

Kansas City Life Insurance Company

2010 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 2010, a decline from \$5.2 million or \$0.45 per share for the same quarter in the prior year. The decrease in earnings was primarily due to a decline in investment income from lower yields, increased amortization of deferred acquisition costs and value of business acquired, and increased income tax expense. Net income for the first nine months of 2010 was \$15.5 million or \$1.35 per share, an increase from \$8.7 million or \$0.75 per share for the same period in 2009. The largest factors in the improved nine-month results were reductions in net realized losses on investments, amortization of deferred acquisition costs and value of business acquired, and operating expenses.

New life insurance premiums increased \$0.7 million or 19% and \$2.4 million or 21% for the third quarter and nine months ended September 30, 2010 as compared to the prior year. Most of the growth in new premiums for both periods was driven by continuing strong sales in the Old American segment, reflecting a combination of expanded distribution efforts and improved agency productivity. In addition, deposits from new universal life products increased \$1.8 million or 85% and \$4.3 million or 71% for the same respective periods. The growth in these deposits can be attributed to improved sales results from expanded distribution and to an improving economy.

Total insurance revenues declined \$3.7 million or 6% for the quarter, but increased \$1.2 million or 1% for the nine months. The decline during the third quarter was primarily due to a \$4.1 million decline in sales of immediate annuities, while the increase for the nine months was primarily due to increased life insurance premiums and deferred revenue on universal life products.

Investment revenues increased less than 1% in the third quarter of 2010 but increased \$4.9 million or 4% for the nine months compared to 2009. The stabilizing economy helped reduce net realized investment losses in both periods, resulting in favorable changes of \$0.5 million in the third quarter and \$6.5 million for the nine months relative to the prior year. However, the low interest rate environment negatively affected investment portfolio yields and more than offset increases in average investment assets, resulting in reductions in net investment income for both periods. The lower interest rate environment also generated increased values within the investment portfolio. Specifically, the Company's investment portfolio had a net unrealized gain position of \$183.5 million at September 30, 2010, an improvement of \$183.3 million from December 31, 2009.

Policyholder benefits and interest credited to policyholder account balances decreased \$4.5 million during the third quarter. The decline was largely due to decreased benefit and contract reserves, primarily



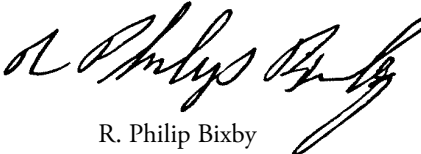
resulting from the lower volume of new immediate annuities and a small increase in death benefits, net of reinsurance. Policyholder benefits and interest credited to policyholder account balances increased \$0.7 million for the nine months versus the prior year.

The amortization of deferred acquisition costs (DAC) and value of business acquired (VOBA) increased \$0.4 million or 5% for the third quarter but decreased \$4.5 million or 16% for the nine months. During the second quarter of 2010, the Company had a \$6.9 million decrease in the amortization of DAC and VOBA primarily due to refinements in estimates and unlocking of future assumptions. These assumptions are assessed no less often than annually, and unlocking occurs when the assessment concludes that the historical results are no longer consistent with the current assumptions about product performance. While the unlocking event was in the second quarter, it continues to significantly impact the nine-month results.

Finally, operating expenses declined \$0.6 million or 3% for the third quarter and \$4.4 million or 6% for the nine months compared with the prior year. These decreases primarily reflect reduced salaries and benefits, including separation costs associated with staffing changes that were made during 2009, as well as reduced legal costs.

On October 25, 2010, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on November 10, 2010 to stockholders of record on November 4, 2010.

The Company extends its appreciation and best wishes to Mr. William “Bill” Schalekamp, Senior Vice President, General Counsel and Secretary, who will be retiring effective October 31, 2010. Mr. Schalekamp has been with the Company for 39 years, and has served on the Company’s Board of Directors for the last nine years. Mr. Schalekamp’s knowledge of the insurance industry, sage advice and collegial approach to all matters will be missed on a daily basis by the Company’s officers and associates. However, Mr. Schalekamp will continue his service on the Board of Directors.


R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	September 30 2010 (Unaudited)	December 31 2009
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,717,220	\$ 2,469,272
Equity securities available for sale, at fair value	37,787	36,876
Mortgage loans	523,173	457,582
Real estate	118,649	114,076
Policy loans	84,619	85,585
Short-term investments	25,788	138,704
Total investments	3,507,236	3,302,095
Cash	8,422	4,981
Accrued investment income	39,568	32,989
Deferred acquisition costs	173,446	209,495
Value of business acquired	48,194	66,114
Reinsurance receivables	181,753	182,803
Property and equipment	23,795	24,393
Income taxes	2,487	8,784
Other assets	33,131	35,145
Separate account assets	318,282	312,824
Total assets	\$ 4,336,314	\$ 4,179,623
 LIABILITIES		
Future policy benefits	\$ 888,710	\$ 870,327
Policyholder account balances	2,064,875	2,048,828
Policy and contract claims	34,269	33,484
Other policyholder funds	145,035	137,847
Income taxes	60,475	21,851
Other liabilities	121,458	126,099
Separate account liabilities	318,282	312,824
Total liabilities	3,633,104	3,551,260
 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	41,080	41,068
Retained earnings	763,399	757,225
Accumulated other comprehensive income (loss)	35,253	(36,477)
Treasury stock, at cost (2010 - 7,028,944 shares;		
2009 - 6,931,589 shares)	(159,643)	(156,574)
Total stockholders' equity	703,210	628,363
Total liabilities and stockholders' equity	\$ 4,336,314	\$ 4,179,623

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	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Premiums	\$ 49,168	\$ 53,432	\$ 145,348	\$ 143,148
Contract charges	26,643	26,448	79,983	79,418
Reinsurance ceded	(13,949)	(14,308)	(41,981)	(40,446)
Total insurance revenues	61,862	65,572	183,350	182,120
Investment revenues:				
Net investment income	44,120	44,521	130,696	132,265
Realized investment gains, excluding impairment losses	263	1,202	3,079	5,208
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(1,080)	(2,522)	(4,129)	(28,353)
Portion of impairment losses recognized in other comprehensive income	170	203	309	15,894
Net impairment losses recognized in earnings	(910)	(2,319)	(3,820)	(12,459)
Total investment revenues	43,473	43,404	129,955	125,014
Other revenues	2,281	3,387	7,062	8,303
Total revenues	107,616	112,363	320,367	315,437
BENEFITS AND EXPENSES				
Policyholder benefits	46,375	50,514	136,788	135,601
Interest credited to policyholder account balances	21,561	21,898	64,301	64,772
Amortization of deferred acquisition costs and value of business acquired	10,398	9,949	24,628	29,155
Operating expenses	22,496	23,090	69,062	73,476
Total benefits and expenses	100,830	105,451	294,779	303,004
Income before income tax expense	6,786	6,912	25,588	12,433
Income tax expense	2,330	1,731	10,109	3,756
NET INCOME	\$ 4,456	\$ 5,181	\$ 15,479	\$ 8,677
Comprehensive income, net of taxes:				
Change in net unrealized gains and (losses) on securities available for sale	\$ 25,616	\$ 51,133	\$ 71,730	\$ 91,598
Change in benefit plan obligations	-	-	-	4,666
Other comprehensive income	25,616	51,133	71,730	96,264
COMPREHENSIVE INCOME	\$ 30,072	\$ 56,314	\$ 87,209	\$ 104,941
Basic and diluted earnings per share:				
Net income	\$ 0.39	\$ 0.45	\$ 1.35	\$ 0.75

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

