

Kansas City Life Insurance Company

2011 Fourth Quarter Report

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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 \$5.7 million or \$0.51 per share in the fourth quarter of 2011, a \$1.1 million or \$0.09 per share decline relative to the same quarter in the prior year. The decline in earnings was primarily due to lower insurance and investment revenues, along with increased operating expenses.

Net income for 2011 was \$26.1 million or \$2.29 per share, an increase of \$3.8 million or \$0.34 per share compared to 2010. Increased investment revenues and lower policyholder benefits were the primary factors in the improved results. Insurance revenues declined in both the quarter and twelve-month periods by 8% and 7%, respectively, largely due to lower sales of immediate annuities. Partially offsetting the reduced sales of these fixed-rate products, sales of new individual life insurance and group accident and health insurance increased for both the fourth quarter and the year. New individual life insurance premiums increased \$0.7 million or 4% for the year, largely due to increased sales in the Old American segment. New group accident and health insurance premiums increased \$0.4 million or 3% for the twelve months, primarily due to increased short-term disability product sales.

Total investment revenues decreased \$2.0 million or 4% in the fourth quarter, but increased \$4.0 million or 2% for the full year. Included in these changes was a \$0.7 million decrease in realized investment gains in the quarter and a \$2.6 million increase in realized investment gains for the twelve months. Both the quarter and twelve months were negatively affected by lower yields available on fixed-rate security investments in recent periods. The impact of lower yields on securities was partially offset during the quarter and year by an increased allocation to higher-yielding commercial mortgage investments.

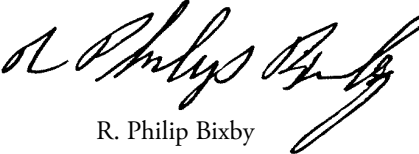
Policyholder benefits declined \$13.1 million or 28% for the quarter and \$27.2 million or 15% for the year, largely due to the lower sales of immediate annuities and the reduced benefit and contract reserves that result from these lower sales. In addition, policyholder benefits were reduced in both periods as a result of several factors, including the release of non-guaranteed interest on certain products, reduced claims and refinements in estimates from an actuarial system conversion during the fourth quarter. Also contributing to the decline in both periods were reduced benefits paid, net of reinsurance, in the group accident and health dental product line.

The amortization of deferred acquisition costs (DAC) increased \$4.8 million or 67% in the fourth quarter and \$6.9 million or 26% for the twelve months, primarily due to refinements in estimates and unlocking of assumptions regarding universal life and traditional products.



Finally, operating expenses increased \$3.9 million or 15% in the quarter and \$5.5 million or 5% for the year, largely due to increases in employee and agent benefit costs and legal expenses. Agent benefit costs include changes in the charge-off and allowance for doubtful agent receivable balances.

On January 23, 2012, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that was paid on February 8, 2012 to stockholders of record on February 2, 2012.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	December 31	
	2011	2010
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,682,142	\$ 2,648,888
Equity securities available for sale, at fair value	36,689	38,321
Mortgage loans	601,923	559,167
Real estate	127,962	119,909
Policy loans	80,375	84,281
Short-term investments	49,316	15,713
Other investments	3,364	5,009
Total investments	3,581,771	3,471,288
Cash	10,436	5,445
Accrued investment income	34,705	35,742
Deferred acquisition costs	181,564	192,943
Reinsurance receivables	189,885	187,123
Property and equipment	22,671	23,514
Other assets	60,601	78,018
Separate account assets	316,609	339,029
Total assets	\$ 4,398,242	\$ 4,333,102
LIABILITIES		
Future policy benefits	\$ 879,015	\$ 884,380
Policyholder account balances	2,089,452	2,065,878
Policy and contract claims	36,511	43,866
Other policyholder funds	152,125	145,560
Other liabilities	213,825	174,917
Separate account liabilities	316,609	339,029
Total liabilities	3,687,537	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	41,101	41,085
Retained earnings	780,918	767,126
Accumulated other comprehensive income	30,086	7,807
Treasury stock, at cost (2011 - 7,187,315 shares;		
2010 - 7,029,575 shares)	(164,521)	(159,667)
Total stockholders' equity	710,705	679,472
Total liabilities and stockholders' equity	\$ 4,398,242	\$ 4,333,102

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		
	2011	2010	2009
REVENUES			
Insurance revenues:			
Premiums, net	\$ 127,338	\$ 139,811	\$ 137,067
Contract charges	101,061	106,019	105,735
Total insurance revenues	<u>228,399</u>	<u>245,830</u>	<u>242,802</u>
Investment revenues:			
Net investment income	177,228	175,859	177,428
Realized investment gains, excluding impairment losses	5,151	4,355	10,979
Net impairment losses recognized in earnings:			
Total other-than-temporary impairment losses	(2,952)	(4,129)	(37,125)
Portion of impairment losses recognized in other comprehensive income	943	309	16,070
Net impairment losses recognized in earnings	<u>(2,009)</u>	<u>(3,820)</u>	<u>(21,055)</u>
Total investment revenues	<u>180,370</u>	<u>176,394</u>	<u>167,352</u>
Other revenues	10,274	9,139	10,491
Total revenues	<u>419,043</u>	<u>431,363</u>	<u>420,645</u>
BENEFITS AND EXPENSES			
Policyholder benefits	155,813	182,997	178,990
Interest credited to policyholder account balances	83,446	85,949	86,713
Amortization of deferred acquisition costs	33,966	27,033	35,126
Operating expenses	106,120	100,625	103,364
Total benefits and expenses	<u>379,345</u>	<u>396,604</u>	<u>404,193</u>
Income before income tax expense	39,698	34,759	16,452
Income tax expense	<u>13,565</u>	<u>12,457</u>	<u>5,720</u>
NET INCOME	<u>\$ 26,133</u>	<u>\$ 22,302</u>	<u>\$ 10,732</u>
Comprehensive income, net of taxes:			
Change in net unrealized gains on securities available for sale	\$ 43,266	\$ 47,691	\$ 89,709
Change in policyholder account balances	(5,883)	(4,829)	-
Change in benefit plan obligations	(15,104)	1,422	11,212
Other comprehensive income	<u>22,279</u>	<u>44,284</u>	<u>100,921</u>
COMPREHENSIVE INCOME	<u>\$ 48,412</u>	<u>\$ 66,586</u>	<u>\$ 111,653</u>
Basic and diluted earnings per share:			
Net income	<u>\$ 2.29</u>	<u>\$ 1.95</u>	<u>\$ 0.93</u>

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