

Kansas City Life Insurance Company

2011 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 \$4.5 million or \$0.39 per share in the third quarter of 2011 and 2010. The results in 2011 were most significantly impacted by a \$7.8 million decrease in policyholder benefits, a \$4.5 million decrease in insurance revenues and a \$2.9 million increase in the amortization of deferred acquisition costs (DAC).

Net income for the nine months of 2011 was \$20.4 million or \$1.78 per share, an increase of \$5.0 million or \$0.43 per share compared with the same period in the prior year. This increase was primarily the result of a \$12.3 million decline in benefits and expenses, along with a \$6.0 million increase in total investment revenues. These improvements were partially offset by a \$12.6 million decrease in insurance revenues and a \$1.1 million increase in income tax expense. Realized investment gains, along with an increase in net investment income provided the positive contribution in total investment revenues.

Total premiums declined \$2.1 million or 4% in the third quarter and \$5.9 million or 4% in the nine-month period relative to the prior year. These changes were primarily the result of elevated sales of immediate annuities during 2010, as premiums from new immediate annuities declined \$4.8 million and \$10.7 million during these respective quarter and nine-month periods. These changes were partially offset by increases in renewal premiums of \$2.3 million or 7% in the quarter and \$3.7 million or 3% for the nine months. Life insurance and individual and group accident and health premiums were the largest contributors to the improvements in renewal premiums for both periods.

New deposits decreased \$11.6 million or 34% in the third quarter and \$2.6 million or 3% in the nine-month period versus the prior year. The changes were primarily due to declines in sales of new deferred annuities in both periods.

Total investment revenues, composed of net investment income and net realized investment gains and losses, decreased \$0.3 million or 1% for the third quarter versus one year earlier. This was largely the result of a \$1.2 million decline in the market value of an alternative investment fund. Total investment revenues increased \$6.0 million or 5% for the nine months versus one year earlier. This improvement included an increase in net investment income of \$2.7 million or 2%, as the Company experienced an increase in average invested assets and a slight increase in overall yield. In addition, the Company recorded net realized investment gains of \$2.6 million for the nine months, compared with a \$0.7 million loss in the same period last year.

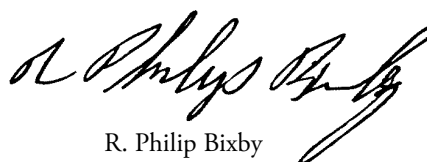
Policyholder benefits decreased \$7.8 million or 17% and \$14.1 million or 10% in the third quarter and nine months, compared to the same respective periods in 2010. Most of these changes were the result of reduced additions to reserves from lower sales of immediate annuities. The increase in benefit and contract reserves, which is a component of policyholder benefits, was also unfavorably impacted by a \$3.4 million and a \$3.5 million increase in reserves for the third quarter and nine months, respectively.



These unfavorable increases were the result of an increase in the liability for guaranteed minimum withdrawal benefits (GMWB) in both the third quarter and nine months. The increase in the GMWB liability value reflected unfavorable returns in the capital markets, declines in risk-free swap rates and increased market volatility. Also in the third quarter, the Company had an increase in the benefit and contract reserves due to a refinement in estimate of \$2.2 million on traditional life insurance products, the result of enhancements to the Company's valuation system.

The amortization of DAC increased \$2.9 million or 34% for the third quarter largely due to the refinement in estimate of \$2.4 million, as identified above. The amortization of DAC increased \$2.1 million or 11% for the nine months.

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



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	September 30 2011 (Unaudited)	December 31 2010
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,664,189	\$ 2,648,888
Equity securities available for sale, at fair value	36,900	38,321
Mortgage loans	623,368	559,167
Real estate	122,349	119,909
Policy loans	81,762	84,281
Short-term investments	40,536	15,713
Other investments	4,092	5,009
Total investments	3,573,196	3,471,288
Cash	6,408	5,445
Accrued investment income	38,636	35,742
Deferred acquisition costs	174,718	192,943
Reinsurance receivables	192,130	187,123
Property and equipment	22,984	23,514
Other assets	65,545	78,018
Separate account assets	304,425	339,029
Total assets	\$ 4,378,042	\$ 4,333,102
LIABILITIES		
Future policy benefits	\$ 886,218	\$ 884,380
Policyholder account balances	2,089,809	2,065,878
Policy and contract claims	34,606	43,866
Other policyholder funds	150,744	145,560
Other liabilities	188,137	174,917
Separate account liabilities	304,425	339,029
Total liabilities	3,653,939	3,653,630
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	41,097	41,085
Retained earnings	778,269	767,126
Accumulated other comprehensive income	45,014	7,807
Treasury stock, at cost (2011 - 7,151,153 shares;		
2010 - 7,029,575 shares)	(163,398)	(159,667)
Total stockholders' equity	724,103	679,472
Total liabilities and stockholders' equity	\$ 4,378,042	\$ 4,333,102

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	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Premiums, net	\$ 32,476	\$ 35,786	\$ 96,902	\$ 104,934
Contract charges	25,427	26,643	75,413	79,985
Total insurance revenues	57,903	62,429	172,315	184,919
Investment revenues:				
Net investment income	43,093	44,120	133,377	130,696
Realized investment gains, excluding impairment losses	210	263	3,115	3,079
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(167)	(1,080)	(674)	(4,129)
Portion of impairment losses recognized in other comprehensive income	17	170	131	309
Net impairment losses recognized in earnings	(150)	(910)	(543)	(3,820)
Total investment revenues	43,153	43,473	135,949	129,955
Other revenues	2,215	2,223	7,289	6,913
Total revenues	103,271	108,125	315,553	321,787
 BENEFITS AND EXPENSES				
Policyholder benefits	38,540	46,374	122,679	136,789
Interest credited to policyholder account balances	21,119	21,561	62,366	64,301
Amortization of deferred acquisition costs	11,577	8,652	21,866	19,777
Operating expenses	24,593	24,752	76,956	75,332
Total benefits and expenses	95,829	101,339	283,867	296,199
 Income before income tax expense	7,442	6,786	31,686	25,588
 Income tax expense	2,976	2,330	11,256	10,109
 NET INCOME	\$ 4,466	\$ 4,456	\$ 20,430	\$ 15,479
 Comprehensive income, net of taxes:				
Change in net unrealized gains on securities available for sale	\$ 20,312	\$ 25,616	\$ 37,207	\$ 71,730
Other comprehensive income	20,312	25,616	37,207	71,730
COMPREHENSIVE INCOME	\$ 24,778	\$ 30,072	\$ 57,637	\$ 87,209
 Basic and diluted earnings per share:				
Net income	\$ 0.39	\$ 0.39	\$ 1.78	\$ 1.35

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

