

Kansas City Life Insurance Company

2011 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



Message from the President, CEO and Chairman of the Board

Kansas City Life Insurance Company recorded net income of \$11.2 million or \$0.97 per share in the second quarter of 2011, an increase of \$1.1 million or \$0.09 per share from the same quarter in the prior year. The increase in earnings was primarily due to a \$3.2 million increase in investment revenues, a \$4.5 million decrease in total benefits, and a \$1.5 million decrease in the deferred acquisition costs (DAC). Partially offsetting these improvements was a \$6.3 million decrease in insurance revenues and a \$1.0 million increase in the amortization of the value of business acquired (VOBA).

Net income for the six months of 2011 was \$16.0 million or \$1.39 per share, an increase of \$4.9 million or \$0.43 per share compared with the same period in the prior year. This increase was driven from an improvement in investment revenues of \$6.3 million and a \$7.8 million decrease in total benefits. Partially offsetting these favorable factors was a decrease in insurance revenues of \$8.1 million and an increase of \$1.0 million in the amortization of VOBA.

Total premiums, net of reinsurance ceded, decreased \$3.4 million or 10% for the second quarter compared to the prior year, primarily the result of reduced immediate annuity premiums of \$3.5 million. New individual life insurance premiums increased \$0.2 million or 5% versus the same period one year ago, largely due to a \$0.3 million or 10% increase in new sales in the Old American segment. In addition, new group accident and health premiums increased \$0.2 million or 5% in the second quarter. The growth in accident and health premiums reflected an increase in group disability products that was greater than a decline in group dental premiums.

Total premiums, net of reinsurance ceded, decreased \$4.7 million or 7% for the six months compared to the same period one year ago. New individual life premiums increased \$0.7 million or 9% but were more than offset by a \$6.2 million or 62% decrease in new immediate annuity sales. New group accident and health premiums increased \$0.5 million or 7%, reflecting an increase in group short-term disability sales. Renewal premiums increased \$1.4 million or 2% in the six months.

New deposits increased \$7.9 million or 39% in the second quarter versus the same period one year earlier. The growth in new deposits was driven by a \$6.6 million or 58% increase in new fixed deferred annuity sales. In addition, universal life deposits increased \$0.7 million or 22% and new variable deposits increased \$0.6 million or 11%. Renewal deposits were flat for the second quarter.

Total deposits increased \$11.5 million or 10% for the six months compared with one year ago. This increase was largely the result of a \$10.5 million increase in new fixed deferred annuity deposits compared to last year. New universal life deposits increased 1%. However, new variable annuity deposits decreased \$1.5 million versus the six months of last year. Renewal deposits increased \$2.4 million versus one year earlier.



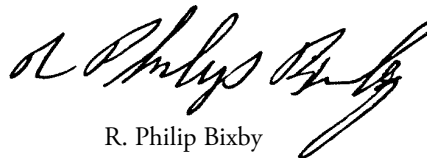
Total investment revenues increased \$3.2 million or 7% for the second quarter versus one year earlier and net investment revenues increased \$6.3 million for the six months versus one year ago. Net investment revenues are comprised of two components, net investment income and realized investment gains or losses. Gross investment income increased \$1.6 million in the second quarter and \$4.0 million for the six months versus the prior year. The increase in both periods was primarily the result of an increased allocation to commercial mortgage investments and improved returns from an alternative investment. Income from fixed maturity securities decreased slightly, as portfolio yields declined. The Company recorded net realized investment gains of \$1.7 million in the second quarter of 2011, an improvement of \$1.5 million compared with the prior year. In addition, the Company recorded net realized investment gains of \$2.5 million for the six months, compared with a \$0.1 million loss in the first six months of last year.

Policyholder benefits and interest credited to policyholder account balances decreased \$4.5 million or 7% in the second quarter compared to the same period one year earlier. These same benefits decreased \$7.8 million or 6% in the six months versus one year ago. These decreases were primarily the result of a decline in benefit and contract reserves, including declines of \$5.7 million for the second quarter and \$11.8 million for the six months. Reduced benefit and contract reserves resulted from a decline in immediate annuity premiums of \$3.5 million and \$5.9 million for the second quarter and six months, respectively, as well as the result of greater reserves released from higher net death benefits. Net death benefits increased \$2.2 million in the second quarter and \$5.7 million in the six months, due to unfavorable changes in mortality relative to the prior year. In addition, interest credited to policyholder account balances decreased \$0.8 million in the second quarter and \$1.5 million for the six months versus the prior year.

The amortization of DAC decreased \$1.5 million or 68% for the second quarter. For the six months, the amortization of DAC decreased \$0.8 million versus the prior year. These decreases reflect an unlocking of assumptions on interest sensitive products and are primarily related to changes in mortality tables and assumptions regarding reinsurance ceded. The Company also increased its VOBA amortization \$1.0 million for both the second quarter and six months, consistent with the unlocking of assumptions associated with Company's experience on these closed blocks of business.

On July 25, 2011, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on August 10, 2011 to stockholders of record on August 4, 2011.

During the depth of the most recent challenging economic environment, the Company held fast to its core commitments of providing value-oriented products and long-term support to policyholders, along with consistently sound investment practices. These practices are intended to generate loyalty among agents and policyholders, financial stability, and future growth opportunities for the organization. The Company has held fast to its identity of providing Security Assured, delivering value and peace of mind to all of those we serve.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	June 30 2011 (Unaudited)	December 31 2010
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,616,374	\$ 2,648,888
Equity securities available for sale, at fair value	39,631	38,321
Mortgage loans	625,275	559,167
Real estate	121,222	119,909
Policy loans	82,172	84,281
Short-term investments	36,691	15,713
Other investments	4,354	5,009
Total investments	3,525,719	3,471,288
Cash	6,289	5,445
Accrued investment income	35,801	35,742
Deferred acquisition costs	195,945	192,943
Reinsurance receivables	188,608	187,123
Property and equipment	23,143	23,514
Other assets	71,389	78,018
Separate account assets	345,306	339,029
Total assets	\$ 4,392,200	\$ 4,333,102
LIABILITIES		
Future policy benefits	\$ 881,525	\$ 884,380
Policyholder account balances	2,082,485	2,065,878
Policy and contract claims	34,447	43,866
Other policyholder funds	149,601	145,560
Other liabilities	192,702	174,917
Separate account liabilities	345,306	339,029
Total liabilities	3,686,066	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	41,093	41,085
Retained earnings	776,899	767,126
Accumulated other comprehensive income	24,702	7,807
Treasury stock, at cost (2011 - 7,029,775 shares; 2010 - 7,029,575 shares)	(159,681)	(159,667)
Total stockholders' equity	706,134	679,472
Total liabilities and stockholders' equity	\$ 4,392,200	\$ 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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Premiums, net	\$ 30,801	\$ 34,165	\$ 64,426	\$ 69,148
Contract charges	23,752	26,668	49,986	53,342
Total insurance revenues	54,553	60,833	114,412	122,490
Investment revenues:				
Net investment income	44,893	43,272	90,284	86,576
Realized investment gains, excluding impairment losses	1,893	1,493	2,905	2,816
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(238)	(1,458)	(507)	(3,049)
Portion of impairment losses recognized in other comprehensive income	56	134	114	139
Net impairment losses recognized in earnings	(182)	(1,324)	(393)	(2,910)
Total investment revenues	46,604	43,441	92,796	86,482
Other revenues	2,666	2,306	5,074	4,690
Total revenues	103,823	106,580	212,282	213,662
BENEFITS AND EXPENSES				
Policyholder benefits	38,865	42,629	84,139	90,415
Interest credited to policyholder account balances	20,766	21,540	41,247	42,740
Amortization of deferred acquisition costs	705	2,178	10,289	11,125
Operating expenses	26,498	24,398	52,363	50,580
Total benefits and expenses	86,834	90,745	188,038	194,860
Income before income tax expense	16,989	15,835	24,244	18,802
Income tax expense	5,816	5,775	8,280	7,779
NET INCOME	\$ 11,173	\$ 10,060	\$ 15,964	\$ 11,023
Comprehensive income, net of taxes:				
Change in net unrealized gains on securities available for sale	\$ 16,793	\$ 30,358	\$ 16,895	\$ 46,114
Other comprehensive income	16,793	30,358	16,895	46,114
COMPREHENSIVE INCOME	\$ 27,966	\$ 40,418	\$ 32,859	\$ 57,137
Basic and diluted earnings per share:				
Net income	\$ 0.97	\$ 0.88	\$ 1.39	\$ 0.96

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