

Kansas City
Life Insurance Company
2008 Third Quarter Report

Includes our subsidiaries:

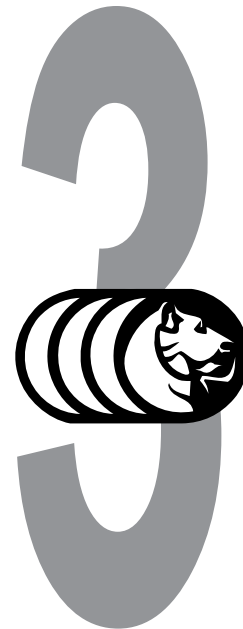
Sunset Life Insurance
Company of America

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

1115-3Q08



Message from the President, CEO
and Chairman of the Board

Kansas City Life Insurance Company recorded a net loss of \$15.2 million or \$1.30 per share for the third quarter ended September 30, 2008, principally due to net realized losses on investments totaling \$29.3 million or \$19.0 million after tax. The loss for the quarter compares to net income of \$9.1 million or \$0.77 per share for the third quarter one year earlier. The net loss for the nine months totaled \$9.9 million or \$0.85 per share. Excluding the impact of net realized losses on investments, net earnings after tax were \$3.9 million for the quarter and \$14.5 million through the nine months. This compares to \$8.3 million and \$25.0 million for the same periods in 2007, respectively.

The net realized loss for the quarter was the result of the broad and deep economic downturn that has reduced the value of virtually all financial assets, heightened by the recent default and regulatory takeover of high-profile federal agencies and financial institutions. Specifically, Kansas City Life wrote-down \$32.5 million in securities during the quarter, resulting in a net impact of \$20.0 million on earnings after taxes and the effect on deferred acquisition costs. Kansas City Life has historically maintained an exceptionally strong capital position and a well diversified investment portfolio to persist through economic cycles. While diversification is a key to mitigating investment risk, it also requires exposure to broad sectors of the economy and general market risks. The continuing strength of the Company's capital and asset quality, along with diversification and other elements of the risk management processes employed, provide the basis for Kansas City Life to persevere through this cycle of economic uncertainty and to take advantage of opportunities offered through such periods.

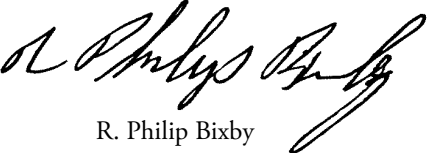
In spite of the investment climate, insurance revenues improved in both the quarter and nine months due to increases in new premiums in several product lines. Total new premiums increased 21% for the quarter, including a 9% increase in individual life sales, a 41% increase in immediate annuity premiums, a 19% increase in group life insurance sales and a 22% increase in new group accident and health premiums. New deposits on both universal life and variable universal life products increased 4%, while deposits from fixed deferred annuities declined 25% and variable annuities declined 15%. Renewal premiums and renewal deposits both increased 1% in the third quarter, reflecting the impact of increased new sales in prior periods.

Total new premiums increased 23% for the nine-month period, including a 7% increase in individual life sales, a 64% increase in immediate annuities, a 45% increase in group life insurance sales, and a 7% increase in new group accident and health premiums. New deposits for the nine months were mixed. New universal life deposits decreased 7% and new fixed deferred annuity sales declined 13%, while total new variable product sales increased 4% on the strength of increased new variable annuities. Renewal premiums decreased 1% and renewal deposits declined 5% for the nine months. The Company continues to focus significant efforts on recruiting new agents and general agents and has focused more resources directly in the field to assist with the sales efforts.

Reduced investment assets for the comparative periods was the primary reason for a decline in net investment income of 5% and 4% in the third quarter and nine months, respectively, from the prior year. Meanwhile, policyholder benefits increased 5% in the third quarter and 6% for the nine months, primarily due to an increase in group accident and health benefits and increased reserves from the greater sale of immediate annuities. Partially offsetting these unfavorable changes, death benefits, individual life surrenders and interest credited to policyholder account balances all declined in the third quarter. Operating expenses increased \$4.6 million in the third quarter and \$5.1 million in the nine months, primarily reflecting changes in accrued employee benefit costs and salaries.

On October 27, 2008, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share, payable on November 11, 2008 to stockholders of record on November 6, 2008.

In spite of being in the downward trend of the current economic cycle, Kansas City Life continues to maintain a steady course. The Company is well capitalized, has no long-term debt obligations, has strong asset quality, and ample cash flow and external liquidity resources. Further, the Company remains deeply committed to providing Security Assured to existing and many future generations of prospective policyholders.


R. Philip Bixby

**Consolidated
Statements of Income** (Unaudited)

(Thousands, except share data)

| | Quarter ended | | Nine Months ended | |
|--|--------------------|-----------------|-------------------|------------------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Revenues | | | | |
| Insurance revenues: | | | | |
| Premiums | \$ 44,861 | \$ 43,044 | \$ 134,810 | \$ 131,024 |
| Contract charges | 27,227 | 28,058 | 81,054 | 83,238 |
| Reinsurance ceded | (13,279) | (13,193) | (39,485) | (40,532) |
| Total insurance revenues | <u>58,809</u> | <u>57,909</u> | <u>176,379</u> | <u>173,730</u> |
| Investment revenues: | | | | |
| Net investment income | 44,337 | 46,869 | 136,416 | 142,624 |
| Realized investment gains (losses) | (29,295) | 1,339 | (37,584) | 6,501 |
| Other revenues | 4,241 | 2,674 | 9,489 | 8,848 |
| Total revenues | <u>78,092</u> | <u>108,791</u> | <u>284,700</u> | <u>331,703</u> |
| Benefits and expenses | | | | |
| Policyholder benefits | 43,783 | 41,649 | 134,855 | 126,635 |
| Interest credited to policyholder account balances | 21,742 | 22,614 | 65,119 | 68,119 |
| Amortization of deferred acquisition costs and value of business acquired | 10,727 | 10,961 | 29,464 | 29,460 |
| Operating expenses | 25,282 | 20,638 | 70,842 | 65,764 |
| Total benefits and expenses | <u>101,534</u> | <u>95,862</u> | <u>300,280</u> | <u>289,978</u> |
| Income (loss) before income tax expense (benefit) | (23,442) | 12,929 | (15,580) | 41,725 |
| Income tax expense (benefit) | (8,264) | 3,798 | (5,681) | 12,476 |
| Net income (loss) | <u>\$ (15,178)</u> | <u>\$ 9,131</u> | <u>\$ (9,899)</u> | <u>\$ 29,249</u> |
| Per common share: | | | | |
| Net income (loss), basic and diluted | \$ (1.30) | \$ 0.77 | \$ (0.85) | \$ 2.47 |
| Cash dividends | \$ 0.27 | \$ 0.27 | \$ 0.81 | \$ 2.81 |

**Consolidated
Balance Sheets**

| | September 30 2008 | December 31 2007 |
|--|----------------------|---------------------|
| | (Unaudited) | |
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$ 2,411,628 | \$ 2,631,073 |
| Equity securities available for sale, at fair value | 47,824 | 59,149 |
| Mortgage loans | 444,920 | 450,148 |
| Short-term investments | 30,225 | 36,522 |
| Other investments | 188,992 | 188,852 |
| Total investments | <u>3,123,589</u> | <u>3,365,744</u> |
| Cash | 7,922 | 12,158 |
| Deferred acquisition costs | 254,039 | 217,512 |
| Value of business acquired | 77,866 | 73,517 |
| Other assets | 278,704 | 262,784 |
| Separate account assets | 315,430 | 420,393 |
| Total assets | <u>\$ 4,057,550</u> | <u>\$ 4,352,108</u> |
| Liabilities | | |
| Future policy benefits | \$ 852,942 | \$ 851,823 |
| Policyholder account balances | 2,041,165 | 2,087,419 |
| Notes payable | 7,555 | 10,400 |
| Income taxes | - | 40,300 |
| Other liabilities | 263,291 | 257,372 |
| Separate account liabilities | 315,430 | 420,393 |
| Total liabilities | <u>3,480,383</u> | <u>3,667,707</u> |
| Stockholders' equity | | |
| Common stock | 23,121 | 23,121 |
| Additional paid in capital | 33,646 | 30,244 |
| Retained earnings | 760,840 | 780,133 |
| Accumulated other comprehensive loss | (93,575) | (19,811) |
| Treasury stock | (146,865) | (129,286) |
| Total stockholders' equity | <u>577,167</u> | <u>684,401</u> |
| Total liabilities and equity | <u>\$ 4,057,550</u> | <u>\$ 4,352,108</u> |

**Consolidated
Statements of Cash Flows** (Unaudited)

| | Nine Months ended September 30 | |
|---|-----------------------------------|------------------|
| | 2008 | 2007 |
| Operating activities | | |
| Net cash provided (used) | \$ (3,991) | \$ 3,716 |
| Investing activities | | |
| Purchases of investments: | | |
| Fixed maturity securities | (198,806) | (191,568) |
| Equity securities | (8,204) | (2,871) |
| Mortgage loans | (34,598) | (50,399) |
| Real estate | (24,541) | (2,465) |
| Other investment assets | - | (21,995) |
| Sales of investments: | | |
| Fixed maturity securities | 28,523 | 32,856 |
| Equity securities | 5,718 | 3,481 |
| Other investment assets | 30,585 | 25,013 |
| Maturities and principal paydowns of investments | 243,927 | 283,940 |
| Net additions to property and equipment | (102) | (630) |
| Proceeds from sale of non insurance affiliate | - | 10,104 |
| Net cash provided | <u>42,502</u> | <u>85,466</u> |
| Financing activities | | |
| Net repayment of borrowings | (2,845) | (6,000) |
| Deposits on policyholder account balances | 147,374 | 154,914 |
| Withdrawals from policyholder account balances | (185,195) | (227,562) |
| Net transfers from separate accounts | 13,864 | 11,391 |
| Change in other deposits | 7,626 | 19,725 |
| Cash dividends to stockholders | (9,394) | (33,275) |
| Net acquisition of treasury stock | (14,177) | (1,235) |
| Net cash used | <u>(42,747)</u> | <u>(82,042)</u> |
| Increase (decrease) in cash | (4,236) | 7,140 |
| Cash at beginning of year | 12,158 | 3,908 |
| Cash at end of period | <u>\$ 7,922</u> | <u>\$ 11,048</u> |

Notes

• These interim financial statements are unaudited but, in management's opinion, include all adjustments necessary for a fair presentation of the results and are included in the Company's Form 10-Q as filed with the Securities and Exchange Commission. Please refer to the Company's Form 10-Q and the Company's Annual Report on Form 10-K at www.kclife.com.

• Comprehensive income (loss) was (\$37.6) million and \$19.7 million for the third quarters and (\$83.7) million and \$18.6 million for the nine months ended September 30, 2008 and 2007, respectively. This varies from net income largely due to unrealized gains or losses on investments.

• Net income per common share was based upon the average number of shares outstanding of 11,518,053 and 11,842,494 for the third quarters and 11,605,979 and 11,851,906 for the nine months ended September 30, 2008 and 2007, respectively.

• Cash dividends include a one-time special dividend of \$2.00 per share, paid on February 13, 2007.

• Certain immaterial amounts in prior years have been reclassified to conform with the current year presentation.