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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012 or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number 2-40764

KANSAS CITY LIFE INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Missouri	44-0308260
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3520 Broadway, Kansas City, Missouri	64111-2565
(Address of principal executive offices)	(Zip Code)

816-753-7000

Registrant s telephone number, including area code

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, $1.25 par	11,056,933 shares
Class	Outstanding June 30, 2012

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KANSAS CITY LIFE INSURANCE COMPANY

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Part I. Financial Information

Item 1. Financial Statements

Amounts in thousands, except share data, or as otherwise noted

Kansas City Life Insurance Company

Consolidated Balance Sheets

	June 30 2012 (Unaudited)	December 31 2011
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,816,250	$ 2,682,142
Equity securities available for sale, at fair value	37,184	36,689
Mortgage loans	579,500	601,923
Real estate	123,450	127,962
Policy loans	79,447	80,375
Short-term investments	17,448	49,316
Other investments	2,865	3,364
Total investments	3,656,144	3,581,771
Cash	5,573	10,436
Accrued investment income	35,784	34,705
Deferred acquisition costs	178,911	181,564
Reinsurance receivables	194,028	189,885
Property and equipment	22,178	22,671
Other assets	51,180	60,601
Separate account assets	320,566	316,609
Total assets	$ 4,464,364	$ 4,398,242
LIABILITIES		
Future policy benefits	$ 886,077	$ 879,015
Policyholder account balances	2,114,159	2,089,452
Policy and contract claims	32,152	36,511
Other policyholder funds	152,124	152,125
Other liabilities	222,254	213,825
Separate account liabilities	320,566	316,609
Total liabilities	3,727,332	3,687,537
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	41,106	41,101

Retained earnings		802,652		780,918
Accumulated other comprehensive income		42,916		30,086
Treasury stock, at cost (2012 - 7,439,747 shares; 2011 - 7,187,315 shares)		(172,763)		(164,521)
Total stockholders equity		737,032		710,705
Total liabilities and stockholders equity	$	4,464,364	$	4,398,242

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Comprehensive Income

	Quarter Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
REVENUES				
Insurance revenues:				
Premiums, net	$ 34,205	$ 30,801	$ 66,909	$ 64,426
Contract charges	25,590	23,752	50,723	49,986
Total insurance revenues	59,795	54,553	117,632	114,412
Investment revenues:				
Net investment income	43,435	44,893	87,644	90,284
Net realized investment gains, excluding impairment losses	1,361	1,893	17,198	2,905
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(188)	(238)	(456)	(507)
Portion of impairment losses recognized in other comprehensive income	42	56	150	114
Net impairment losses recognized in earnings	(146)	(182)	(306)	(393)
Total investment revenues	44,650	46,604	104,536	92,796
Other revenues	2,312	2,666	4,497	5,074
Total revenues	106,757	103,823	226,665	212,282
BENEFITS AND EXPENSES				
Policyholder benefits	41,276	38,865	79,746	84,139
Interest credited to policyholder account balances	20,377	20,766	40,935	41,247
Amortization of deferred acquisition costs	5,121	705	13,022	10,289
Operating expenses	27,078	26,498	51,040	52,363
Total benefits and expenses	93,852	86,834	184,743	188,038
Income before income tax expense	12,905	16,989	41,922	24,244
Income tax expense	4,508	5,816	14,084	8,280
NET INCOME	$ 8,397	$ 11,173	$ 27,838	$ 15,964
COMPREHENSIVE INCOME, NET OF TAXES				
Change in net unrealized gains on securities available for sale	$ 15,925	$ 19,802	$ 18,017	$ 19,178
Change in future policy benefits	(3,502)	(2,926)	(4,969)	(2,206)
Change in policyholder account balances	(143)	(83)	(218)	(77)
Other comprehensive income	12,280	16,793	12,830	16,895

COMPREHENSIVE INCOME	$ 20,677	$ 27,966	$ 40,668	$ 32,859
Basic and diluted earnings per share:				
Net income	$ 0.78	$ 0.97	$ 2.50	$ 1.39

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statement of Stockholders Equity

	Six Months Ended June 30, 2012 (Unaudited)
COMMON STOCK, beginning and end of period	$ 23,121
ADDITIONAL PAID IN CAPITAL	
Beginning of period	41,101
Excess of proceeds over cost of treasury stock sold	5
End of period	41,106
RETAINED EARNINGS	
Beginning of period	780,918
Net income	27,838
Stockholder dividends of $0.54 per share	(6,104)
End of period	802,652
ACCUMULATED OTHER COMPREHENSIVE INCOME, net of taxes	
Beginning of period	30,086
Other comprehensive income	12,830
End of period	42,916
TREASURY STOCK, at cost	
Beginning of period	(164,521)
Cost of 82,825 shares acquired	(2,668)
Cost of 19,014 shares sold	616
Immaterial correction (See Note 1)	(6,190)
End of period	(172,763)
TOTAL STOCKHOLDERS EQUITY	$ 737,032

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2012	2011
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 27,838	$ 15,964
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of investment premium and discount	1,977	1,656
Depreciation	1,643	1,468
Acquisition costs capitalized	(18,991)	(17,998)
Amortization of deferred acquisition costs	13,022	10,289
Realized investment gains	(16,892)	(2,512)
Changes in assets and liabilities:		
Reinsurance receivables	(4,143)	(1,485)
Future policy benefits	(583)	(6,249)
Policyholder account balances	(4,739)	(5,916)
Income taxes payable and deferred	2,639	3,468
Other, net	(3,754)	4,859
Net cash (used) provided	(1,983)	3,544
INVESTING ACTIVITIES		
Purchases:		
Fixed maturity securities	(192,935)	(102,576)
Equity securities	(728)	(1,398)
Mortgage loans	(30,691)	(105,223)
Real estate	(28,845)	(4,514)
Policy loans	(7,419)	(6,970)
Sales or maturities, calls, and principal paydowns:		
Fixed maturity securities	96,448	172,383
Equity securities	179	214
Mortgage loans	52,510	39,111
Real estate	49,164	-
Policy loans	8,347	9,079
Net sales (purchases) of short-term investments	31,868	(20,978)
Net acquisitions of property and equipment	(142)	(71)
Net cash used	(22,244)	(20,943)

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Cash Flows (Continued)

Consolidated Statements of Cash Flows Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2012	2011
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 116,859	$ 121,982
Withdrawals from policyholder account balances	(86,715)	(99,840)
Net transfers from separate accounts	2,099	2,134
Change in other deposits	(4,728)	164
Cash dividends to stockholders	(6,104)	(6,191)
Net change in treasury stock	(2,047)	(6)
Net cash provided	19,364	18,243
Increase (decrease) in cash	(4,863)	844
Cash at beginning of year	10,436	5,445
Cash at end of period	$ 5,573	$ 6,289
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 10,500	$ 6,257

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements and the accompanying notes include the accounts of the consolidated entity (the Company), which primarily consists of three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries.

The unaudited interim consolidated financial statements have been prepared on the basis of U.S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Regulations S-K, S-X, and other applicable regulations. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these unaudited interim consolidated financial statements should be read in conjunction with the Company s 2011 Form 10-K as filed with the Securities and Exchange Commission. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at June 30, 2012 and the results of operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the Company s operating results for a full year. Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to prior period results to conform with the current period s presentation.

The preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Immaterial Correction of Errors

During the second quarter of 2012, the Company identified an error in the presentation of treasury stock held for the benefit of the Company s deferred compensation plans. This treasury stock was previously recorded as a component of other assets but should have been recorded in stockholders equity as treasury stock. Accordingly, the Company reclassified $6.2 million (188,621 shares) from other assets to treasury stock. This error had no material impact on net income in the current or prior reporting periods.

During the first quarter of 2012, the Company identified an error related to the amortization period for unrecognized actuarial gains and losses for its pension plan resulting in a reduction to net periodic pension expense of $2.0 million before applicable income taxes and an after-tax increase of $1.3 million to net income and stockholders equity. The excess amortization had been previously recorded during 2011. Please refer to Note 11 Pensions and Other Postretirement Benefits for additional information.

During 2011, the Company identified errors related to the classification of amounts reported in the Consolidated Statement of Cash Flows. The Company has revised the Consolidated Statement of Cash Flows for the six months ended June 30, 2011. The changes resulted in a decrease of $0.9 million to cash flows from operating activities and an increase of the same amount to cash flows from financing activities. This change did not impact net income, the balance sheet, or stockholders equity for the period.

Management has evaluated these errors both quantitatively and qualitatively, and concluded that these corrections were not material to the consolidated financial statements.

Significant Accounting Policies

No significant updates or changes to these policies occurred during the six months ended June 30, 2012.

For a full discussion of these significant accounting policies, please refer to the Company s 2011 Form 10-K.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

2. New Accounting Pronouncements

For a full discussion of new accounting pronouncements and other regulatory activity and their impact on the Company, please refer to the Company s 2011 Form 10-K.

Accounting Pronouncements Adopted During 2012

In October 2010, the Financial Accounting Standards Board (FASB) issued guidance that modifies the types of costs incurred by insurance entities that can be capitalized when issuing or renewing insurance contracts. The guidance defines allowable deferred acquisition costs as incremental or directly related to the successful acquisition of new or renewal contracts. In addition, certain costs related directly to acquisition activities performed by the insurer, such as underwriting and policy issuance, are also deferrable. This guidance also defines the considerations for the deferral of direct-response advertising costs. This guidance became effective for interim and annual periods beginning after December 15, 2011, with either prospective or retrospective application permitted. The Company adopted this new guidance prospectively on January 1, 2012. Please refer to Note 7 Change in Accounting Principle for additional information.

In May 2011, the FASB issued new guidance concerning fair value measurements and disclosure. The new guidance is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how to measure fair value and the necessary disclosures concerning fair value measurements. The guidance became effective for interim and annual periods beginning after December 15, 2011. The Company adopted this new guidance on January 1, 2012 with no material impact to the consolidated financial statements.

In June 2011, the FASB issued new guidance regarding the manner in which entities present comprehensive income in the financial statements. This guidance removes the previous presentation options and provides that entities must report comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. This guidance also includes the requirement for reclassification adjustments for items that are reclassified from other comprehensive income to net income to be presented on the face of the financial statements. This guidance does not change the items that must be reported in other comprehensive income nor does it require any disclosures in addition to those previously required. In December 2011, the FASB deferred the effective date for amendments to the presentation of reclassification adjustments. The guidance became effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this new guidance on January 1, 2012 with no material impact to the consolidated financial statements.

All other new accounting standards and updates of existing standards issued through the date of this filing were considered by management and did not relate to accounting policies and procedures pertinent to the Company at this time.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

3. Investments

Fixed Maturity and Equity Securities Available for Sale

Securities by Asset Class

The following table provides amortized cost and fair value of securities by asset class at June 30, 2012.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 121,606	$ 14,308	$ 22	$ 135,892
Federal agencies [1]	22,063	4,061	1	26,123
Federal agency issued residential mortgage-backed securities [1]	97,158	9,281	-	106,439
Subtotal	240,827	27,650	23	268,454
Corporate obligations:				
Industrial	498,231	48,437	1,727	544,941
Energy	173,030	20,692	46	193,676
Communications and technology	199,416	20,097	28	219,485
Financial	298,693	20,753	2,624	316,822
Consumer	488,138	47,467	53	535,552
Public utilities	253,931	39,068	485	292,514
Subtotal	1,911,439	196,514	4,963	2,102,990
Corporate private-labeled residential mortgage-backed securities	157,621	2,711	8,694	151,638
Municipal securities	148,664	25,510	26	174,148
Other	106,488	4,771	8,081	103,178
Redeemable preferred stocks	15,736	328	222	15,842
Fixed maturity securities	2,580,775	257,484	22,009	2,816,250
Equity securities	35,499	1,815	130	37,184
Total	$ 2,616,274	$ 259,299	$ 22,139	$ 2,853,434

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides amortized cost and fair value of securities by asset class at December 31, 2011.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 120,593	$ 13,856	$ 12	$ 134,437
Federal agencies [1]	22,401	3,480	-	25,881
Federal agency issued residential mortgage-backed securities [1]	109,738	9,901	2	119,637
Subtotal	252,732	27,237	14	279,955
Corporate obligations:				
Industrial	444,030	43,710	860	486,880
Energy	152,580	19,131	-	171,711
Communications and technology	184,983	16,566	156	201,393
Financial	308,813	15,155	5,890	318,078
Consumer	452,962	43,788	263	496,487
Public utilities	259,609	38,094	1,366	296,337
Subtotal	1,802,977	176,444	8,535	1,970,886
Corporate private-labeled residential mortgage-backed securities	167,666	1,856	12,620	156,902
Municipal securities	150,267	18,316	61	168,522
Other	100,315	3,576	9,235	94,656
Redeemable preferred stocks	11,735	226	740	11,221
Fixed maturity securities	2,485,692	227,655	31,205	2,682,142
Equity securities	34,951	1,873	135	36,689
Total	$ 2,520,643	$ 229,528	$ 31,340	$ 2,718,831

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

Contractual Maturities

The following table provides the distribution of maturities for fixed maturity securities available for sale at June 30, 2012. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

June 30, 2012

	Amortized Cost	Fair Value
Due in one year or less	$ 99,536	$ 101,304
Due after one year through five years	619,948	665,859
Due after five years through ten years	1,035,701	1,151,964
Due after ten years	474,696	532,021
Securities with variable principal payments	335,158	349,260
Redeemable preferred stocks	15,736	15,842
	$ 2,580,775	$ 2,816,250

Unrealized Losses on Investments

The Company reviews all security investments, with particular attention given to those having unrealized losses. Further, the Company specifically assesses all investments with greater than 10% declines in fair value below amortized cost and, in general, monitors all security investments as to ongoing risk. These risks are fundamentally evaluated through both a qualitative and quantitative analysis of the issuer. The Company also prepares a formal review document no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The Company has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary (OTTI). This process involves monitoring market events and other items that could impact issuers. The Company considers relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. Relevant facts and circumstances considered are described in the Valuation of Investments section of Note 1 Nature of Operations and Significant Accounting Policies of the Company s 2011 Form 10-K.

To the extent the Company determines that a fixed maturity security is deemed to be other-than-temporarily impaired, the portion of the impairment that is deemed to be due to credit is charged to the Consolidated Statements of Comprehensive Income and the cost basis of the underlying investment is reduced. The portion of such impairment that is determined to be non-credit-related is deducted from net realized loss in the Consolidated Statements of Comprehensive Income and is reflected in other comprehensive income and accumulated other comprehensive income.

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments, determining if an impairment is other-than-temporary and determining the portion of an other-than-temporary impairment that is due to credit. These risks and uncertainties are described in the Valuation of Investments section of Note 1 of the Company s 2011 Form 10-K.

Once a security is determined to have met certain of the criteria for consideration as being other-than-temporarily impaired, further information is gathered and evaluated pertaining to the particular security. If the security is an unsecured obligation, the additional research is a top-down approach with particular emphasis on the likelihood of the issuer to meet the contractual terms of the obligation. If the security is secured by an asset or guaranteed by another party, the value of the underlying secured asset or the financial ability of the third-party guarantor is evaluated as a secondary source of repayment. Such research is based upon a top-down approach, narrowing to the specific estimates of value and cash flow of the underlying secured asset or guarantor. If the security is a collateralized obligation, such as a mortgage-backed or other asset-backed instrument, research is also conducted to obtain and analyze the performance of the collateral relative to expectations at the time of acquisition and with regard to projections for the future. Such analyses are based upon historical results, trends, comparisons to collateral performance of similar securities, and analyses performed by third parties. This information is used to develop projected cash flows that are compared to the amortized cost of the security.

If a determination is made that an unsecured security, secured security, or security with a guaranty of payment by a third-party is other-than-temporarily impaired, an estimate is developed of the portion of such impairment that is due to credit. The estimate of the portion of impairment due to credit is based upon a comparison of ratings and maturity horizon for the security and relative historical default probabilities from one or more nationally recognized rating organizations. When appropriate for any given security, sector or period in the business cycle, the historical default probability is adjusted to reflect periods or situations of distress by adding to the default probability increments of standard deviations from mean historical results. The credit impairment analysis is supplemented by estimates of potential recovery values for the specific security, including the potential impact of the value of any secured assets, in the event of default. This information is used to determine the Company s best estimate, derived from probability-weighted cash flows.

The evaluation of loan-backed and similar asset-backed securities, particularly including residential mortgage-backed securities, with significant indications of potential other-than-temporary impairment requires considerable use of estimates and judgment. Specifically, the Company performs discounted cash flow projections on these securities to evaluate whether the value of the investment is expected to be fully realized. Projections of expected future cash flows are based upon considerations of the performance of the actual underlying assets, including historical delinquencies, defaults, severity of losses incurred, and prepayments, along with the Company s estimates of future results for these factors. The Company s estimates of future results are based upon actual historical performance of the underlying assets relative to historical, current and expected general economic conditions, specific conditions related to the underlying assets, industry data, and other factors that are believed to be relevant. If the present value of the projected expected future cash flows is determined to be below the Company s carrying value, the Company recognizes an other-than-temporary impairment on the portion of the carrying value that exceeds the projected expected future cash flows. To the extent that the loan-backed or other asset-backed securities were high quality investments at the time of acquisition, and they remain high quality investments and do not otherwise demonstrate characteristics of impairment, the Company performs other initial evaluations to determine whether other-than-temporary cash flow evaluations need to be performed.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The discounted future cash flow calculation typically becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities with significant indications of potential other-than-temporary impairment. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. The Company identified 17 non-U.S. Agency mortgage-backed securities that had such indications at both June 30, 2012 and December 31, 2011. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant over a 24-month time frame and grade down thereafter, reflecting the general perspective of a more stabilized residential housing environment in the future.

For loan-backed and similar asset-backed securities, the determination of any amount of impairment that is due to credit is based upon the present value of projected future cash flows being less than the amortized cost of the security. This amount is recognized as a realized loss in the Company s Consolidated Statements of Comprehensive Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets.

As part of the required accounting for unrealized gains and losses, the Company also adjusts the deferred acquisition costs (DAC) and value of business acquired (VOBA) assets to recognize the adjustment to those assets as if the unrealized gains and losses from securities classified as available for sale actually had been realized.

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at June 30, 2012.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 900	$ 8	$ 779	$ 14	$ 1,679	$ 22
Federal agency issued residential mortgage-backed securities [1]	333	-	293	1	626	1
Subtotal	1,233	8	1,072	15	2,305	23
Corporate obligations:						
Industrial	24,733	1,727	-	-	24,733	1,727
Energy	9,580	46	-	-	9,580	46
Communications and technology	4,053	28	-	-	4,053	28
Financial	17,959	258	15,610	2,366	33,569	2,624
Consumer	14,480	46	587	7	15,067	53
Public utilities	9,236	74	6,740	411	15,976	485
Subtotal	80,041	2,179	22,937	2,784	102,978	4,963
Corporate private-labeled residential mortgage-backed securities	-	-	70,210	8,694	70,210	8,694
Municipal securities	3,078	18	893	8	3,971	26
Other	-	-	45,185	8,081	45,185	8,081
Redeemable preferred stocks	-	-	3,460	222	3,460	222

Fixed maturity securities	84,352	2,205	143,757	19,804	228,109	22,009
Equity securities	-	-	1,127	130	1,127	130
Total	$ 84,352	$ 2,205	$ 144,884	$ 19,934	$ 229,236	$ 22,139

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time at December 31, 2011.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ -	$ -	$ 959	$ 12	$ 959	$ 12
Federal agency issued residential mortgage-backed securities [1]	649	-	294	2	943	2
Subtotal	649	-	1,253	14	1,902	14
Corporate obligations:						
Industrial	25,455	860	-	-	25,455	860
Communications and technology	7,239	156	-	-	7,239	156
Financial	51,273	2,107	16,402	3,783	67,675	5,890
Consumer	11,765	119	3,689	144	15,454	263
Public utilities	4,710	344	11,152	1,022	15,862	1,366
Subtotal	100,442	3,586	31,243	4,949	131,685	8,535
Corporate private-labeled residential mortgage-backed securities	41,734	2,668	61,864	9,952	103,598	12,620
Municipal securities	-	-	3,909	61	3,909	61
Other	9,257	921	47,146	8,314	56,403	9,235
Redeemable preferred stocks	2,939	115	3,056	625	5,995	740
Fixed maturity securities	155,021	7,290	148,471	23,915	303,492	31,205
Equity securities	69	104	1,054	31	1,123	135
Total	$ 155,090	$ 7,394	$ 149,525	$ 23,946	$ 304,615	$ 31,340

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

In addition, the Company also considers as part of its monitoring and evaluation process the length of time the fair value of a security is below amortized cost. At June 30, 2012, the Company had 65 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 30 security issues were below cost for less than one year; six security issues were below cost for one year or more and less than three years; and 29 security issues were below cost for three years or more. At December 31, 2011, the Company had 85 issues in its investment portfolio of fixed maturity and equity securities with unrealized losses. Included in this total, 46 security issues were below cost for less than one year; 10 security issues were below cost for one year or more and less than three years; and 29 security issues were below cost for three years or more.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides the distribution of maturities for fixed maturity securities available for sale with unrealized losses at June 30, 2012 and December 31, 2011. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	June 30, 2012		December 31, 2011	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity security securities available for sale:				
Due in one year or less	$ 919	$ 8	$ 2,953	$ 48
Due after one year through five years	32,871	491	42,416	2,120
Due after five years through ten years	60,008	2,636	64,772	2,616
Due after ten years	60,015	9,958	82,816	13,061
Total	153,813	13,093	192,957	17,845
Securities with variable principal payments	70,836	8,694	104,540	12,620
Redeemable preferred stocks	3,460	222	5,995	740
Total	$ 228,109	$ 22,009	$ 303,492	$ 31,205

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides a reconciliation of credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the other-than-temporary loss was recognized in other comprehensive income.

	Quarter Ended June 30 2012	Six Months Ended June 30 2012
Credit losses on securities held at beginning of the period in accumulated other comprehensive income	$ 13,715	$ 13,559
Additions for credit losses not previously recognized in other-than-temporary impairment	1	29
Additions for increases in the credit loss for which an other-than-temporary impairment was previously recognized when there was no intent to sell the security before recovery of its amortized cost basis	145	277
Reductions for securities sold during the period (realized)	-	-
Reductions for securities previously recognized in other comprehensive income because of intent to sell the security before recovery of its amortized cost basis	-	-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(4)	(8)
Credit losses on securities held at the end of the period in accumulated other comprehensive income	$ 13,857	$ 13,857

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Realized Gains (Losses)

The following table provides detail concerning realized investment gains and losses for the second quarters and six months ended June 30, 2012 and 2011.

	Quarter Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Gross gains resulting from:				
Sales of investment securities	$ -	$ 3,341	$ 313	$ 3,652
Investment securities called and other	595	387	803	1,250
Sales of real estate	1,010	-	16,180	-
Total gross gains	1,605	3,728	17,296	4,902
Gross losses resulting from:				
Sales of investment securities	(32)	(1,590)	(32)	(1,590)
Investment securities called and other	(151)	(125)	(204)	(179)
Mortgage loans	(13)	-	(178)	(3)
Total gross losses	(196)	(1,715)	(414)	(1,772)
Change in allowance for potential future losses on mortgage loans	(32)	-	332	-
Amortization of DAC and VOBA	(16)	(120)	(16)	(225)
Net realized investment gains, excluding impairment losses	1,361	1,893	17,198	2,905
Net impairment losses recognized in earnings:				
Total other-than-temporary impairment losses	(188)	(238)	(456)	(507)
Portion of loss recognized in other comprehensive income	42	56	150	114
Net impairment losses recognized in earnings	(146)	(182)	(306)	(393)
Net realized investment gains	$ 1,215	$ 1,711	$ 16,892	$ 2,512

Proceeds From Sales of Investment Securities

The table below provides information regarding sales of fixed maturity and equity securities, excluding maturities and calls, for the second quarters and six months ended June 30, 2012 and 2011.

	Quarter Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Proceeds	$ 2,216	$ 41,398	$ 8,616	$ 51,541
Gross realized gains	-	3,341	313	3,652
Gross realized losses	(32)	(1,590)	(32)	(1,590)

Mortgage Loans

The Company invests on an ongoing basis in commercial mortgage loans that are secured by commercial real estate and are stated at cost, adjusted for amortization of premium and accrual of discount, less an allowance for potential future losses. This allowance is maintained at a level believed by management to be adequate to absorb estimated credit losses and was $2.5 million at June 30, 2012 and $2.8 million at December 31, 2011. The Company had 16% of its invested assets in commercial mortgage loans at June 30, 2012, compared to 17% at December 31, 2011. In addition to the subject collateral underlying the mortgage, the Company typically requires some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. The average loan to value ratio for the overall portfolio was 45% and 46% at June 30, 2012 and December 31, 2011, respectively, and is based upon the appraisal of value at the time the loan was originated or acquired.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table identifies the gross mortgage loan principal outstanding and the allowance for potential future losses at June 30, 2012 and December 31, 2011.

	June 30 2012	December 31 2011
Principal outstanding	$ 582,017	$ 604,772
Allowance for potential future losses	(2,517)	(2,849)
Carrying value	$ 579,500	$ 601,923

The following table summarizes the amount of mortgage loans held by the Company at June 30, 2012 and December 31, 2011, segregated by year of origination. Purchased loans are shown in the year acquired by the Company, although the individual loans may have been initially originated in prior years.

	June 30 2012	% of Total	December 31 2011	% of Total
Prior to 2002	$ 22,216	4%	$ 28,437	5%
2003	35,236	6%	42,112	7%
2004	28,473	5%	29,966	5%
2005	52,462	9%	54,802	9%
2006	40,594	7%	42,676	7%
2007	34,600	6%	35,323	6%
2008	38,504	7%	44,285	7%
2009	48,268	8%	50,574	8%
2010	106,816	18%	133,684	22%
2011	136,784	23%	142,913	24%
2012	38,064	7%	-	-
	$ 582,017	100%	$ 604,772	100%

The following table identifies mortgage loans by geographic location at June 30, 2012 and December 31, 2011.

	June 30 2012	% of Total	December 31 2011	% of Total
Pacific	$ 133,619	23%	$ 138,529	23%

West north central	106,095	18%	130,481	22%
West south central	106,996	18%	98,036	16%
Mountain	85,285	15%	82,029	14%
South atlantic	59,980	10%	63,125	10%
Middle atlantic	41,016	7%	42,112	7%
East north central	30,462	5%	30,482	5%
East south central	18,564	4%	19,978	3%
	$ 582,017	100%	$ 604,772	100%

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table identifies mortgage loans by property type at June 30, 2012 and December 31, 2011. The Other category consists of apartments and retail properties.

	June 30 2012	% Total	December 31 2011	% Total
Industrial	$ 248,332	43%	$ 251,839	42%
Office	231,643	40%	243,885	40%
Medical	42,066	7%	43,089	7%
Other	59,976	10%	65,959	11%
	$ 582,017	100%	$ 604,772	100%

The following table identifies the concentration of mortgage loans by state greater than 5% at June 30, 2012 and December 31, 2011.

	June 30 2012	% of Total	December 31 2011	% of Total
California	$ 113,231	19%	$ 117,261	19%
Texas	94,021	16%	84,724	14%
Minnesota	63,962	11%	64,952	11%
Florida	33,292	6%	31,310	5%
All others	277,511	48%	306,525	51%
	$ 582,017	100%	$ 604,772	100%

The table below identifies the carrying amount of mortgage loans by maturity at June 30, 2012 and December 31, 2011.

	June 30 2012	% of Total	December 31 2011	% of Total
Due in one year or less	$ 5,572	1%	$ 2,356	-
Due after one year through five years	181,974	32%	153,822	25%
Due after five years through ten years	235,378	40%	255,615	42%
Due after ten years	159,093	27%	192,979	33%
	$ 582,017	100%	$ 604,772	100%

The Company may refinance commercial mortgage loans prior to contractual maturity as a means of originating new loans that meet the Company s underwriting and pricing parameters. The Company refinanced loans with outstanding balances of $4.0 million and $1.9 million during the second quarters of 2012 and 2011, respectively, and $8.6 million and $9.7 million during the first six months of 2012 and 2011, respectively.

In the normal course of business, the Company commits to fund commercial mortgage loans generally up to 120 days in advance. These commitments generally have fixed expiration dates. A small percentage of commitments expire due to the borrower s failure to deliver the requirements of the commitment by the expiration date. In these cases, the Company retains the commitment fee. For additional information, please see Note 16 Commitments.

At June 30, 2012, the Company had a construction-to-permanent loan commitment in the amount of $2.8 million, and $2.5 million had been disbursed on this loan. At completion and fulfillment of occupancy requirements, the construction loan will convert to a long-term, fixed-rate permanent loan.

4. Fair Value Measurements

Under GAAP, fair value represents the price that would be received to sell an asset (exit price) or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The Company categorizes its financial assets and liabilities measured at fair value in three levels, based on the inputs and assumptions used to determine the fair value. These levels are as follows:

Level 1 Valuations are based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuations are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. Valuations are obtained from third-party pricing services or inputs that are observable or derived principally from or corroborated by observable market data.

Level 3 Valuations are generated from techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of discounted cash flow models, spread-based models, and similar techniques, using the best information available in the circumstances.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but for which fair value is disclosed.

Assets

Securities Available for Sale

Fixed maturity and equity securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon unadjusted quoted prices, if available, except as described in the subsequent paragraphs.

Short-Term Financial Assets

Short-term financial assets include cash and other short-term assets. Cash is categorized as Level 1. Other short-term assets are invested in institutional money market funds. These assets are categorized as Level 2 in the fair value hierarchy, as the valuation is based upon the net asset value (NAV) of the fund.

Loans

The Company does not record loans at fair value. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for purpose of disclosure.

Fair values of mortgage loans on real estate properties are calculated by discounting contractual cash flows, using discount rates based on current industry pricing or the Company s estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity, likelihood of prepayment, and repricing characteristics. Mortgage loans are categorized as Level 3 in the fair value hierarchy.

The Company also has loans made to policyholders. These loans cannot exceed the cash surrender value of the policy. Carrying value of policy loans approximates fair value. Policy loans are categorized as Level 3 in the fair value hierarchy.

Separate Accounts

The separate account assets and liabilities, which are equal, are recorded at fair value based upon NAV. They are categorized as Level 2 in the fair value hierarchy, as the Company receives independent prices from external pricing sources to determine the fair value.

Liabilities

Investment-Type Liabilities Included in Policyholder Account Balances and Other Policyholder Funds

Fair values for liabilities under investment-type insurance contracts are based upon account value. The fair values of investment-type insurance contracts included with policyholder account balances for fixed deferred annuities are estimated to be their cash surrender values. The fair values of supplementary contracts without life contingencies are estimated to be the present value of payments using a market yield. The fair values of deposits with no stated maturity are estimated to be the amount payable on demand at the measurement date. These liabilities are categorized as Level 3 in the fair value hierarchy.

Guaranteed Minimum Withdrawal Benefits (GMWB)

The Company offers a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. Fair value for GMWB rider contracts is a Level 3 valuation, as it is based on models which utilize significant unobservable inputs. These models require actuarial and financial market assumptions, which reflect the assumptions market participants would use in pricing the contract, including adjustments for volatility, risk, and issuer non-performance.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Notes Payable

Fair values for short-term notes payable approximate their carrying value. The carrying amount is a reasonable estimate of the fair value because of the relatively short time between the origination of the loan and its expected repayment.

Determination of Fair Value

The determination of the fair value of the Company s fixed maturity and equity securities is the responsibility of the Company s investment accounting group, which reports to the Principal Accounting Officer. This group manages and creates the policies and processes used to determine the fair value for these assets. This group employs third-party pricing services and obtains selected support from the Company s portfolio managers in order to achieve results for this multi-tiered process. All prices are reviewed by the investment accounting group. The financial reporting group, the Principal Accounting Officer, and the Chief Financial Officer also review the fair value methodologies and the fair values that are obtained each quarter. The results of those reviews are made known to the Company s Disclosure Committee and to the Company s Audit Committee. In addition, any significant policy or process changes made during the quarter are also discussed with the Company s Audit Committee.

The Company utilizes external independent third-party pricing services to determine the majority of its fair values on investment securities available for sale. At June 30, 2012, 96% of the carrying value of these investments was from external pricing services, 2% was from brokers, and 2% was derived from internal matrices and calculations. In the event that the primary pricing service does not provide a price, the Company utilizes the price provided by a second pricing service. The Company reviews prices received from service providers for reasonableness and unusual fluctuations but generally accepts the price identified from the primary pricing service. In the event that a price is not available from either third-party pricing service, the Company pursues external pricing from brokers. Generally, the Company pursues and utilizes only one broker quote per security. In doing so, the Company solicits only brokers which have previously demonstrated knowledge and experience of the subject security. If a broker price is not available, the Company determines a fair value through various valuation techniques that may include discounted cash flows, spread-based models, or similar techniques, depending upon the specific security to be priced. These techniques are primarily applied to private placement securities. The Company utilizes available market information, wherever possible, to identify inputs into the fair value determination, primarily including prices and spreads on comparable securities. In total, the Company internally determined the prices for 20 securities at June 30, 2012. The Company also obtained prices for seven securities from brokers.

Each quarter, the Company evaluates the prices received from third-party security pricing services and independent brokers to ensure that the prices represent a reasonable estimate of the fair value within the macro-economic environment, sector factors, and overall pricing trends and expectations. The Company corroborates and validates the primary pricing sources through a variety of procedures that include but are not limited to comparison to additional independent third-party pricing services or brokers, where possible; a review of third-party pricing service methodologies; back testing; and comparison of prices to actual trades for specific securities where observable data exists. In addition, the Company analyzes the primary third-party pricing service s methodologies and related inputs and also evaluates the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy. Finally, the Company also performs additional evaluations when individual prices fall outside tolerance levels for prices received from third-party pricing services.

Fair value measurements for assets and liabilities where there exists limited or no observable market data are calculated using the Company s own estimates and are categorized as Level 3. These estimates are based on current interest rates, credit spreads, liquidity premium or discount, the economic and competitive environment, unique characteristics of the asset or liability, and other pertinent factors. Therefore, these estimates cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any valuation technique. Further, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company s own estimates of fair value of fixed maturity and equity securities are derived in a number of ways, including but not limited to: 1) pricing provided by brokers, where the price indicates reliability as to value; 2) fair values of comparable securities, incorporating a spread adjustment for maturity differences, collateralization, credit quality, liquidity, and other items, if applicable; 3) discounted cash flow models and margin spreads; 4) bond yield curves; 5) observable market prices and exchange transaction information not provided by external pricing services; and 6) statement values provided to the Company by fund managers.

The determination of the value of the Company s liabilities that are reported at fair value in the financial statements is the responsibility of the Company s valuation actuary group, which reports to the Company s Senior Vice President and Actuary. This group manages and creates the policies and processes used to determine the fair value for these liabilities. This methodology uses internal assumptions and directed third-party inputs to derive a value including a risk-neutral option pricing model that incorporates a third-party-developed index that is consistent with the attributes of the product and provides

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

for an approximate match of the volatility measure with the expected life of the underlying contracts. The fair value methodologies and the fair values are reviewed by the Senior Vice President and Actuary, the Principal Accounting Officer, and the Chief Financial Officer. The results of those reviews are made known to the Company s Disclosure Committee and to the Company s Audit Committee. In addition, any significant policy or process changes made during the quarter are also discussed with the Company s Audit Committee.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Categories Reported at Fair Value

The following tables present categories reported at fair value on a recurring basis.

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,781	$ 119,991	$ 3,120	$ 135,892
Federal agencies [1]	-	26,123	-	26,123
Federal agency issued residential mortgage-backed securities [1]	-	106,439	-	106,439
Subtotal	12,781	252,553	3,120	268,454
Corporate obligations:				
Industrial	-	542,488	2,453	544,941
Energy	-	191,293	2,383	193,676
Communications and technology	-	219,485	-	219,485
Financial	-	305,180	11,642	316,822
Consumer	-	514,515	21,037	535,552
Public utilities	-	292,514	-	292,514
Subtotal	-	2,065,475	37,515	2,102,990
Corporate private-labeled residential mortgage-backed securities	-	151,638	-	151,638
Municipal securities	-	169,784	4,364	174,148
Other	-	103,178	-	103,178
Redeemable preferred stocks	15,842	-	-	15,842
Fixed maturity securities	28,623	2,742,628	44,999	2,816,250
Equity securities	2,131	33,904	1,149	37,184
Total	$ 30,754	$ 2,776,532	$ 46,148	$ 2,853,434
Percent of total	1%	97%	2%	100%
Liabilities:				
Other policyholder funds				
GMWB	$ -	$ -	$ 278	$ 278
Total	$ -	$ -	$ 278	$ 278

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Notes to Consolidated Financial Statements (Unaudited) Continued

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 12,876	$ 118,130	$ 3,431	$ 134,437
Federal agencies [1]	-	25,881	-	25,881
Federal agency issued residential mortgage-backed securities [1]	-	119,637	-	119,637
Subtotal	12,876	263,648	3,431	279,955
Corporate obligations:				
Industrial	-	486,380	500	486,880
Energy	-	169,342	2,369	171,711
Communications and technology	-	201,393	-	201,393
Financial	-	307,464	10,614	318,078
Consumer	-	474,553	21,934	496,487
Public utilities	-	296,337	-	296,337
Subtotal	-	1,935,469	35,417	1,970,886
Corporate private-labeled residential mortgage-backed securities	-	156,902	-	156,902
Municipal securities	-	163,611	4,911	168,522
Other	-	94,656	-	94,656
Redeemable preferred stocks	11,221	-	-	11,221
Fixed maturity securities	24,097	2,614,286	43,759	2,682,142
Equity securities	2,216	33,350	1,123	36,689
Total	$ 26,313	$ 2,647,636	$ 44,882	$ 2,718,831
Percent of total	1%	97%	2%	100%
Liabilities:				
Other policyholder funds				
GMWB	$ -	$ -	$ (187)	$ (187)
Total	$ -	$ -	$ (187)	$ (187)

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following tables present the fair value of fixed maturity and equity securities available for sale by pricing source and fair value hierarchy level.

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities available for sale:				
Priced from external pricing services	$ 28,623	$ 2,695,082	$ -	$ 2,723,705
Priced from independent broker quotations	-	47,546	-	47,546
Priced from internal matrices and calculations	-	-	44,999	44,999
Subtotal	28,623	2,742,628	44,999	2,816,250
Equity securities available for sale:				
Priced from external pricing services	2,131	7,271	-	9,402
Priced from independent broker quotations	-	-	-	-
Priced from internal matrices and calculations	-	26,633	1,149	27,782
Subtotal	2,131	33,904	1,149	37,184
Total	$ 30,754	$ 2,776,532	$ 46,148	$ 2,853,434
Percent of total	1%	97%	2%	100%

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities available for sale:				
Priced from external pricing services	$ 24,097	$ 2,582,617	$ -	$ 2,606,714
Priced from independent broker quotations	-	31,669	-	31,669
Priced from internal matrices and calculations	-	-	43,759	43,759
Subtotal	24,097	2,614,286	43,759	2,682,142
Equity securities available for sale:				
Priced from external pricing services	2,216	7,444	-	9,660
Priced from independent broker quotations	-	-	-	-
Priced from internal matrices and calculations	-	25,906	1,123	27,029
Subtotal	2,216	33,350	1,123	36,689
Total	$ 26,313	$ 2,647,636	$ 44,882	$ 2,718,831

Percent of total	1%	97%	2%	100%

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the second quarter and six months ended June 30, 2012 and year ended December 31, 2011 are summarized below:

	Quarter Ended June 30, 2012			
	Assets			Liabilities
	Fixed maturity securities available for sale	Equity securities available for sale	Total	GMWB
Beginning balance	$ 45,652	$ 1,093	$ 46,745	$ (950)
Included in earnings	3	-	3	1,371
Included in other comprehensive income	260	56	316	-
Purchases, issuances, sales and other dispositions:				
Purchases	-	-	-	-
Issuances	-	-	-	141
Sales	-	-	-	-
Other dispositions	(916)	-	(916)	(284)
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Ending balance	$ 44,999	$ 1,149	$ 46,148	$ 278
Net unrealized losses	$ 248	$ 56	$ 304	

	Six Months Ended June 30, 2012			
	Assets			Liabilities
	Fixed maturity securities available for sale	Equity securities available for sale	Total	GMWB
Beginning balance	$ 43,759	$ 1,123	$ 44,882	$ (187)
Included in earnings	7	-	7	683
Included in other comprehensive income	(39)	26	(13)	-
Purchases, issuances, sales and other dispositions:				
Purchases	-	-	-	-
Issuances	-	-	-	196
Sales	-	-	-	-
Other dispositions	(2,542)	-	(2,542)	(414)
Transfers into Level 3	3,814	-	3,814	-
Transfers out of Level 3	-	-	-	-
Ending balance	$ 44,999	$ 1,149	$ 46,148	$ 278
Net unrealized losses	$ (51)	$ 26	$ (25)	

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

	Year Ended December 31, 2011			
	Assets			Liabilities
	Fixed maturity securities available for sale	Equity securities available for sale	Total	GMWB
Beginning balance	$ 55,801	$ 1,180	$ 56,981	$ (2,799)
Included in earnings	11	92	103	2,500
Included in other comprehensive income	1,385	51	1,436	-
Purchases, issuances, sales and other dispositions:				
Purchases	-	-	-	-
Issuances	-	-	-	163
Sales	-	-	-	-
Other dispositions	(2,977)	(200)	(3,177)	(51)
Transfers into Level 3	8,640	-	8,640	-
Transfers out of Level 3	(19,101)	-	(19,101)	-
Ending balance	$ 43,759	$ 1,123	$ 44,882	$ (187)
Net unrealized gains	$ 1,401	$ 105	$ 1,506	

The Company did not exclude any realized or unrealized gains or losses on items transferred into Level 3 in any of the periods presented. Depending upon the availability of Level 1 or Level 2 pricing, specific securities may transfer into or out of Level 3. The Company did not have any transfers between Level 1 or Level 2 during the second quarter or six months ended June 30, 2012.

The following table presents quantitative information about material Level 3 fair value measurements as of June 30, 2012.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (in basis points)	Weighted Average of Range
Fixed maturity securities	$ 44,999	Market comparable	Spread adjustment	46-367	190

The Company s primary category of Level 3 fair values is fixed maturity securities, totaling $45.0 million as of June 30, 2012. These assets are valued using comparable security valuations through the unobservable input of estimated discount spreads. Specifically, the Company reviews the values and discount spreads on similar securities for which such information is observable in the market. Estimates of increased discount spreads are then determined based upon the characteristics of the securities being evaluated. The Company estimates that an increased spread of 10 basis points on each of the Level 3 securities would reduce the reported fair value by $0.2 million, as of June 30, 2012.

Other assets and liabilities categorized as Level 3 for purposes of fair value determination are not material to the Company s financial statements, and the sensitivities of such valuations to unobservable inputs are also believed to not be material.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The table below is a summary of fair value estimates at June 30, 2012 and December 31, 2011 for financial instruments. The Company has not included assets and liabilities that are not financial instruments in this disclosure. The total of the fair value calculations presented do not represent, and should not be construed to represent, the underlying value of the Company.

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Investments:				
Fixed maturity securities available for sale	$ 2,816,250	$ 2,816,250	$ 2,682,142	$ 2,682,142
Equity securities available for sale	37,184	37,184	36,689	36,689
Mortgage loans	579,500	623,887	601,923	642,905
Policy loans	79,447	79,447	80,375	80,375
Cash and short-term investments	23,021	23,021	59,752	59,752
Separate account assets	320,566	320,566	316,609	316,609
Liabilities:				
Individual and group annuities	1,112,283	1,091,546	1,082,324	1,062,407
Supplementary contracts without life contingencies	54,898	53,872	56,193	54,824
Separate account liabilities	320,566	320,566	316,609	316,609
Other policyholder funds GMWB	278	278	(187)	(187)

5. Financing Receivables

The Company has financing receivables that have both a specific maturity date, either on demand or on a fixed or determinable date, and are recognized as an asset in the Consolidated Balance Sheets.

The table below identifies the Company s financing receivables by classification at June 30, 2012 and December 31, 2011.

	June 30 2012	December 31 2011
Receivables:		
Agent receivables, net (allowance $2,230; $2,226 2011)	$ 1,527	$ 1,708
Investment-related financing receivables:		
Mortgage loans, net (allowance $2,517; $2,849 2011)	579,500	601,923
Total financing receivables	$ 581,027	$ 603,631

The following table details the activity of the allowance for uncollectible accounts on agent receivables at June 30, 2012 and December 31, 2011.

	June 30 2012	December 31 2011
Beginning of year	$ 2,226	$ 644
Additions	154	1,724
Deductions	(150)	(142)
End of period	$ 2,230	$ 2,226

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table details the mortgage loan portfolio as collectively or individually evaluated for impairment.

	June 30 2012	December 31 2011
Mortgage loans collectively evaluated for impairment	$ 582,017	$ 604,772
Mortgage loans individually evaluated for impairment	-	-
Allowance for potential future losses	(2,517)	(2,849)
Carrying value	$ 579,500	$ 601,923

The following table details the activity of the allowance for potential future losses on mortgage loans at June 30, 2012 and December 31, 2011.

	June 30 2012	December 31 2011
Beginning of year	$ 2,849	$ 3,410
Additions	32	-
Deductions	(364)	(561)
End of period	$ 2,517	$ 2,849

Agent Receivables

The Company has agent receivables which are classified as financing receivables and are reduced by an allowance for doubtful accounts. These trade receivables from agents are long-term in nature and are specifically assessed as to the collectability of each receivable. The Company s gross agent receivables totaled $3.7 million at June 30, 2012, and the Company maintained an allowance for doubtful accounts totaling $2.2 million. Gross agent receivables totaled $3.9 million with an allowance for doubtful accounts of $2.2 million at December 31, 2011. The Company has two types of agent receivables, including:

Agent specific loans. At June 30, 2012, these loans totaled $1.0 million with an allowance for doubtful accounts of $0.2 million. At December 31, 2011, agent specific loans totaled $0.8 million with an allowance for doubtful accounts of $0.2 million.

Various agent commission advances and other commission receivables. Gross agent receivables in this category totaled $2.7 million, with an allowance for doubtful accounts of $2.0 million at June 30, 2012. Gross agent receivables totaled $3.1 million and the allowance for doubtful accounts was $2.0 million at December 31, 2011.

Mortgage Loans

The Company considers its mortgage loan portfolio to be long-term financing receivables. Mortgage loans are stated at cost, net of an allowance for potential future losses. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection. Loans in foreclosure, loans considered impaired, or loans past due 90 days or more are placed on a non-accrual status.

If a mortgage loan is determined to be on non-accrual status, the Company does not accrue interest income. The loan is independently monitored and evaluated as to potential impairment or foreclosure. This evaluation includes assessing the probability of receiving future cash flows, along with consideration of many of the factors described below. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly.

Generally, the Company considers its mortgage loans to be a portfolio segment. The Company considers its primary class to be property type. The Company primarily uses loan-to-value as its credit risk quality indicator but also monitors additional secondary risk factors, such as geographic distribution both on a regional and specific state basis. The mortgage loan portfolio segment is presented by property-type in a table in Note 3 Investments, as are geographic distributions for both regional and significant state concentrations. These measures are also supplemented with various other analytics to provide additional information concerning mortgage loans and management s assessment of financing receivables.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table presents an aging schedule for delinquent payments for both principal and interest at June 30, 2012 and December 31, 2011, by property type.

		Amount of Payments Past Due			
	Book Value	30-59 Days	60-89 Days	> 90 Days	Total
June 30, 2012					
Industrial	$ -	$ -	$ -	$ -	$ -
Medical	-	-	-	-	-
Office	159	9	-	-	9
Other	-	-	-	-	-
Total	$ 159	$ 9	$ -	$ -	$ 9
December 31, 2011					
Industrial	$ -	$ -	$ -	$ -	$ -
Office	816	13	-	-	13
Medical	7,019	75	-	-	75
Other	-	-	-	-	-
Total	$ 7,835	$ 88	$ -	$ -	$ 88

At June 30, 2012, there was one mortgage loan that was 30 days past due. Subsequently, payment was received and this loan was brought current in July 2012.

The allowance for potential future losses on mortgage loans is maintained at a level believed by management to be adequate to absorb estimated credit losses. Management s periodic evaluation and assessment of the adequacy of the reserve is based on known and inherent risks in the portfolio, historical and industry data, current economic conditions, and other relevant factors. The Company assesses the amount it maintains in the mortgage loan allowance through an assessment of what the Company believes are relevant factors at both the macro-environmental level and specific loan basis. A loan is considered impaired if it is probable that contractual amounts due will not be collected. The Company s allowance for potential future losses was $2.5 million at June 30, 2012 and $2.8 million at December 31, 2011. For information regarding management s periodic evaluation and assessment of mortgage loans and the allowance for potential future losses, please refer to Note 5 Financing Receivables in the Company s 2011 Form 10-K.

The Company has had three mortgage loan defaults in the current and prior year. One loan was foreclosed in the first quarter of 2012 and an impairment of $0.2 million was recorded. One of the loan defaults in 2011 resulted in an impairment of $0.4 million, while the second loan default in 2011 did not result in an impairment based upon the fair value of the property being greater than the loan value. The Company had no troubled loans that were restructured or modified during 2012 or 2011.

6. Variable Interest Entities

The Company invests in certain affordable housing and real estate joint ventures which are considered to be variable interest entities (VIEs) and are included in Real Estate in the Consolidated Balance Sheets. The assets held in affordable housing real estate joint venture VIEs are primarily residential real estate properties that are restricted to provide affordable housing under federal or state programs for varying periods of time. The restrictions primarily apply to the rents that may be paid by tenants residing in the properties during the term of an agreement to remain in the affordable housing program. Investments in real estate joint ventures are equity interests in partnerships or limited liability corporations that may or may not participate in profits or residual value. In certain cases, the Company may issue fixed-rate senior mortgage loan investments secured by properties controlled by VIEs. These investments are classified as mortgage loans in the Consolidated Balance Sheets, and the income received from such investments is recorded as investment income in the Consolidated Statements of Comprehensive Income. For additional information, please refer to Note 6 Variable Interest Entities in the Company s 2011 Form 10-K.

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Notes to Consolidated Financial Statements (Unaudited) Continued

The following table presents the carrying amount and maximum exposure to loss relating to VIEs for which the Company holds a variable interest, but is not the primary beneficiary, and which had not been consolidated at June 30, 2012 and December 31, 2011. The table includes investments in eight real estate joint ventures and 28 affordable housing real estate joint ventures at June 30, 2012 and investments in eleven real estate joint ventures and 28 affordable housing real estate joint ventures at December 31, 2011.

	June 30 2012		December 31 2011	
	Carrying Amount	Maximum Exposure to Loss	Carrying Amount	Maximum Exposure to Loss
Real estate joint ventures	$ 24,089	$ 24,089	$ 35,551	$ 35,551
Affordable housing real estate joint ventures	24,171	60,966	20,749	61,124
Total	$ 48,260	$ 85,055	$ 56,300	$ 96,675

The maximum exposure to loss relating to the real estate joint ventures and affordable housing real estate joint ventures, as shown in the table above, is equal to the carrying amounts plus any unfunded equity commitments, exposure to potential recapture of tax credits, guarantees of debt, or other obligations of the VIE with recourse to the Company. Unfunded equity and loan commitments typically require financial or operating performance by other parties and have not yet become due or payable but which may become due in the future.

At June 30, 2012 and December 31, 2011, the Company had $1.4 million and $6.4 million, respectively, in fixed-rate senior mortgage loan commitments outstanding to the benefit of entities that are also real estate joint venture VIEs. The loan commitments are included in the discussion of commitments in the Notes to Consolidated Financial Statements for both periods. The Company also has contingent commitments to fund additional equity contributions for operating support to certain real estate joint venture VIEs, which could result in additional exposure to loss. However, the Company is not able to quantify the amount of these contingent commitments.

In addition, the maximum exposure to loss on affordable housing joint ventures at June 30, 2012 and December 31, 2011 includes $11.2 million and $13.2 million, respectively, of losses which could be realized if the tax credits received by the VIEs were recaptured. Recapture events would cause the Company to reverse some or all of the benefit previously recognized by the Company or third parties to whom the tax credit interests were transferred. A recapture event can occur at any time during a 15-year required compliance period. The principal causes of recapture include financial default and non-compliance with affordable housing program requirements by the properties controlled by the VIE. The potential exposure due to recapture may be mitigated by guarantees from the managing member or managing partner in the VIE, insurance contracts, or changes in the residual value accruing to the Company s interests in the VIEs.

7. Change in Accounting Principle

The Company adopted Accounting Standards Update (ASU) No. 2010-26 *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts,* effective January 1, 2012. This guidance modifies the types of costs incurred by insurance entities that can be capitalized when issuing or renewing insurance contracts. The guidance defines allowable deferred acquisition costs as incremental or directly related to the successful acquisition of new or renewal contracts. In addition, certain costs related directly to acquisition activities performed by the insurer, such as underwriting and policy issuance, are also deferrable. This guidance also defines the considerations for the deferral of direct-response advertising costs.

Effective January 1, 2012, the Company prospectively adopted this guidance. Pursuant to this guidance, the Company evaluated the types of acquisition costs it capitalizes. The Company capitalizes agent compensation and benefits and other expenses that are directly related to the successful acquisition of contracts. The Company also capitalizes expenses directly related to activities performed by the Company, such as underwriting, policy issuance, and processing fees incurred in connection with successful contract acquisitions.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Deferred acquisition costs are capitalized as incurred. These costs for life insurance products are generally deferred and amortized over the premium paying period. Policy acquisition costs that relate to interest sensitive and variable insurance products are deferred and amortized in relation to the estimated gross profits to be realized over the lives of the contracts. For interest sensitive and variable insurance products, estimated gross profits are composed of net interest income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality gains and losses. At the issuance of policies, projections of estimated gross profits are made which are then replaced by actual gross profits over the lives of the policies. The Company considers the following assumptions to be of significance when projecting future estimated gross profits: mortality, interest rates and spreads, surrender and withdrawal rates, and expense margins.

The amount of acquisition costs capitalized during the second quarter and six months ended June 30, 2012 were $9.3 million and $19.0 million, respectively. The amount of acquisition costs that would have been capitalized during the second quarter and six months ended June 30, 2012 if the Company s previous policy had been applied during that period would have been $8.8 million and $17.5 million, respectively. Thus, the adoption of this guidance resulted in a $0.6 million and a $1.5 million increase in the amount of acquisition costs capitalized during the two respective periods. The net result of the adoption of ASU No. 2010-26 were increases of $0.8 million and $1.4 million in pretax earnings in the second quarter and six months ended June 30, 2012, respectively.

8. Separate Accounts

The Company has a guaranteed minimum withdrawal benefit (GMWB) rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. The value of variable annuity separate accounts with the GMWB rider was $91.6 million at June 30, 2012 (December 31, 2011 - $86.6 million) and the guarantee liability was $0.3 million at June 30, 2012 (December 31, 2011 - ($0.2) million). The value of the GMWB rider is recorded at fair value. The change in this value is included in policyholder benefits in the Consolidated Statements of Comprehensive Income. The value of variable annuity separate accounts with the GMWB rider is recorded in separate account liabilities, and the value of the rider is included in other policyholder funds in the Consolidated Balance Sheets. The determination of fair value of the GMWB liability requires models that use actuarial and financial market assumptions, which reflect the assumptions market participants would use in pricing the contract, including adjustments for risk and issuer non-performance.

Guarantees are offered under variable universal life and variable annuity contracts: a guaranteed minimum death benefit (GMDB) rider is available on certain variable universal life contracts, and GMDB are provided on all variable annuities. The GMDB rider for variable universal life and variable annuity contracts guarantees the death benefit for specified periods of time, regardless of investment performance, provided cumulative premium requirements are met. The total reserve held for the variable annuity GMDB at June 30, 2012 was $0.1 million (December 31, 2011 - $0.2 million).

9. Notes Payable

The Company had no notes payable at June 30, 2012 or December 31, 2011.

As a member of the Federal Home Loan Bank of Des Moines (FHLB) with a capital investment of $4.7 million, the Company has the ability to borrow on a collateralized basis from the FHLB. The Company received dividends on the capital investment of less than $0.1 million in both the second quarter and the six-month period ended June 30, 2012. Dividends received were less than $0.1 million in the second quarter and $0.1 million for the six-month period ended June 30, 2011.

The Company has unsecured revolving lines of credit of $60.0 million with two major commercial banks with no balances outstanding and which are at variable interest rates based upon short-term indices. These lines of credit will expire in June of 2013. The Company anticipates renewing these lines as they come due.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

10. Income Taxes

The following table provides a reconciliation of the federal income tax rate to the Company s effective income tax rate for the second quarters and six months ended June 30, 2012 and 2011.

	Quarter Ended June 30		Six Months Ended June 30	
	2012	2011	2012	2011
Federal income tax rate	35%	35%	35%	35%
Tax credits, net of equity adjustment	(1)	-	-	-
Permanent differences	(1)	(1)	(1)	(1)
Other	2	-	-	-
Effective income tax rate	35%	34%	34%	34%

The Company did not have any uncertain tax positions at June 30, 2012.

At June 30, 2012, the Company had a $2.3 million current tax liability and a $75.7 million deferred tax liability, compared to a $0.3 million current tax recoverable and a $68.8 million deferred tax liability at December 31, 2011.

11. Pensions and Other Postretirement Benefits

The following table provides the components of net periodic benefit cost for the second quarters and six months ended June 30, 2012 and 2011:

	Pension Benefits Quarter Ended June 30		Other Benefits Quarter Ended June 30	
	2012	2011	2012	2011
Service cost	$ -	$ -	$ 199	$ 161
Interest cost	1,475	1,871	452	387
Expected return on plan assets	(2,225)	(2,342)	(8)	(9)
Amortization of:				
Unrecognized actuarial loss	575	896	70	4
Unrecognized prior service cost	-	-	(63)	(68)
Net periodic benefit cost (income)	$ (175)	$ 425	$ 650	$ 475

	Pension Benefits Six Months Ended June 30		Other Benefits Six Months Ended June 30	
	2012	2011	2012	2011
Service cost	$ -	$ -	$ 399	$ 321
Interest cost	2,950	3,742	902	774
Expected return on plan assets	(4,450)	(4,684)	(16)	(18)
Amortization of:				
Unrecognized actuarial (gain) loss	(850)	1,792	141	9
Unrecognized prior service cost	-	-	(126)	(136)
Net periodic benefit cost (income)	$ (2,350)	$ 850	$ 1,300	$ 950

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

During the first quarter of 2012, the Company identified an error related to the amortization period for unrecognized actuarial gains and losses for its pension plan. The Company determined that upon curtailment of the plan on January 1, 2011, the status of the plan participants should have changed from active to inactive. The amortization period was corrected from the average remaining service period of plan participants, approximately 10 years, to the average remaining life expectancy of plan participants, approximately 26 years. The Company has recognized a $2.0 million pre-tax benefit related to the reversal of amortization recorded during 2011.

12. Share-Based Payment

The Company has a long-term incentive plan for senior management that provides a cash award to participants for the increase in the share price of the Company s common stock through units (phantom shares) assigned by the Board of Directors. The cash award is calculated over a three-year interval on a calendar year basis. At the conclusion of each three-year interval, participants will receive a cash award based on the increase in the share price during a defined measurement period, multiplied by the number of units. The increase in the share price will be determined based on the change in the share price from the beginning to the end of the three-year interval. Dividends are accrued and paid at the end of each three-year interval to the extent that they exceed negative stock price appreciation. Plan payments are contingent on the continued employment of the participant unless termination is due to a qualifying event such as death, disability, or retirement. The Company does not make payments in shares, warrants, or options.

No payments were made under this plan during the first six months ended June 30, 2012 and 2011.

At each reporting period, an estimate of the share-based compensation expense is accrued, utilizing the share price at the period end. The cost of share-based compensation accrued as an operating expense in the second quarter of 2012 was $0.2 million, net of tax. The change in accrual for share-based compensation that reduced operating expense in the second quarter of 2011 was $0.1 million, net of tax. The cost of compensation accrued as an operating expense for the six months ended June 30, 2012 was $0.5 million, net of tax. The change in accrual for share-based compensation that reduced operating expense in the first six months of 2011 was less than $0.1 million, net of tax.

13. Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes the unrealized investment gains or losses on securities available for sale (net of adjustments for realized investment gains or losses) net of adjustments to DAC, VOBA, future policy benefits, and policyholder account balances. In addition, other comprehensive income includes the change in the liability for benefit plan obligations. Other comprehensive income reflects these items net of tax.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The table below provides information about comprehensive income for the second quarters and six months ended June 30, 2012 and 2011.

	Quarter Ended June 30, 2012		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year			
Fixed maturity securities	$ 32,275	$ 11,297	$ 20,978
Equity securities	(55)	(20)	(35)
Less reclassification adjustments:			
Net realized investment gains (losses), excluding impairment losses	412	144	268
Other-than-temporary impairment losses recognized in earnings	(188)	(66)	(122)
Other-than-temporary impairment losses recognized in other comprehensive income	42	15	27
Net unrealized gains (losses) excluding impairment losses	31,954	11,184	20,770
Effect on DAC and VOBA	(7,454)	(2,609)	(4,845)
Future policy benefits	(5,389)	(1,887)	(3,502)
Policyholder account balances	(219)	(76)	(143)
Other comprehensive income	$ 18,892	$ 6,612	$ 12,280
Net income			8,397
Comprehensive income			$ 20,677

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

	Quarter Ended June 30, 2011		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year			
Fixed maturity securities	$ 39,150	$ 13,703	$ 25,447
Equity securities	41	14	27
Less reclassification adjustments:			
Net realized investment gains (losses), excluding impairment losses	2,013	705	1,308
Other-than-temporary impairment losses recognized in earnings	(238)	(83)	(155)
Other-than-temporary impairment losses recognized in other comprehensive income	56	20	36
Net unrealized gains (losses) excluding impairment losses	37,360	13,075	24,285
Effect on DAC and VOBA	(6,897)	(2,414)	(4,483)
Future policy benefits	(4,502)	(1,576)	(2,926)
Policyholder account balances	(127)	(44)	(83)
Other comprehensive income	$ 25,834	$ 9,041	$ 16,793
Net income			11,173
Comprehensive income			$ 27,966

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

	Six Months Ended June 30, 2012		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year			
Fixed maturity securities	$ 39,599	$ 13,860	$ 25,739
Equity securities	(53)	(19)	(34)
Less reclassification adjustments:			
Net realized investment gains (losses), excluding impairment losses	880	308	572
Other-than-temporary impairment losses recognized in earnings	(456)	(160)	(296)
Other-than-temporary impairment losses recognized in other comprehensive income	150	53	97
Net unrealized gains (losses) excluding impairment losses	38,972	13,640	25,332
Effect on DAC and VOBA	(11,254)	(3,939)	(7,315)
Future policy benefits	(7,645)	(2,676)	(4,969)
Policyholder account balances	(335)	(117)	(218)
Other comprehensive income	$ 19,738	$ 6,908	$ 12,830
Net income			27,838
Comprehensive income			$ 40,668

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

	Six Months Ended June 30, 2011		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Net unrealized gains (losses) arising during the year			
Fixed maturity securities	$ 39,004	$ 13,652	$ 25,352
Equity securities	69	24	45
Less reclassification adjustments:			
Net realized investment gains (losses), excluding impairment losses	3,133	1,097	2,036
Other-than-temporary impairment losses recognized in earnings	(507)	(177)	(330)
Other-than-temporary impairment losses recognized in other comprehensive income	114	40	74
Net unrealized gains (losses) excluding impairment losses	36,333	12,716	23,617
Effect on DAC and VOBA	(6,830)	(2,391)	(4,439)
Future policy benefits	(3,395)	(1,189)	(2,206)
Policyholder account balances	(117)	(40)	(77)
Other comprehensive income	$ 25,991	$ 9,096	$ 16,895
Net income			15,964
Comprehensive income			$ 32,859

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides accumulated balances related to each component of accumulated other comprehensive income at June 30, 2012.

	Net Unrealized Gain (Loss) on Non-Impaired Securities	Net Unrealized Gain (Loss) on Impaired Securities	Benefit Plan Obligations	DAC/ VOBA Impact	Future Policy Benefits	Policyholder Account Balances	Tax Effect	Total
Beginning of year	$ 213,800	$ (15,612						