,055,817</u>
Cash	12,134	9,720
Accrued investment income	38,745	33,689
Deferred acquisition costs	207,058	263,756
Value of business acquired	68,471	82,855
Reinsurance receivables	172,404	168,390
Property and equipment	24,564	25,922
Income taxes	4,328	39,628
Other assets	35,659	28,749
Separate account assets	302,507	258,565
Total assets	<u><u>\$ 4,151,760</u></u>	<u><u>\$ 3,967,091</u></u>
 LIABILITIES		
Future policy benefits	\$ 859,223	\$ 853,456
Policyholder account balances	2,041,436	2,030,656
Policy and contract claims	33,247	34,913
Other policyholder funds	135,482	125,826
Other liabilities	152,747	136,568
Separate account liabilities	302,507	258,565
Total liabilities	<u>3,524,642</u>	<u>3,439,984</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	41,065	36,281
Retained earnings	758,310	750,600
Accumulated other comprehensive loss	(41,134)	(130,799)
Treasury stock, at cost (2009 - 6,847,280 shares;		
2008 - 7,061,476 shares)	(154,244)	(152,096)
Total stockholders' equity	<u>627,118</u>	<u>527,107</u>
 Total liabilities and stockholders' equity	<u><u>\$ 4,151,760</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 September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Premiums	\$ 53,432	\$ 44,861	\$ 143,148	\$ 134,810
Contract charges	26,448	27,227	79,418	81,054
Reinsurance ceded	(14,645)	(13,279)	(40,446)	(39,485)
Total insurance revenues	65,235	58,809	182,120	176,379
Investment revenues:				
Net investment income	44,521	44,337	132,265	136,416
Realized investment gains, excluding impairment losses	1,202	3,167	5,208	5,103
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(2,522)	(32,462)	(28,353)	(42,687)
Portion of impairment losses recognized in other comprehensive income (loss)	203	-	15,894	-
Net impairment losses recognized in earnings	(2,319)	(32,462)	(12,459)	(42,687)
Total investment revenues	43,404	15,042	125,014	98,832
Other revenues	3,413	4,241	8,303	9,489
Total revenues	112,052	78,092	315,437	284,700
BENEFITS AND EXPENSES				
Policyholder benefits	50,514	43,783	135,601	134,855
Interest credited to policyholder account balances	21,898	21,742	64,772	65,119
Amortization of deferred acquisition costs and value of business acquired	9,949	10,727	29,155	29,464
Operating expenses	22,779	25,282	73,476	70,842
Total benefits and expenses	105,140	101,534	303,004	300,280
Income (loss) before income tax expense (benefit)	6,912	(23,442)	12,433	(15,580)
Income tax expense (benefit)	1,731	(8,264)	3,756	(5,681)
NET INCOME (LOSS)	\$ 5,181	\$ (15,178)	\$ 8,677	\$ (9,899)
Other comprehensive income (loss), net of taxes:				
Change in net unrealized gains and losses on securities available for sale	\$ 51,133	\$ (22,414)	\$ 91,598	\$ (73,764)
Change in minimum pension liability	-	-	4,666	-
Other comprehensive income (loss)	51,133	(22,414)	96,264	(73,764)
OTHER COMPREHENSIVE INCOME (LOSS)	\$ 56,314	\$ (37,592)	\$ 104,941	\$ (83,663)
Basic and diluted earnings per share:				
Net income (loss)	\$ 0.45	\$ (1.30)	\$ 0.75	\$ (0.85)

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