

Kansas City Life Insurance Company

2011 First 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 \$4.8 million or \$0.42 per share in the first quarter of 2011, an increase of \$3.8 million or \$0.34 per share from the same quarter in the prior year. The increase in earnings was primarily due to a \$3.2 million increase in total investment income and a \$3.2 million decrease in policyholder benefits and interest credited to policyholder account balances. Partially offsetting these improvements was a decrease in insurance revenues of \$1.8 million and an increase in the amortization of deferred acquisition costs (DAC) of \$0.6 million.

Total premiums decreased \$1.2 million or 3% for the first quarter compared to the prior year, primarily the result of reduced immediate annuity premiums of \$2.4 million. New individual life insurance premiums increased \$0.5 million or 12% versus the same period one year ago, largely due to a \$0.4 million or 16% increase in new sales in the Old American segment. In addition, new group accident and health premiums increased \$0.3 million or 9%. 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 deposits increased \$3.7 million or 7% in the first quarter versus the same period one year earlier. The growth in total deposits was driven by a \$3.9 million or 35% increase in new fixed deferred annuity sales and a \$2.6 million or 8% increase in total renewal deposits. Partially offsetting these increases was a \$2.1 million or 35% decrease in new variable annuity deposits and a \$0.6 million or 17% decrease in new universal life and variable universal life deposits.

Net investment revenues increased \$2.1 million or 5% versus one year earlier. Gross investment income increased primarily as a result of an increased allocation to commercial mortgage investments and improved returns from an alternative investment fund. Income from fixed maturity securities was materially unchanged, as increased volume was offset by a reduction in portfolio yield. The Company recorded net realized investment gains of \$0.8 million in the first quarter of 2011, an improvement of \$1.1 million compared with the prior year. This change is consistent with the overall improvement in the fixed income markets.

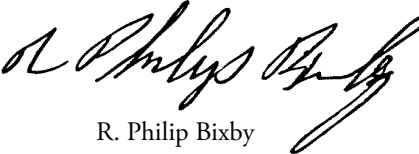
Policyholder benefits and interest credited to policyholder account balances decreased \$3.2 million or 5% compared to the same period one year earlier. This decrease was primarily the result of a \$6.1 million decline in benefit and contract reserves. This decrease was mostly the result of greater reserves released from higher net death benefits and lower sales of immediate annuities. Net death benefits increased \$3.5 million due to an unfavorable change in mortality relative to the prior year, and immediate annuity premiums declined \$2.4 million.



The amortization of DAC increased \$0.6 million or 7% for the first quarter. The increase was primarily the result of increased policy terminations, as certain policies lapsed during the quarter. Finally, operating expenses declined \$0.3 million in the first quarter, primarily reflecting reduced professional fees and data processing costs.

On April 25, 2011, the Kansas City Life Board of Directors declared a quarterly dividend of \$0.27 per share that will be paid on May 11, 2011 to stockholders of record on May 5, 2011.

The improved results compared with one year earlier reflect the Company's ability to maintain a long term orientation and find creative ways to add value for policyholders and stockholders. In support of that mission, the Company continues to pursue growth through the recruitment and retention of agents and general agents who are successful in assisting customers in meeting their financial protection needs. Further, the Company is committed to maintaining an array of competitive products to meet those needs and delivering Security Assured to each and every policyholder.



R. Philip Bixby



KANSAS CITY LIFE INSURANCE COMPANY
CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except share data)

	<u>March 31</u> 2011	<u>December 31</u> 2010
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 2,651,664	\$ 2,648,888
Equity securities available for sale, at fair value	39,179	38,321
Mortgage loans	554,772	559,167
Real estate	121,074	119,909
Policy loans	82,909	84,281
Short-term investments	23,230	15,713
Other investments	4,742	5,009
Total investments	<u>3,477,570</u>	<u>3,471,288</u>
Cash	4,842	5,445
Accrued investment income	39,136	35,742
Deferred acquisition costs	192,475	192,943
Reinsurance receivables	189,343	187,123
Property and equipment	23,374	23,514
Other assets	76,113	78,018
Separate account assets	351,401	339,029
Total assets	<u>\$ 4,354,254</u>	<u>\$ 4,333,102</u>
LIABILITIES		
Future policy benefits	\$ 880,311	\$ 884,380
Policyholder account balances	2,068,609	2,065,878
Policy and contract claims	48,058	43,866
Other policyholder funds	147,069	145,560
Other liabilities	177,530	174,917
Separate account liabilities	351,401	339,029
Total liabilities	<u>3,672,978</u>	<u>3,653,630</u>
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	41,089	41,085
Retained earnings	768,821	767,126
Accumulated other comprehensive income	7,909	7,807
Treasury stock, at cost (2011 - 7,029,361 shares; 2010 - 7,029,575 shares)	<u>(159,664)</u>	<u>(159,667)</u>
Total stockholders' equity	<u>681,276</u>	<u>679,472</u>
 Total liabilities and stockholders' equity	 <u>\$ 4,354,254</u>	 <u>\$ 4,333,102</u>

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 March 31	
	2011	2010
	(Unaudited)	
REVENUES		
Insurance revenues:		
Premiums, net	\$ 33,625	\$ 34,983
Contract charges	26,234	26,674
Total insurance revenues	59,859	61,657
Investment revenues:		
Net investment income	45,391	43,304
Realized investment gains, excluding impairment losses	1,012	1,323
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(269)	(1,591)
Portion of impairment losses recognized in other comprehensive income	58	5
Net impairment losses recognized in earnings	(211)	(1,586)
Total investment revenues	46,192	43,041
Other revenues	2,408	2,384
Total revenues	108,459	107,082
BENEFITS AND EXPENSES		
Policyholder benefits	45,274	47,786
Interest credited to policyholder account balances	20,481	21,200
Amortization of deferred acquisition costs	9,584	8,947
Operating expenses	25,865	26,182
Total benefits and expenses	101,204	104,115
Income before income tax expense	7,255	2,967
Income tax expense	2,464	2,004
NET INCOME	\$ 4,791	\$ 963
Comprehensive income, net of taxes:		
Change in net unrealized gains on securities available for sale	\$ 102	\$ 15,756
Other comprehensive income	102	15,756
COMPREHENSIVE INCOME	\$ 4,893	\$ 16,719
Basic and diluted earnings per share:		
Net income	\$ 0.42	\$ 0.08

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

