

# Kansas City Life Insurance Company

## 2010 Fourth Quarter Report

# 4



*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 \$6.8 million or \$0.60 per share in the fourth quarter of 2010, an increase of \$4.8 million or \$0.42 per share over the same quarter in the prior year. The increase in earnings was primarily due to a \$4.1 million change in realized investment gains and losses, moving to a realized gain in the current period from a realized loss in the prior year. Also contributing to the improved earnings were increases in insurance revenues and lower amortization of deferred acquisition costs (DAC) and operating expenses. Partially offsetting these improvements was an increase in policyholder benefits, principally from higher death benefits paid.

Net income for 2010 was \$22.3 million or \$1.95 per share, an increase from \$10.7 million or \$0.93 per share for the same period in 2009. The changes that impacted the quarter were also consistent for the year, including a \$10.6 million change in realized investment gains and losses, growth in insurance revenues, and lower amortization of DAC and operating expenses. Partially offsetting these improvements was an increase in policyholder benefits, primarily due to an increase in benefit and contract reserves.

Total life insurance premiums increased \$0.8 million or 3% and \$2.5 million or 2% for the fourth quarter and twelve months, respectively, compared to the prior year. New life insurance premiums increased \$0.4 million or 11% and \$2.3 million or 16% for the same respective periods. The growth for both periods was largely driven by increases of 21% for the quarter and 29% for the year in life insurance premiums from new sales in the Old American segment. In addition to the growth in new sales, total life insurance premiums improved from increases in renewal premiums in the fourth quarter from individual life insurance and group accident and health products, primarily in the short-term disability line. Likewise, renewal premiums also increased for the year from individual life insurance products. Deposits from new universal life and variable universal life products increased \$2.2 million or 25% and \$3.7 million or 33% for the same respective periods. The growth in overall new life insurance sales is primarily attributable to positive results being attained from the recruiting and improved productivity of general agents and agents, along with an improving economy.

Investment revenues were flat for the fourth quarter but declined 1% for the year. Gross investment income continued to be negatively affected by the low interest rate environment. The Company experienced realized investment gains of \$1.3 million and \$0.5 million in the fourth quarter and twelve months, respectively. These represented significant improvements from the realized losses recognized in the fourth quarter and twelve months one year earlier. Improvements in the overall investment environment, particularly including the credit markets, along with the stabilization of fair values on many previously distressed sectors contributed to the favorable changes during the year. In addition, the low interest rate and improving overall credit environment resulted in improved values within the Company's investment



portfolio. Specifically, the investment portfolio had a net unrealized gain position of \$110.2 million at December 31, 2010, an improvement of \$110.0 million from December 31, 2009.

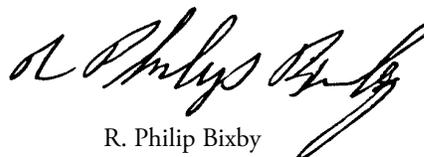
Policyholder benefits increased \$2.8 million and \$4.0 million during the fourth quarter and twelve months, respectively. The increase for the quarter was due to an unfavorable change in mortality relative to the prior year, as net death benefits increased. The increase for the twelve months was primarily the result of greater benefit and contract reserves, which was largely the result of increased premiums in life insurance, immediate annuities and accident and health.

The amortization of DAC decreased \$1.6 million or 18% for the fourth quarter and \$8.1 million or 23% for the twelve months. The Company unlocked the assumptions of the DAC asset and had a change in estimate, which resulted in the recognition of \$0.7 million in reduced amortization in the fourth quarter and \$6.9 million earlier in the year. The assumptions regarding the DAC asset are reassessed no less often than annually, and unlocking occurs when the reassessment concludes that the historical results are no longer consistent with the current assumptions about product performance.

Finally, operating expenses declined \$1.1 million or 4% for the fourth quarter and \$2.7 million or 3% for the year compared with the prior year. The decrease in the fourth quarter reflected decreases in legal costs, pension expenses and separation costs. The decrease for the year reflected reduced salaries and benefits, including separation costs associated with staffing changes that were made in 2009, reduced pension expense and reduced legal costs.

On January 24, 2011, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that was paid on February 9, 2011 to stockholders of record on February 3, 2011.

The Company extends its appreciation and best wishes to Mr. Daryl D. Jensen. Mr. Jensen announced his upcoming retirement from the Board of Directors. Mr. Jensen had been with the Company since 1973, serving as Sunset Life Insurance Company's President and Chief Executive Officer until his retirement from that position in 1999. Mr. Jensen has also served on the Kansas City Life Board of Directors since 1978. Mr. Jensen was chairman of the Board's Compensation Committee and also served on the Company's Audit Committee. Mr. Jensen's deep knowledge and understanding of the insurance industry, along with his management and financial experience, offered valuable support and perspective throughout the many years of his association with the Company. Mr. Jensen will be missed by the Company's Board of Directors, and we offer our most sincere appreciation for his service and commitment to Kansas City Life Insurance Company.

  
R. Philip Bixby



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

(amounts in thousands, except share data)

|                                                             | December 31      |                  |
|-------------------------------------------------------------|------------------|------------------|
|                                                             | 2010             | 2009             |
| <b>ASSETS</b>                                               |                  |                  |
| Investments:                                                |                  |                  |
| Fixed maturity securities available for sale, at fair value | \$ 2,648,888     | \$ 2,469,272     |
| Equity securities available for sale, at fair value         | 38,321           | 36,876           |
| Mortgage loans                                              | 559,167          | 457,582          |
| Real estate                                                 | 119,909          | 114,076          |
| Policy loans                                                | 84,281           | 85,585           |
| Short-term investments                                      | 15,713           | 138,704          |
| Other investments                                           | 5,009            | 6,379            |
| Total investments                                           | 3,471,288        | 3,308,474        |
| Cash                                                        | 5,445            | 4,981            |
| Accrued investment income                                   | 35,742           | 32,989           |
| Deferred acquisition costs                                  | 192,943          | 209,495          |
| Reinsurance receivables                                     | 187,123          | 179,365          |
| Property and equipment                                      | 23,514           | 24,393           |
| Other assets                                                | 78,198           | 103,664          |
| Separate account assets                                     | 339,029          | 312,824          |
| Total assets                                                | \$ 4,333,282     | \$ 4,176,185     |
| <b>LIABILITIES</b>                                          |                  |                  |
| Future policy benefits                                      | \$ 884,380       | \$ 866,889       |
| Policyholder account balances                               | 2,065,878        | 2,048,828        |
| Policy and contract claims                                  | 44,046           | 33,484           |
| Other policyholder funds                                    | 145,560          | 137,847          |
| Other liabilities                                           | 174,917          | 147,950          |
| Separate account liabilities                                | 339,029          | 312,824          |
| Total liabilities                                           | 3,653,810        | 3,547,822        |
| <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                                  | 41,085           | 41,068           |
| Retained earnings                                           | 767,126          | 757,225          |
| Accumulated other comprehensive income (loss)               | 7,807            | (36,477)         |
| Treasury stock, at cost (2010 - 7,029,575 shares;           |                  |                  |
| 2009 - 6,931,589 shares)                                    | (159,667)        | (156,574)        |
| Total stockholders' equity                                  | 679,472          | 628,363          |
| <br>Total liabilities and stockholders' equity              | <br>\$ 4,333,282 | <br>\$ 4,176,185 |

*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 |                   |                     |
|------------------------------------------------------------------------------|------------------------|-------------------|---------------------|
|                                                                              | 2010                   | 2009              | 2008                |
| <b>REVENUES</b>                                                              |                        |                   |                     |
| Insurance revenues:                                                          |                        |                   |                     |
| Premiums, net                                                                | \$ 139,811             | \$ 137,067        | \$ 127,166          |
| Contract charges                                                             | 106,019                | 105,735           | 109,007             |
| Total insurance revenues                                                     | <u>245,830</u>         | <u>242,802</u>    | <u>236,173</u>      |
| Investment revenues:                                                         |                        |                   |                     |
| Net investment income                                                        | 175,859                | 177,428           | 177,419             |
| Realized investment gains, excluding impairment losses                       | 4,355                  | 10,979            | 10,422              |
| Net impairment losses recognized in earnings:                                |                        |                   |                     |
| Total other-than-temporary impairment losses                                 | (4,129)                | (37,125)          | (62,693)            |
| Portion of impairment losses recognized in other comprehensive income (loss) | 309                    | 16,070            | -                   |
| Net impairment losses recognized in earnings                                 | <u>(3,820)</u>         | <u>(21,055)</u>   | <u>(62,693)</u>     |
| Total investment revenues                                                    | <u>176,394</u>         | <u>167,352</u>    | <u>125,148</u>      |
| Other revenues                                                               | <u>9,139</u>           | <u>10,491</u>     | <u>13,005</u>       |
| Total revenues                                                               | <u>431,363</u>         | <u>420,645</u>    | <u>374,326</u>      |
| <b>BENEFITS AND EXPENSES</b>                                                 |                        |                   |                     |
| Policyholder benefits                                                        | 182,997                | 178,990           | 178,749             |
| Interest credited to policyholder account balances                           | 85,949                 | 86,713            | 86,899              |
| Amortization of deferred acquisition costs                                   | 27,033                 | 35,126            | 34,989              |
| Operating expenses                                                           | <u>100,625</u>         | <u>103,364</u>    | <u>99,903</u>       |
| Total benefits and expenses                                                  | <u>396,604</u>         | <u>404,193</u>    | <u>400,540</u>      |
| Income (loss) before income tax expense (benefit)                            | 34,759                 | 16,452            | (26,214)            |
| Income tax expense (benefit)                                                 | <u>12,457</u>          | <u>5,720</u>      | <u>(9,164)</u>      |
| <b>NET INCOME (LOSS)</b>                                                     | <u>\$ 22,302</u>       | <u>\$ 10,732</u>  | <u>\$ (17,050)</u>  |
| Comprehensive income (loss), net of taxes:                                   |                        |                   |                     |
| Change in net unrealized gains and (losses) on securities available for sale | \$ 42,862              | \$ 89,709         | \$ (89,921)         |
| Change in benefit plan obligations                                           | 1,422                  | 11,212            | (21,067)            |
| Other comprehensive income (loss)                                            | <u>44,284</u>          | <u>100,921</u>    | <u>(110,988)</u>    |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                                           | <u>\$ 66,586</u>       | <u>\$ 111,653</u> | <u>\$ (128,038)</u> |
| Basic and diluted earnings per share:                                        |                        |                   |                     |
| Net income (loss)                                                            | <u>\$ 1.95</u>         | <u>\$ 0.93</u>    | <u>\$ (1.47)</u>    |

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

