Kansas City Life Insurance Company
2007 Fourth 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

Kansas City Life Insurance Company recorded net income of $35.7 million or $3.01 per share for the year ended December 31, 2007, a decrease of $1.3 million from the prior year. The decline in earnings for the year was a result of reduced insurance and investment revenues, along with increased income tax expense. The Company posted fourth quarter net income of $6.4 million or $0.54 per share, a decline of $3.7 million from fourth quarter 2006 results. The reduced earnings in the fourth quarter occurred largely due to net realized investment losses of $1.1 million in 2007 versus net realized investment gains of $3.2 million in 2006, along with lower net investment income and increased income tax expense.

New sales of life insurance products increased for both the year and fourth quarter. However, total insurance revenues declined for the twelve-month period largely as a result of lower contract charges from reduced balances of life and annuity deposit products. Total new insurance premiums increased 1%, and total new deposits increased 8% for the twelve months. New insurance premiums increased primarily due to a 1% increase in new individual life sales and a 13% increase in new immediate annuity receipts. The increase in new deposits resulted from a 7% increase in new universal life sales, a 5% increase in new variable universal life deposits and a 37% increase in new variable annuity sales.

Investment revenues declined due to lower net investment income for both the year and fourth quarter. The Company had realized investment gains for the year but had a net realized investment loss in the fourth quarter of 2007, compared with a realized investment gain in 2006. Net investment income declined 3% and 4% for the comparative year and fourth quarter, respectively. These declines were driven by lower invested assets during the year, which was primarily the result of increased surrenders and withdrawals of insurance and annuity deposit products. Net realized investment gains for the year of $5.4 million, generated largely from the sale of real estate, were reduced by a net loss of $1.1 million in the fourth quarter. The net realized loss in the fourth quarter was the result of the write-down of two investment securities that operate largely in the business of producing print media. One of these securities was impaired as a result of a leveraged buyout that greatly disadvantaged existing bondholders, and the other investment security was written down for a second time after recently filing for bankruptcy protection.

Benefits and expenses declined for both the year and fourth quarter in comparison to 2006. Favorable mortality experience and reduced interest credited from lower policyholder account balances accounted for a large portion of the $11.6 million and $5.7 million decline in total benefits and expenses for the twelve months and fourth quarter, respectively. Lower operating expenses resulted primarily from lower compensation costs for both periods.

Income tax expense increased for both the year and fourth quarter periods, largely due to reduced low income housing tax credits generated by the Company and adjustments in tax expense from earlier years.

On January 28, 2008, the Board of Directors declared a quarterly dividend of $0.27 per share that was paid on February 12, 2008 to stockholders of record on February 7, 2008. During 2007, the Company paid dividends totaling $3.08 per share, including a special, one-time dividend of $2.00 per share.

The Company is encouraged by the improved life insurance sales results in 2007, which are believed to be the direct result of agencies and sales representatives emphasizing growth in life protection products. Sales momentum continues to build through continued focus on improved recruiting, retention and productivity of general agencies, along with the retooling of several products that the Company believes will be positively received in the marketplace during 2008. The Company will also be delivering new universal life and term life insurance products to the market in early 2008 that are expected to generate sales growth. Further, the Company continues to maintain a strong capital position, providing the ability to weather difficult economic cycles and to take advantage of opportunities for growth.

R. Philip Bixby

Message from the President, CEO and Chairman of the Board
Consolidated Statements of Income
(Thousands, except share data)

Quarter ended December 31

Year ended December 31


Revenues:
Insurance revenues:
Premiums $ 44,436 $ 44,527 $ 175,460 $ 175,926
Contract changes 28,264 28,279 111,422 114,496
Reinsurance earned (14,456) (14,419) (54,988) (55,158)
Total insurance revenues 58,266 58,362 233,899 235,204
Investment revenues:
Net investment income 47,781 49,549 190,405 196,280
Realized investment gains (losses) (1,075) 3,224 5,426 5,621
Other revenues 2,451 2,514 11,499 11,349
Total revenues 107,927 113,597 430,226 448,514

Benefits and expenses:
Policyholder benefits 39,823 41,664 166,458 167,905
Interest credited to policyholder account balances 23,096 23,629 91,213 94,648
Amortization of deferred acquisition costs and value of business acquired 10,873 8,864 40,333 42,311
Operating expenses 22,543 25,996 86,307 90,080
Total benefits and expenses 96,335 100,051 356,317 359,940

Income before income tax expense 11,866 13,623 52,911 50,570
Income tax expense 4,074 3,529 17,250 13,652

Net income $ 6,412 $ 10,094 $ 35,661 $ 36,918

Per common share:
Net income, basic and diluted $ 0.54 $ 0.86 $ 3.01 $ 3.11
Cash dividends $ 0.27 $ 0.27 $ 3.08 $ 3.08

Note:
• Comprehensive income was $22,3 million and $10.8 million for the fourth quarters and $41.0 million and $28.3 million for the years ended December 31, 2007 and 2006, respectively. This varies from net income largely due to unrealized gains or losses on investments and changes in pension liability.
• Net income per common share was based upon the weighted average number of shares outstanding of 11,793,878 and 12,871,267 for the fourth quarters and 11,836,213 and 11,883,830 for the years ended December 31, 2007 and 2006, respectively.

Consolidated Balance Sheets

As of December 31

2007 2006

Assets:
Intangible assets $ 3,522 $ 3,886
Property and equipment, at cost 120,932 122,932
Less accumulated depreciation 41,770 47,230
Property and equipment, net 79,162 75,702

Liabilities:
Policyholder account balances 11,706 11,706

Stockholders’ equity:
Common stock 780,892 780,892
Additional paid in capital 76,420 101,453
Retained earnings 780,133 780,133
Accumulated other comprehensive loss (36,420) (36,420)
Treasury stock (15,931) (15,931)
Total stockholders’ equity 824,091 824,091

Total assets and liabilities $ 1,008,544 $ 1,008,544

Consolidated Statements of Cash Flows

Year ended December 31

2007 2006

Operating activities:
Net cash provided $ 32,897 $ 23,936

Investing activities:
Purchase of investments:
Fixed maturity securities (313,080) (274,662)
Equity securities (15,249) (10,761)
Mortgage loans (54,816) (52,569)
Real estate (4,507) (4,506)
Sales of investments:
Fixed maturity securities 168,259 94,717
Equity securities 4,853 5,078
Maturities and principal paydowns 30,387 27,991
Net additions to property and equipment 29,435 345,305
Proceeds from sale of non-insurance affiliate 10,104 -
Net cash used 364,147 58,083

Financing activities:
Proceeds from borrowings 359,690 67,001
Repayment of borrowings (603,980) (76,503)
Deposits on policyholder account balances 205,767 202,950
Withdrawals from policyholder account balances 294,299 (273,816)
Net transfers from separate accounts 11,706 16,451
Change in other deposits 11,706 (17,074)
Cash dividends to stockholders (79,583) (79,583)
Net acquisition of treasury stock (4,431) (2,938)
Net cash used (108,794) (108,197)

Cash at beginning of year 3,908 12,099
Cash at end of period $ 12,158 $ 3,908

Note:
• These financial statements should be read in conjunction with the Company’s Form 10-K. Please refer to the Company’s Form 10-K as filed with the U.S. Securities and Exchange Commission at www.kclife.com.
• Certain amounts in prior years have been reclassified to conform with the current year presentation.