Kansas City Life Insurance Company

A unique Company that believes people are individuals with unique needs and concerns.

2000 ANNUAL REPORT

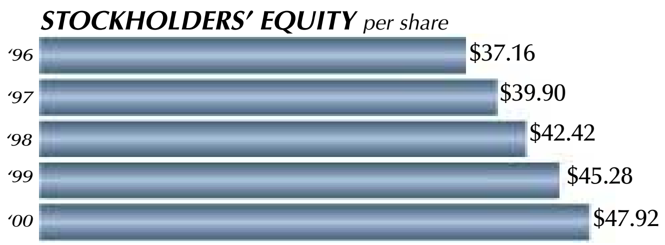
Social Security numbers, phone numbers, policy numbers, agent numbers, birth dates...all these things can be used to identify an individual…generic, impersonal and cold ways to be identified. At Kansas City Life Insurance, our advisors make a point to get to know you personally…where you went to college, names of pets or grandchildren, maybe even your favorite type of soda or how you take your coffee.

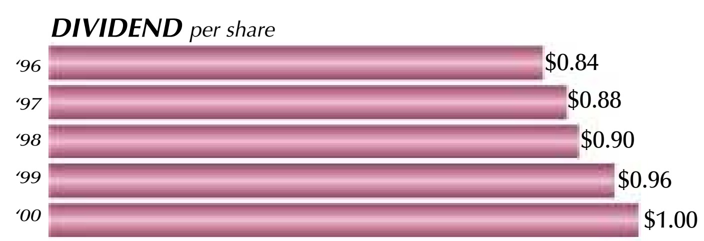
While home office associates may not know your favorite brand of coffee, you will find that we pride ourselves on personal, hands-on service. Long periods of listening to on-hold music, uncaring voices on the other end of the line and the feeling your concerns don't matter…you won't find that with us. Give us a few phone calls to get to know you and you may call one day and realize your customer service representative recognizes your voice before you tell them your name.

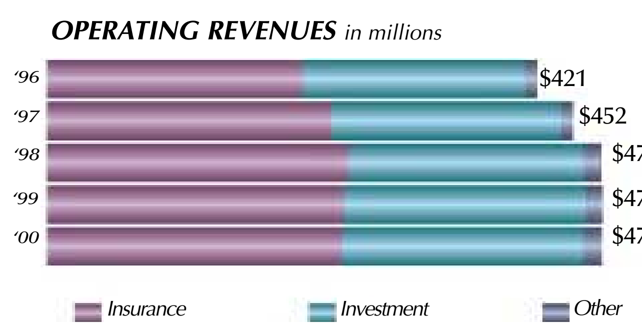
Ask our advisors why they do business with Kansas City Life and what, in their eyes, sets us apart. They'll tell you it's the personal aspect of working with associates at the home office….the ease of speaking directly to an underwriter who knows their son is graduating from high school this year and where he's going to college or speaking to a marketing associate who is not only a business partner but also a close friend.

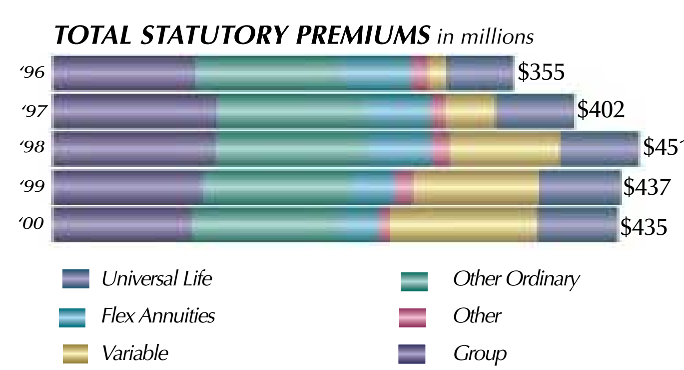
It may be hard to believe in this fast-paced, wired-in, go-through-the-drive-thru kind of world, but there's still a company who believes that people are individuals with unique needs and concerns, not just numbers on a piece of paper. That Company is Kansas City Life.

FINANCIAL HIGHLIGHTS









Operating income and revenues above exclude investment gains and losses.
Stockholders' equity per share excludes unrealized gains and losses.

CONTENTS

THE KANSAS CITY LIFE GROUP OF COMPANIES

Kansas City Life Insurance Company

www.kclife.com

Established in 1895 in Kansas City, Missouri, Kansas City Life Insurance Company serves policyholders from coast to coast with a variety of product lines including universal life, term life, whole life, interest sensitive whole life, annuities and group products. The Company and its subsidiaries reach a wide range of markets ranging from individuals to small businesses with financial services including insurance, investments* and banking.

Old American Insurance Company

www.oaic.com

Since 1939, Old American Insurance Company advisors have assisted senior individuals ages 50 to 85 through final arrangement planning and charitable giving programs.

Sunset Life Insurance Company of America

www.sunsetlife.com

Sunset Life Insurance Company is located in Kansas City, Missouri, and offers a product portfolio of competitive fixed products. Additionally, producers may market variable products through Sunset Financial Services.* Distribution is through a personal producing general agency system and advisors who assist clients throughout the United States and in some areas of Europe.

Sunset Financial Services, Inc.*

www.sunsetfinancial.com

Sunset Financial Services operates as a full-service brokerage firm and Registered Investment Advisor. Investment options available through SFS representatives include variable products, mutual funds, stocks and bonds, unit trusts, money market funds, CDs and asset management products.

Generations Bank

www.generationsbank.com

Generations Bank opened for business in July 2000. The Bank offers a full complement of services including credit cards, consumer and residential loans, federally-insured checking, savings, money market and certificate of deposit accounts and Internet banking. The Bank markets its services through advisors and direct contact channels.

*Securities distributed through Sunset Financial Services, Inc., 3520 Broadway, Kansas City, MO 64111, 816•753•7000 (OSJ), Member NASD and SIPC.

MESSAGE FROM THE PRESIDENT AND CEO

This past year brought continued earnings success. Kansas City Life achieved strong operating earnings growth in 2000 and, although we incurred net investment losses compared to investment gains the prior year, net income per share rose 11 percent. The sections of the Annual Report following this message discuss our accomplishments and challenges last year in some detail.

The year 2000 marked the third year of my presidency, and I am gratified by our achievements over that span of time. Operating earnings increased 14 percent a year, on average. Sales in those years averaged 37 percent above the average for the previous three-year period. Our ability to effectively and rapidly integrate acquisitions and efficiently process business was well demonstrated. Controllable home office expenses rose just 1.5 percent a year, on average, over the past three years even as we addressed the processing complexities of variable products and brought our computer systems into the new millennium. In fact, excluding the cost of our recent banking and customer relationship management initiatives, these expenses rose just 0.7 percent a year over the three years.

Kansas City Life possesses several key strengths that should allow it to extend this success into the coming years. We offer a broad range of competitive individual and group insurance products to meet the varying needs and objectives of our consumers. These products are marketed through a dedicated, productive sales force. We are developing banking and brokerage services to more fully satisfy the needs of our customers. Our service is exemplary to both our customers and sales force. We possess the technological expertise to efficiently and expertly administer our business on a common platform for all of our insurance companies and to take advantage of the rapidly expanding potential of the Internet. We have the financial strength to make the ongoing investments in technology that will allow the Company to become increasingly productive to derive competitive advantages. Our financial stability also ensures the security of our customers' financial future. Finally, Kansas City Life is most fortunate in its complement of dedicated and skilled employees, many of whom have considerable service with the Company, with second and third generation employees not uncommon. All of these strengths provide a solid foundation for growth and future success.

However, challenges remain. Profitable revenue growth remains a challenge for our industry as companies seek the critical mass necessary to compete in a consolidating financial services industry. The bar for the requisite competitive business size is rising each year, as is the threshold for the required revenue growth. Kansas City Life has responded by entering markets offering the potential for significant growth, including variable insurance, banking and fee-based services such as brokerage. But we recognize that these are competitive markets where scale and efficiency are essential to offering attractive products while achieving sufficient profit margins and returns on our stockholders' investment. We must enhance our marketing efforts across all lines of business and actively explore the acquisition of companies and blocks of business that will add synergies and scale to the corporate group. Our challenge is to leverage our strong capital base in order to raise our return on equity and fuel revenue growth.

We intend to build on past successes while employing our strengths to surmount these challenges, thus achieving our goals. We seek to provide security, service and value to our customers in order to assist them in achieving their personal objectives, recognizing that each has unique needs and concerns. We also aim to provide products, support and services to our sales force which will add value for them and assure their success, which is intertwined with ours. And, finally, we seek to add value for our stockholders in the form of higher returns on equity and stock market price so that they may share fully in our achievements. We have the ingredients for success in place, and with our ongoing focus and determination, we are optimistic about our future.

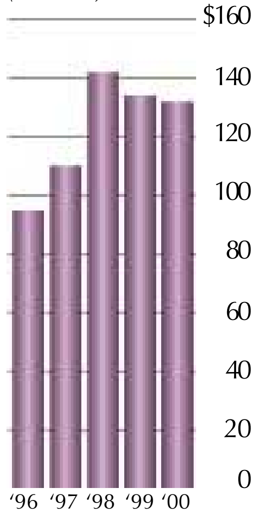
R. Philip Bixby

R. Philip Bixby

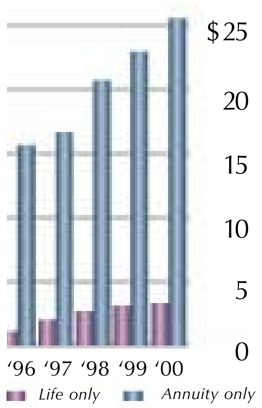
President and CEO R. Philip Bixby leads the Kansas City Life Insurance group of companies. Under his guidance, the Company continues to explore new ways to provide security and service to our policyholders.

MARKETING OPERATIONS

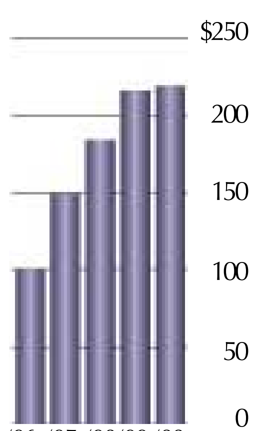
Consolidated New Annualized Premiums
(millions)



KCL's Premium Per New Policy
(000's)



KCL's Volume Per Case Sold
Life Only *(000's)*



Kansas City Life focused considerable effort on enhancing its product portfolio and adding improved technology during 2000. These initiatives position the Company to reach more diverse markets as well as increase sales and service to existing clients.

Technology

Through technologies like the Internet, Kansas City Life increased communication and service capabilities with our sales force, policyholders and consumers in general. The Company's enhanced web site now allows variable policyholders to access their account information on-line. Updates during 2001 will add value to the site and increase service to all customers.

KCL's financial advisors also are increasing their presence on the Internet. Through a corporate-sponsored partnership started late in 2000, advisors can create a personalized web site focusing on the services they provide. Interest is growing in this service and the Company anticipates that many more advisors will develop web sites in 2001.

Of great importance to advisors is FieldNet, the corporate extranet. FieldNet increases efficiency, decreases paper usage and gives the Company another avenue to communicate effectively with the field force. FieldNet enables advisors to track current business as it goes through processing in the home office and monitor business that is already "on the books." Many home office departments also use FieldNet to provide essential forms and updates to advisors.

Product Development

Two new products were introduced during 2000 — a CD Annuity and Nova, a universal life product. Both products were designed to compete directly with our major competitors and have unique features, like bonuses, to set them apart.

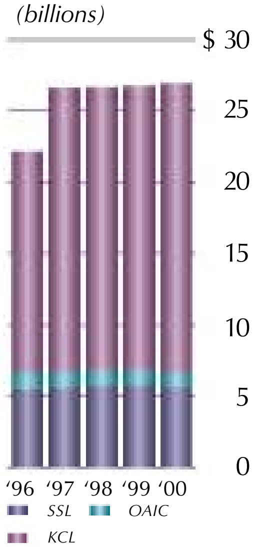
Groundwork for new variable products was laid during 2000. An enhanced variable universal life product will replace the current version, while a new variable annuity will be added to the Century II* product group. Variable products are our strongest products, generating more than 60 percent of consolidated sales during 2000 and increasing 134 percent over the past three years. The variable product line has generated $347.9 million in assets, up approximately 25 percent from 1999.

In August, two new fund managers, AIM and Seligman, and nine new sub-accounts were added to the Century II portfolio. Investors now have a choice of 30 subaccounts and one fixed account. The Company will continue to add investment choices as funds become available that fit client needs.

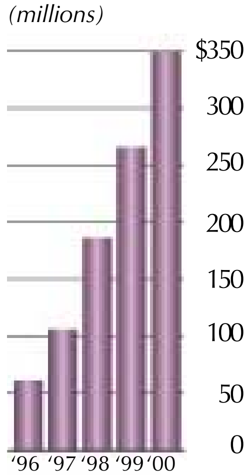
** A prospectus containing complete information, including charges and expenses, can be obtained by calling 800-616-3670. Please read the prospectus carefully before you invest or send money.*

MARKETING OPERATIONS
(CONTINUED)

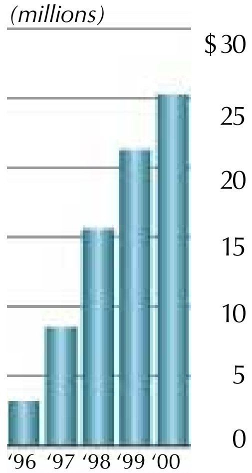
Consolidated Insurance in Force
(billions)



SFS Securities Volume
(millions)



SFS Gross Dealer Concessions
(millions)



Sunset Financial Services, Inc.

Sunset Financial Services (SFS) continues to show strong growth, as evidenced by the graphs shown on this page illustrating gross dealer concessions and securities volume. The broker-dealer focused on providing registered representatives with more investment choices and increased services options. Along those lines, the broker-dealer changed clearing firms to Correspondent Services Corporation (CSC), a subsidiary of Paine Webber. CSC offers expanded product service and access to Paine Webber's research platform, an option that previously was not available to SFS reps.

Like the parent company, SFS utilized technology in supporting its representatives. The broker-dealer extranet was developed during 2000, with a rollout date scheduled for early 2001. The extranet gives representatives access to complete client data, links to product vendors and fund managers and also allows SFS staff to communicate more effectively with representatives in the field.

Group

Group products posted strong results during 2000 led by sharp increases in the long-term disability product, dental product and Administrative Services Only fees. At year end, Group was up 4 percent over 1999, excluding the stop loss line of business, which was discontinued in late 1999. As a result of the momentum carried over from 2000, 2001 is expected to be another strong year, especially the first quarter.

Building Momentum

After strong results in 2000, KCL anticipates 2001 will bring more success. Several initiatives will come to fruition during 2001. A major move for KCL was the July 2000 opening of Generations Bank. The Bank offers a wide variety of banking services, including Internet banking and on-line bill payment. The Bank staff works closely with advisors to offer banking services to current policyholders as well as reaching outside audiences through direct marketing. In its first six months of operation, the Bank took in $3.7 million in deposits, made loans of $1.0 million, and saw its assets rise to more than $21.1 million.

Two other programs add depth to KCL's marketing efforts. Professional Partners Group (PPG) enables KCL advisors to partner with professionals of other disciplines, such as CPAs or attorneys, to offer needed financial services to existing clients. Another development for KCL is fee-based planning. While relatively new during 2000, the Company expects the program to gain speed during 2001.

In the coming year, the Company will continue to expand technologically and add competitive new variable products to its portfolio. Through these initiatives and others Kansas City Life's service and commitment to policyholders and sales advisors will set new standards.

KCL's advisors are the cornerstone of our business. Our advisors take pride in providing an individualized financial plan for each customer. The Kansas City Life group supplies education, training and support to make sure your advisor knows the latest about products, tax and estate regulations and other timely issues that affect your financial future. Consider us your financial partner.

INVESTMENT OPERATIONS

Investment Department Goals

As stated in prior annual reports, our investment philosophy is:

(1) To maintain a high-quality portfolio that minimizes the risk of principal loss;
(2) To obtain the best return on investment for the given amount of risk assumed by constantly analyzing a variety of markets; and
(3) To maintain equilibrium between the market values and maturities of the Company's liabilities and the market values and maturities of the assets which support them.

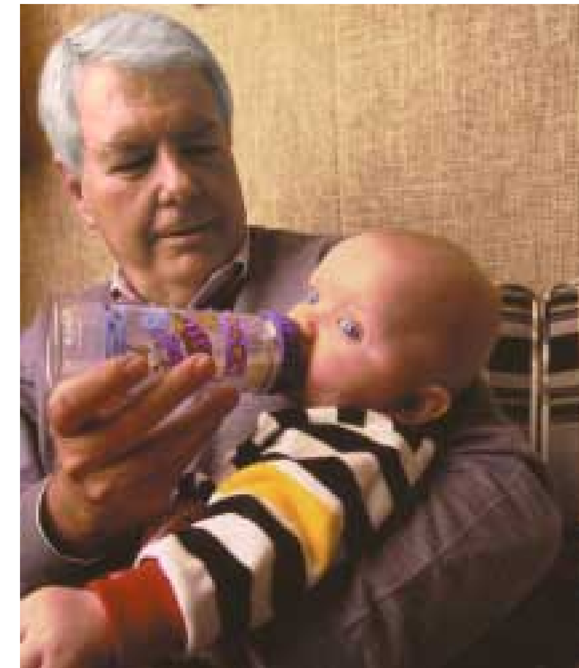
Income and Asset Growth

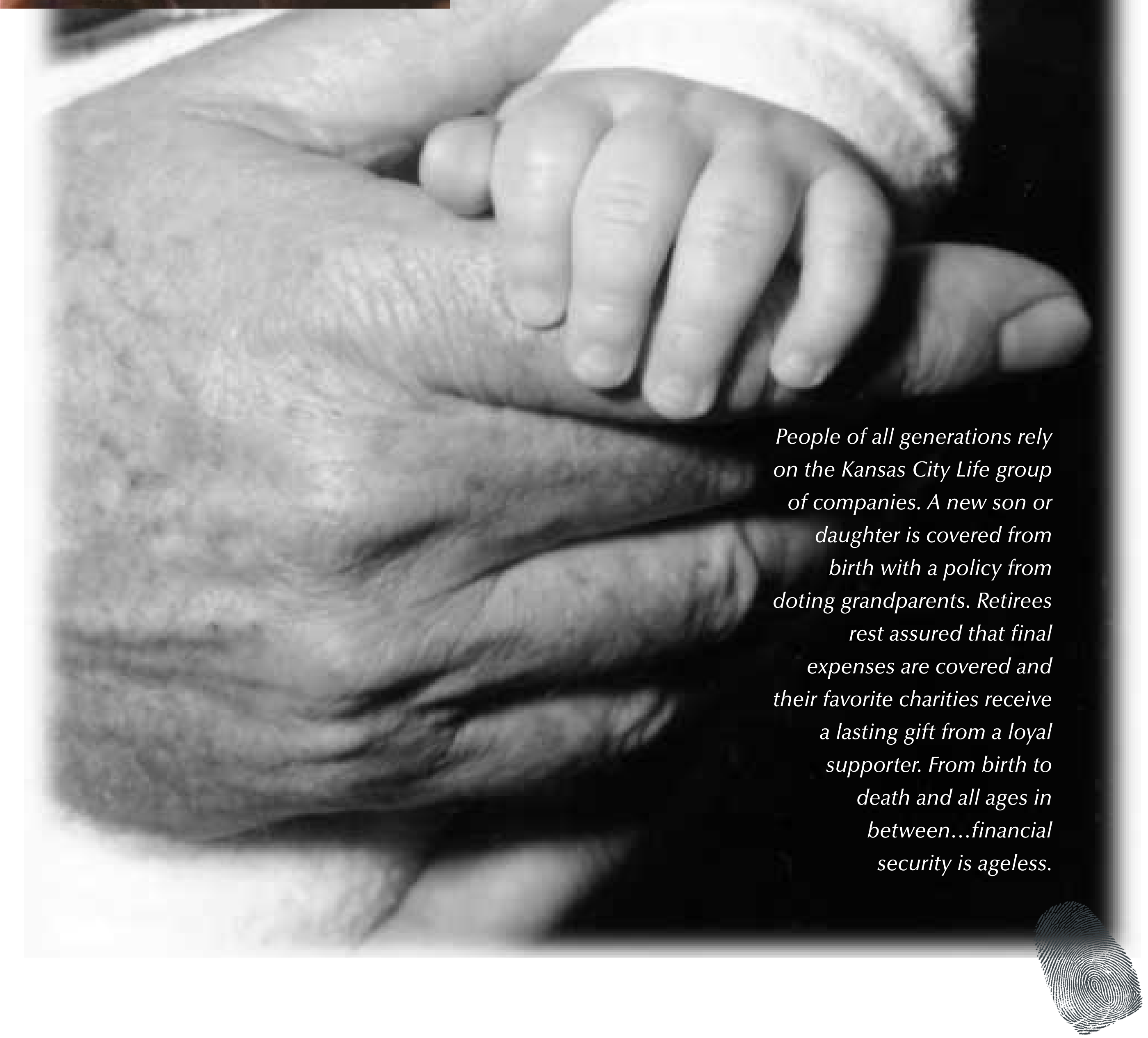
Net investment income for the year was $207.1 million compared to $207.7 million in 1999, a decrease of 0.3 percent. This compares with a 2.6 percent increase for the prior year. Gross investment income increased by 0.3 percent while investment expenses increased by 9.8 percent. Investment assets for 2000 were $2.755 billion, a decrease of $26.2 million, or 0.9 percent. With respect to that portion of the securities portfolio, which is marked-to-market under the provisions of FAS No. 115, there was a decrease of $14.7 million in the unrealized loss. Excluding the mark-to-market adjustments, investment assets decreased by 1.5 percent. The net yield on the portfolio increased by 4 basis points, rising from 7.52 percent to 7.56 percent. The effect on the portfolio of changes in interest rates during the year is more fully discussed in the section entitled Investment Activity, Securities Division.

Financial Markets

During 2000, the technology and Internet bubble deflated as investors came to realize that profits must eventually materialize, even for high-flying and high-growth companies. After peaking in March, the NASDAQ composite index fell 39 percent for the year, its worst performance since being created in 1971. The year-end close of 2470 also represented a decline of 54 percent from the March peak. The Dow Jones Industrial Average and the S&P 500 Index, representing the broader large-capitalization market, finished the year in the negative column as well, finishing down 6 percent and 10 percent respectively. For the S&P 500 Index, that marks the worst one-year return since 1977. Bond markets, however, performed well. The 30-year U.S. Government Bond posted a one-year total return of more than 20 percent after losing 15 percent of its value in 1999. The broader bond markets showed solid gains as well, with the exception of high-yield, or junk bonds, which are more closely linked with equity markets. In many respects, 2000 was a marked reversal of 1999, a year in which domestic stock markets soared as the bond markets slumped.

Economic growth (GDP) slowed in the last half of the year, retreating from the torrid pace of more than 5 percent in late 1999 and early 2000. In part, the Federal Reserve engineered this slowing by raising short-term interest rates three times in the first five months of the year, pushing the key Federal Funds rate from 5.5 percent to 6.5 percent by mid-May. Rising interest rates, tight labor markets and soaring energy costs conspired to put a crimp on corporate profitability and ultimately on stock market valuations. By the final quarter of the year, GDP growth had fallen to less than 2 percent and the Federal Reserve Open Market Committee shifted its focus from inflationary risks to the risks of a slowing economy and the remote risk of an economic hard landing.





INVESTMENT OPERATIONS
(CONTINUED)

Investment Activity, Securities Division

Securities accounted for 76.6 percent of the invested assets of the Company at year end 2000, down from 79.9 percent in the prior year. After rising briefly in the early part of the year, interest rates fell during the balance of 2000, pushing the market value of our portfolio higher in relation to its book value. Book value exceeded market value by $71 million at year end. The market-to-book ratio of securities available for sale under FAS No.115 was 96.7 percent at year end. Our portfolio's effective duration, a measure of price sensitivity with respect to changes in interest rates, fell again this year to approximately 4.63 from 4.75 last year. Our portfolio's convexity, a measure of our bonds' gain versus loss potential for a given change in interest rates, decreased from +0.38 to +24.

Credit risk in the portfolio was lowered slightly from the previous year as we worked to improve the overall quality of our holdings in the face of a slowing economy. Investment grade securities comprise just under 91 percent of the portfolio, up from 1999 by a fractional amount. However, highly rated "AAA" bonds rose from 20 percent of the portfolio last year to 22 percent this year. Securities rated "BB," the highest quality of non-investment grade, fell modestly from 7 percent of the portfolio last year to 6 percent this year as we reduced our holdings through maturities, quality upgrades and bond swaps. Most other rating categories varied only slightly, leaving the average portfolio rating at "A." Kansas City Life continued to retain INVESCO as manager for the high-yield bond portfolio, although the amount allocated to this manager was scaled back significantly during 2000. INVESCO-managed assets accounted for $39 million in book value at year end, down 23 percent from last year. These bonds represent 1.8 percent of securities. Reflecting the difficult environment for high-yield assets, the market-to-book ratio for the INVESCO portfolio fell to 74 percent at year end.

Kansas City Life has tracked the total returns of its securities since 1994. Our internally managed portfolio's total return, which includes unrealized as well as realized gains and losses on our securities, rose to 8.38 percent in 2000, compared to -0.68 percent in 1999. However, 2000's total return lagged the index portfolio (Merrill Lynch's high-grade portfolio consisting of corporate, mortgage-backed and government bonds) by 369 basis points. Internally managed funds represent 96 percent of portfolio assets, unchanged from the prior year. Our outside-managed funds include INVESCO, in the high-yield sector, and Mesirow limited partnerships, in the alternative investment strategies sector. The high-yield bonds, among the best performing sector of the fixed income markets in 1999, fell by 6.6 percent. The Mesirow partnerships, benefiting from the tremendous volatility in world equity and fixed-income markets, posted a very respectable 15.1 percent return for the year.

The Company utilizes an asset-liability management (ALM) program which derives, in large measure, from the investment and cash flow requirements of our direct policyholder reserves. As part of our management process, we continuously assess the capital market risks and opportunities and balance them against the anticipated reserve increases or decreases. The slowing domestic economy and the increased risks in the capital markets prompted us to accelerate our efforts during the year to upgrade the quality levels of our holdings. We increased the concentration of U.S. government agency bonds and mortgage-backed securities and added to our holdings of enhanced equipment trusts, secured first mortgage utility bonds and higher-quality corporate bonds. In our capital and surplus accounts, we liquidated certain convertible bond and preferred holdings and raised liquidity levels. Another area of activity last year involved the creation of an investment portfolio for Generations Bank, our thrift subsidiary that began operations in July. By year end, we had accumulated approximately $19 million in securities for the bank, mostly in the form of mortgage-backed bonds with floating-rate coupons.

Establishing a successful small business requires detailed planning and dedication. Securing the financial future of the business is crucial. Kansas City Life helps small business owners pass on the business to heirs or make sure a business partner can afford to maintain the business. Owners also purchase life insurance or investments to help protect their financial future in case of an emergency. A financially secure business is smart business.

INVESTMENT OPERATIONS
(CONTINUED)

Investment Activity, Mortgage Division

At year end, mortgage loans totaled $396.7 million, up $56.0 million from the prior year and up $81.0 million from two years earlier. Mortgage loans represent 14.4 percent of our investment portfolio, versus 12.3 percent for 1999. For the life insurance industry as a whole, mortgage loans represented 11.4 percent of their portfolios last year. The market value of the mortgage loan portfolio exceeded its book value at year end by $12.3 million, up $24.0 million from the prior year.

At the beginning of the year, there were 3 mortgage loan commitments outstanding which totaled $3.4 million. During the year, 61 loan commitments were issued which totaled $94.3 million and loans totaling $82.1 million were funded. This left 11 mortgage loan commitments outstanding at year end which totaled $15.1 million. This was an increase from the prior year of $22.4 million in mortgage loans funded. Essentially all new money during 2000 went into mortgage loans. This high level of loan production continued to surprise on the upside as did the high quality of the loans being offered by our mortgage loan correspondents. It is not anticipated that 2001 loan production will be as favorable.

Investment Activity, Real Estate Division

Real estate owned outright totaled $44.4 million at year end, an increase of $2.4 million during the year. All of the increase was attributable to the development of industrial warehouses in Tulsa and the Quad Cities. At year end, two warehouses were under construction totaling 100,000 square feet and another warehouse expansion was nearing completion in the Quad Cities. These warehouses, when completed, along with five existing warehouses in Tulsa will result in a total investment of approximately $21.6 million. Included in this total are a number of vacant lots and tracts that were acquired for future development when market conditions warrant. Two lots were sold during the year at a gain of $0.3 million and a warehouse was sold with a gain of $0.9 million. Other investment real estate was sold with a net gain of $0.8 million.

In addition, real estate owned indirectly through joint ventures totaled $34.2 million, a decrease of $3.2 million during the year. Most of this decrease was caused by the amortization of the cost basis of affordable housing tax credit projects purchased in prior years. Real estate owned outright and through joint ventures totaled slightly less than 3 percent of our investment portfolio, which is approximately one percentage point higher than the average for the life insurance industry.

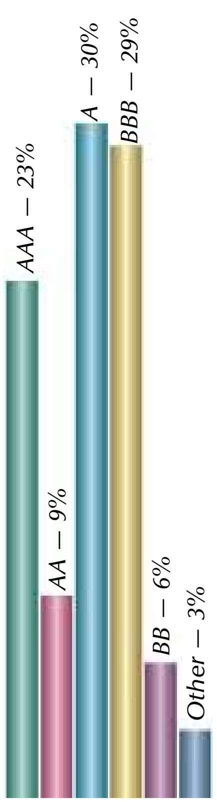
During the year, we sold three commercial properties that had been acquired through voluntary conveyance or foreclosure, and the sales produced a gain of $1.6 million based upon original cost. A valuation reserve of $0.3 million was released by these sales. In addition, net valuation reserves of $0.5 million were released on other existing properties during the year as a result of increases in their market values. The ongoing program of marketing foreclosed properties is now complete since all foreclosed properties have now been sold or are under contract pending closing.

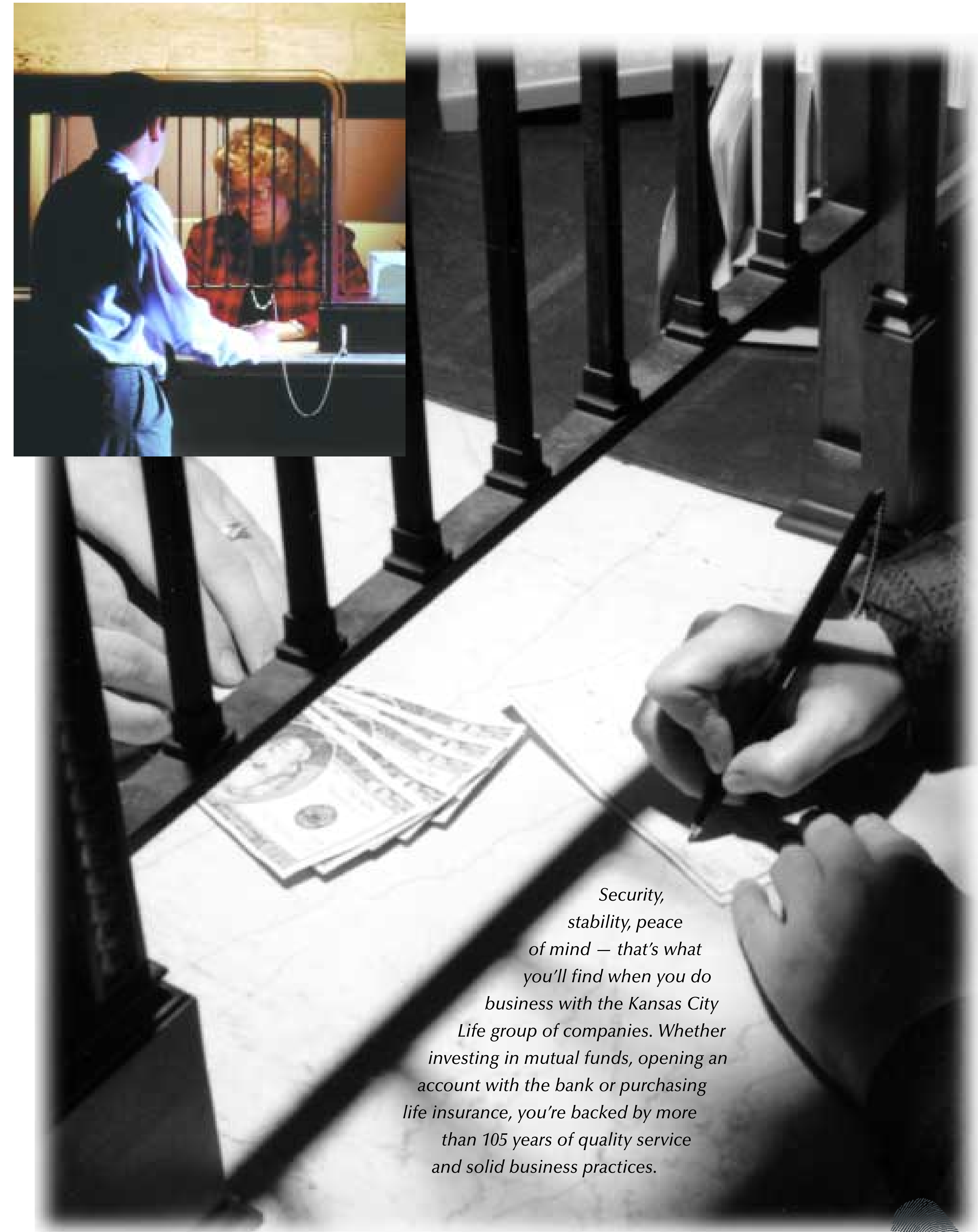
Net income from real estate totaled $7.7 million, an increase of $1.5 million over the prior year. The yield on the overall real estate portfolio was 18.5 percent versus last year's 15.7 percent. The highest yield was generated by our shopping centers, which earned almost $1.0 million more than their carrying value. The lowest yield was earned by our industrial warehouse developments, which was 6.7 percent in 2000 and 2.6 percent in the prior year.

Portfolio Quality, Securities

The chart at left depicts the percentage of the Company's bond and preferred stock assets in each rating category. Investment grade securities (those rated "BBB" or higher) comprise more

Securities Portfolio Quality
(Bonds and preferred stock)





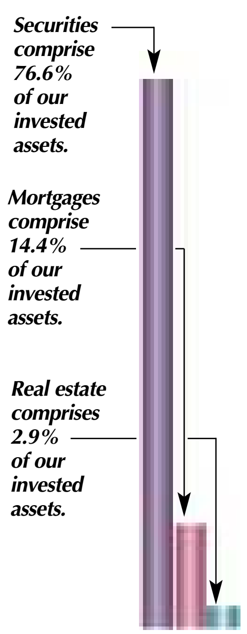
Security, stability, peace of mind — that's what you'll find when you do business with the Kansas City Life group of companies. Whether investing in mutual funds, opening an account with the bank or purchasing life insurance, you're backed by more than 105 years of quality service and solid business practices.

INVESTMENT OPERATIONS
(CONTINUED)

than 90 percent of the portfolio, up slightly from the previous year. Average portfolio quality also increased modestly, as “BB” rated securities were replaced by “AAA” government and agency bonds. The percentage in “BBB” and “A” rated bonds held fairly steady. Our position in emerging market bonds represents less than 1 percent of invested assets.

One of our holdings in the internally managed portfolio defaulted in 2000. Armstrong World, rated “A” through the first half of the year, saw its liquidity and access to capital markets dry up during the summer as concerns over asbestos litigation swept through the capital markets in the wake of Owens-Corning’s Chapter 11 bankruptcy filing. In November, Armstrong filed for protection from its creditors when it was shut off from the capital markets. The Company holds $9.6 million par value of Armstrong bonds, which have been written down to reflect a permanent impairment in value. The high-yield portfolio managed by INVESCO had two small bond positions in or near default at year end. The first position is Bulong, an Australian natural resources company, which is restructuring due to falling prices for the metals it produces. The company has been attempting to renegotiate terms with creditors outside of the bankruptcy court, so our $750,000 position has been written down accordingly. The second position is Espirit Telecom, a European firm in the telecommunications industry which is in default on its bonds. Our $750,000 par amount of bonds has been written down to reflect the diminished expectations for recovery.

With respect to defaults or restructured securities reported last year, we continue to hold senior notes of Fruit of the Loom (FTL), which entered bankruptcy on December 29, 1999. The Company owns approximately $7.5 million par in senior notes, secured by liens against the debtor’s domestic assets. FTL continues to make quarterly payments to bondholders and valuations of these securities are higher than at the previous year end. We anticipate that FTL will emerge from bankruptcy in the last half of 2001. We continue to hold a small position of TBS Shipping bonds, which entered default in 1999 and were written down at that time. All of the defaulted securities from previous periods have either been written down or otherwise removed from our portfolio. Overall, defaulted or restructured securities represent less than 1 percent of the book value of bond assets at year end.



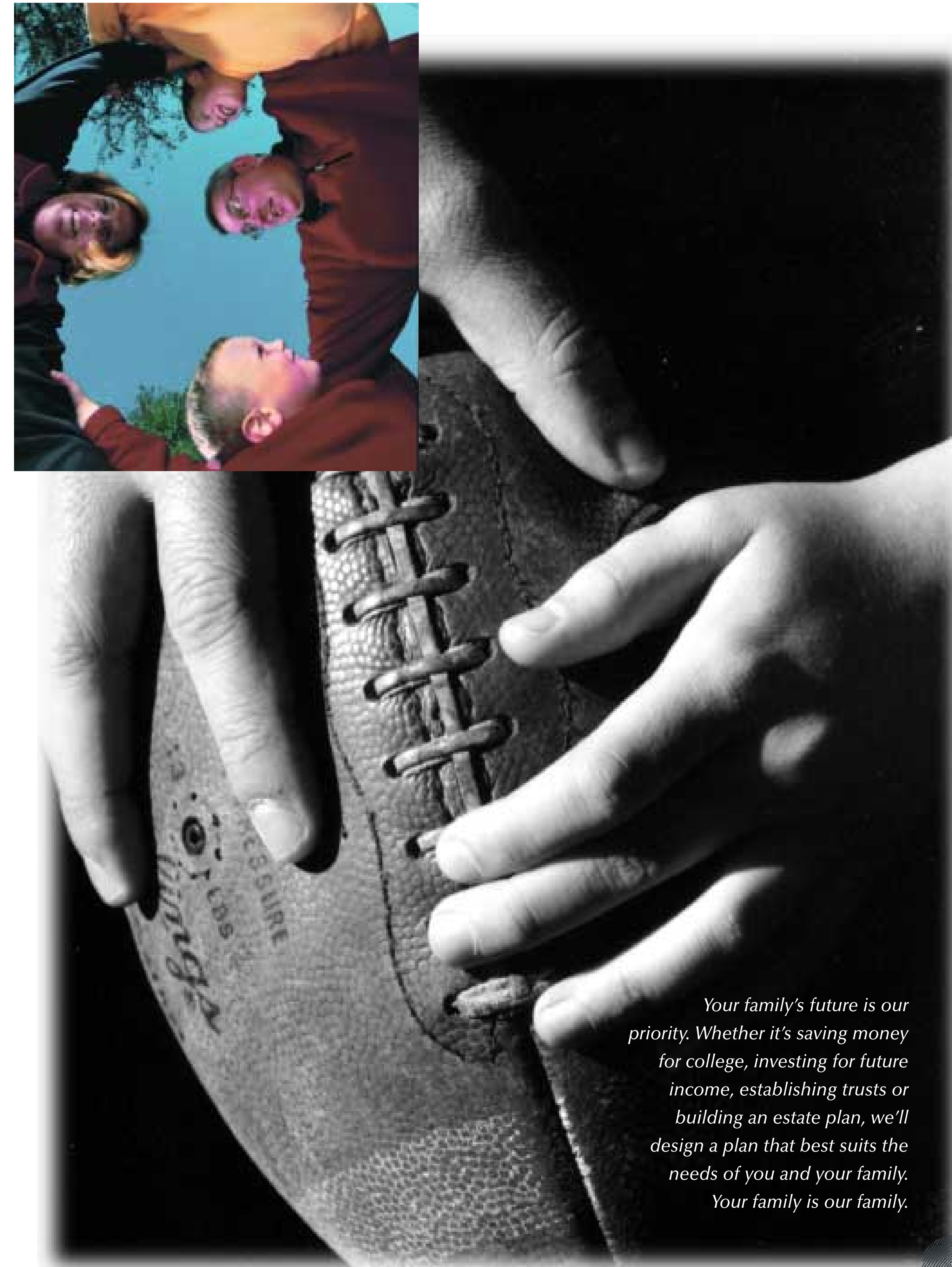
Portfolio Quality, Mortgages

The commercial loan portfolio had no delinquencies or restructured loans at year end. The mortgage loan reserve was taken down to 1 percent of face value and this created a gain of $3.0 million.

Our mortgage loans at year end were concentrated in the Midwest, the Sunbelt and the Northwest. Our greatest concentration of commercial loans was in the states of California with 29 percent, Texas with 13 percent, and Minnesota with 7 percent. Industrial properties represented 65 percent of the outstanding mortgage loans, followed by office building loans with 27 percent and retail loans with 5 percent.

Portfolio Quality, Real Estate

The quality of our real estate portfolio continues to rise in step with the real estate market as a whole. Rents continue to climb in many markets as vacancy levels trend lower. At year end, the estimated market value of the entire real estate portfolio was at least $30 million in excess of its carrying value. Most of the appreciation was attributable to our shopping center investments.



BOARD OF DIRECTORS

KANSAS CITY LIFE INSURANCE COMPANY

J.R. Bixby
Chairman of the Board
Kansas City Life Insurance Company
Kansas City, Missouri

R. Philip Bixby
Vice Chairman of the Board and
President and CEO
Kansas City Life Insurance Company
Kansas City, Missouri

Walter E. Bixby, LLIF
President
Old American Insurance Company
Kansas City, Missouri

Richard L. Finn, CPA, FLMI
Senior Vice President, Finance
Kansas City Life Insurance Company
Kansas City, Missouri

Webb R. Gilmore
Attorney at Law
Chairman, CEO, Shareholder
Gilmore and Bell, P.C.
Kansas City, Missouri

Jack D. Hayes, CLU, ChFC
Senior Vice President-Emeritus, Marketing
Kansas City Life Insurance Company
Kansas City, Missouri

Nancy Bixby Hudson
Investor
Lander, Wyoming

Warren J. Hunzicker, M.D.
Retired Vice President and
Medical Director
Kansas City Life Insurance Company
Kansas City, Missouri

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Vice President of Administration
Western Institutional Review Board
Olympia, Wash.
Retired President and
Vice Chairman of the Board
Sunset Life Insurance Company of America
Kansas City, Missouri

C. John Malacarne
Vice President, General Counsel and
Secretary
Kansas City Life Insurance Company
Kansas City, Missouri

Michael J. Ross
Chairman of the Board
Jefferson Bank and Trust Company
St. Louis, Missouri

Elizabeth T. Solberg
Regional President and
Senior Partner
Fleishman-Hillard, Inc.
Kansas City, Missouri

E. Larry Winn Jr.
Retired Congressman
Kansas Third District
Prairie Village, Kansas

SENIOR OFFICERS

KANSAS CITY LIFE INSURANCE COMPANY

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Vice Chairman of the Board and
President and CEO

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Senior Vice President, Operations

Richard L. Finn, CPA, FLMI
Senior Vice President, Finance

Jack D. Hayes, CLU, ChFC
Senior Vice President-Emeritus, Marketing

Robert C. Miller
Senior Vice President,
Administrative Services

Mark A. Milton, FSA
Senior Vice President and Actuary

William G. Burnett, CLU, ChFC
Vice President, Marketing Services

Robert T. Carson, FLMI, LLIF
Vice President and
Chief Compliance Officer

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Vice President and Medical Director

Michael P. Horton, CLU
Vice President, Group

John K. Koetting, CPA, FLMI
Vice President and Controller

Donald E. Krebs, MSM, CLU, ChFC
Vice President, Agency Marketing

C. John Malacarne
Vice President, General Counsel and
Secretary

Robert J. Milroy
Vice President, Policy Administration

J. Todd Salash
Vice President,
Computer Information Services

Dan L. Schick, CPA, CLU, FLMI
Vice President and Auditor

William W. Sears
Vice President, Insurance Services

Gregory E. Smith, CFA
Vice President, Broker/Dealer

Scott M. Stone
Vice President, Securities

Barney D. White, CPA
Vice President, Taxes

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President

Andrew M. Hansen
Executive Vice President

Richard L. Finn, CPA, FLMI
Vice President, Chief Financial
Officer and Assistant Treasurer

Gary K. Hoffman, CLU, FLMI
Vice President, Associate General
Counsel and Assistant Secretary

James J. Holmes
Vice President/
National Sales Manager

Robert E. Janes
Vice President and Controller

Robert J. Milroy
Vice President,
Policy Administration

C. John Malacarne
Secretary

SUNSET LIFE INSURANCE COMPANY

R. Philip Bixby
President and CEO

H. Dann Harris
Senior Vice President, Marketing and Sales

Paul W. Hensley, CLU, ChFC
Vice President, Marketing Administration

David A. Laird, CPA, FLMI
Vice President and Controller

Robert J. Milroy
Vice President, Policy Administration and
Assistant Secretary

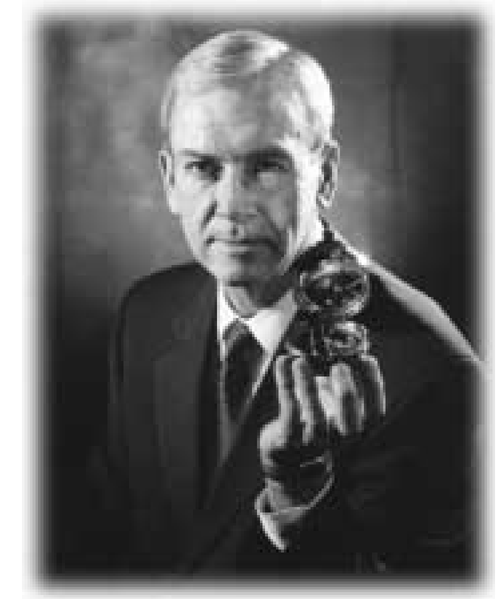
Mark A. Milton, FSA
Vice President and Actuary

William W. Sears
Vice President, Insurance Services

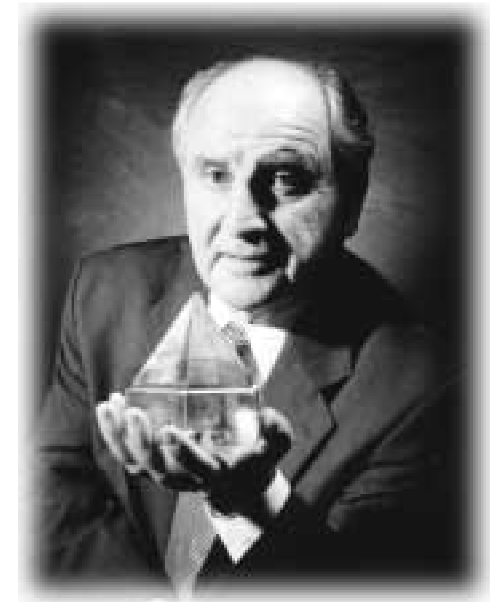
C. John Malacarne
Secretary

KANSAS CITY LIFE INSURANCE COMPANY SENIOR OFFICERS

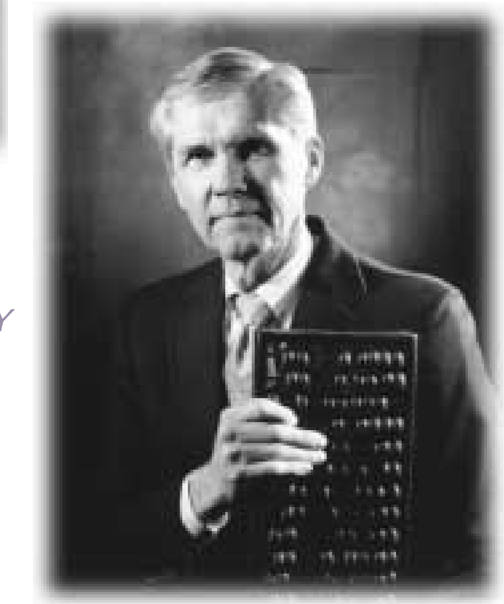
CHARLES R. DUFFY JR., FLMI
SENIOR VICE PRESIDENT, OPERATIONS



JACK D. HAYES, CLU, CHFC
SENIOR VICE PRESIDENT - EMERITUS,
MARKETING



RICHARD L. FINN, CPA, FLMI
SENIOR VICE PRESIDENT, FINANCE



C. JOHN MALACARNE
VICE PRESIDENT, GENERAL
COUNSEL AND SECRETARY

ROBERT C. MILLER
SENIOR VICE PRESIDENT,
ADMINISTRATIVE SERVICES

AGENCIES

KANSAS CITY LIFE INSURANCE COMPANY

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Fresno ....Robert G. Warren, LUTCF
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San Jose ....Manuel R. Naku
Westlake Village ....David S. Siegel

OREGON
Hermiston ....Simmons Financial Group

WASHINGTON
Bellevue/Spokane ....McNease/Barrett & Associates

SOUTHWEST REGION— REGIONAL VICE PRESIDENT: ANDREW A. THOMAS, CLU, CHFC, LLIF

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COLORADO
Denver ....The Rowe Agency, Inc.
Greeley ....Charles L. Cooper, CFP, LUTCF

OKLAHOMA
Bixby ....Michael W. Partridge

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Austin ....Smith-Burson Agency
Plano........................William E. Hudson, CLU
San Antonio.................................David R. Barse
The Woodlands ....Rod M. Schulken, CLU, ChFC

UTAH
Alpine ....R. Michael Whittenburg, CLU, ChFC

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Chicago ....Willis Corroon Corporation of Illinois
Monmouth ......Robert S. Makiney, CLU, ChFC

INDIANA
Huntington ......Strategic Partners International
Indianapolis ....Dennis D. Parrish

IOWA
Marion ....David W. Verhille, CLU, ChFC

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Overland Park ....Ivan F. Whiteford, CLU
Salina ....Sharon "Shari" S. Walls, LUTCF
Shawnee ....Gary J. Foreman
Topeka ....Scott B. Hunsicker, LUTCF

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Stanville ....Harold L. Conn

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Minnetonka ....Bruce D. Workman, CFP

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Columbia ....James E. Meyer
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Kansas City ....Larry L. Quigley, CLU, FLMI
Kansas City ......Lucinda L. Richey, CLU, ChFC
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Omaha ....John J. Meneely Jr.
Omaha ....S. Kent Porter, CLU, ChFC

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WISCONSIN
Milwaukee ....Milton Sogol

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ALABAMA
Hope Hull ....Walter L. Lawrence

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Little Rock ....William D. Hall

FLORIDA
Mulberry ......Phillip D. Hughes, CLU, LUTCF
Orange Park ....Jeffrey M. Camarda, CLU, ChFC,
Tallahassee ....Winchester Financial Group
Tampa............Lawrence I. French, CLU, ChFC

GEORGIA
Decatur ....George B. Frye, J.D.
Gainesville ......Daniel L. Chester, CFP, LUTCF
Valdosta..........................H. Wayne Bius, CLU

LOUISIANA
Prairieville................Johnny D. Rosier, LUTCF
Ruston..........................J. D. Crawford, LUTCF
Shreveport ....William E. Foster

NORTH CAROLINA
Cary ....Herbert H. Council
High Point ....Ted E. Killingsworth, CLU, LUTCF
Wilmington ......William J. Kelly, CLU, LUTCF
Winston-Salem........................James D. Arnold, CLU, LUTCF

SOUTH CAROLINA
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TENNESSEE
Germantown..........Thomas E. Cooper, LUTCF
Jackson ....Kelly G. McDonald, LUTCF
Knoxville ....Douglas W. Guy

EAST REGION — REGIONAL VICE PRESIDENT: P. CHRISTOPHER FOXWELL, PFP

DELAWARE
Wilmington ....Ronald A. Bouchard, LUTCF

MAINE
Portland............James J. Tyrrell Jr., CLU, ChFC

MARYLAND
Landover ....Carrollton O. Green Jr., LUTCF

MASSACHUSSETTS
Natick ....Stephen C. Olsson, CLU, ChFC, CFP

PENNSYLVANIA
Drexel Hill ....Patrick T. Lyman, LUTCF
Kimberton ....Robert F. Ardinger
Mars ....Howard R. Utz, LUTCF
Wyomissing...............David W. Ruoff, LUTCF

RHODE ISLAND
East Greenwich ....David J. Scotti

VIRGINIA
Richmond ....David B. Wilson, CLU
Virginia Beach..........................Bruce J. Meyer

WEST VIRGINIA
Charleston ....Charles F. Fox

ASIAN MARKET — ASIAN MARKETING: KI HONG PARK

CALIFORNIA
Garden Grove ....James Ha
Garden Grove ....Stephen J. Yun
Los Angeles..........................Yoon (Daniel) Ha
Pasadena ....Felicisimo "Junn" O. Aquino
Santa Clara ....Do Shin Lee

HAWAII
Honolulu ....Clifford M. Yara

TEXAS
Dallas...Kevin K. Lee

SPECIAL MARKETS — FIELD VICE PRESIDENT, ADMINISTRATOR/ SPECIAL MARKETS: JAMES WILCOX, FLMI

Burton, MI ....Timothy R. Green
Kansas City, MO ....The Lewer Agency

SPECIAL MARKETS — MIDWEST REGIONAL DIRECTOR: ERVIN E. GRAMIT, LUTCF

Naperville, IL ......Professional Partners Group

FINANCIAL SECTION

To Our Stockholders

Management prepared the following consolidated financial statements and all other financial information included in this Annual Report and is responsible for its integrity, consistency and objectivity. In preparing these statements, management necessarily made certain estimates and judgments and selected accounting principles in conformity with generally accepted accounting principles in the United States appropriate in the circumstances.

The Company maintains a system of internal accounting controls and procedures to provide reasonable assurance, at an appropriate cost, that its assets are protected and that its financial transactions are properly authorized and recorded. Qualified personnel in the Company maintain and monitor these internal controls on an ongoing basis.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets annually and, as required, with the independent auditors, management and the internal auditors. Each has free and separate access to the committee. The committee reviews audit procedures, scope and findings, and the adequacy of the Company's financial reporting.

The independent auditors, KPMG LLP, are elected by the Board of Directors to audit the financial statements and render an opinion thereon.

Richard L. Finn
Senior Vice President, Finance

Contents:

Operating Results

Earnings trended upward the past three years with operating earnings per share rising 50 percent over the period as all segments contributed to the improvement. Including realized gains and losses over that time, net income per share increased 12 percent. Return on equity averaged 8.79 percent for the three years and the pretax operating margin averaged 13.3 percent.

This performance is best analyzed by reviewing each of the Company's operating segments. However, corporate-wide factors are discussed first, namely investment performance and income taxes.

Investment income was unchanged in 2000 after rising 3 percent in 1999. The investment portfolio's amortized cost was essentially level over the past three years, but the investment mix shifted from securities to mortgage loans, which comprised 9.6 percent of investments in 1997 versus 14.4 percent this year. However, securities still comprise three-fourths of the portfolio. As the Company's product mix shifts increasingly toward variable products, whose investable funds largely are segregated into separate accounts, the investment portfolio is expected to decline over time, as will the income on the portfolio. The portfolio's net earned yield rose to 7.56 percent in 2000, from 7.52 percent in 1999 and 7.34 percent in 1998. Investment margins on the interest sensitive products widened in 1999 but narrowed in both 1998 and 2000. Net realized losses of $3.9 million were incurred this year, compared to net gains of $2.9 million and $11.4 million the previous two years. Investment purchases focused on mortgage loans this year, but the Company experienced a net cash outflow in its investments overall. The net yield on securities and mortgage loan purchases equaled 7.95 percent, compared to 7.81 percent in 1999. Investment assets declined 1 percent in 2000. The unrealized loss on the securities portfolio improved $14.7 million during the year as market yields declined.

The Company has long prided itself on the quality of its investment portfolio. However, management has chosen to assume more risk in the securities portfolio in an effort to attain higher total returns commensurate with the added risk. Therefore, 91 percent of its securities are investment grade, compared to 96 percent in 1997. Securities delinquencies and defaults represent 0.6 percent of the portfolio, up from 0.3 percent last year. These issues were written down to their estimated fair value, resulting in 2000's realized loss. The mortgage portfolio consists of loans on commercial properties, largely industrial warehouses. The loans are generally dispersed across the nation. However, there are two exceptions, none is located in the Northeast and a third of the properties are on the West Coast. No loans were foreclosed this year, none were restructured and none are delinquent. In response to the portfolio's demonstrated quality, the mortgage loan valuation reserve was reduced $3.0 million during 2000, creating an investment gain. Real estate investments comprise 2.9 percent of the entire portfolio, unchanged from 1997. The Company holds two properties acquired through foreclosure, valued at $2.1 million, the lower of cost or net fair value, which are under contracts for sale. Other real estate investments include industrial warehouses, office buildings and shopping center joint ventures. These properties' carrying values are significantly below their fair values. Sales of real estate properties generated $4.3 million of investment gains this year.

The effective income tax rate was essentially the same in 1998 and 2000, 28.6 percent and 28.4 percent, respectively. The rate rose to 29.7 percent in 1999 largely due to changes in affordable housing tax credits. The Company has invested $34.4 million in real estate joint ventures which generate these credits and provide much of the rate reduction from the 35.0 percent Federal income tax rate.

The following addresses the financial performance of each of the Company's four reportable operating segments: the Parent Company, divided between its individual and group insurance operations, and each of its life insurance affiliates. Refer also to the Segment Information Note to the Consolidated Financial Statements.

Kansas City Life Insurance Company - Individual Operations

The segment consists of the Parent Company's individual business, which is changing from traditional and interest sensitive products to predominantly variable universal life and annuity products. These are marketed through a general agency distribution system. This segment also includes the non-insurance affiliates, principally the banking and brokerage operations. The segment dominates Company performance, accounting for 41 percent of its insurance revenues, more than three-fourths of its sales and nearly two-thirds of its operating income.

Sales, in terms of new annualized premiums, rose 42 percent over the past three years, with much of this growth occurring in 1998. The growth was driven by variable universal life and annuity products, which increased from 47 percent of sales in 1997 to 77 percent this year, as variable sales rose 134 percent over the three years. The variable line has generated $347.9 million in assets, one-fourth higher than a year ago. Reflecting changing consumer preferences, sales of interest sensitive products, consisting of universal life and flexible annuities, declined 42 percent from 1997 to account for only a fifth of current sales. Marketing efforts in 2001 will benefit from the enhancement of the variable product portfolio, a new universal life policy offering competitively high future cash accumulations, and the recent introduction of a CD annuity offering guaranteed investment returns.

Insurance revenues, including renewal receipts, rose 22 percent from 1997 through 2000 largely due to the acquisition of a block of traditional and universal life insurance business during 1997. Excluding this acquisition, insurance revenues rose 2 percent a year on average.

Policy surrenders remained within historical norms in the traditional, universal life and variable lines of business. However, flexible annuity surrenders rose consistently over the three years as a percentage of accumulated values available to be surrendered reflecting changing consumer preferences. While this has little impact on current earnings, the surrenders truncate future earnings flows.

The segment's operating earnings grew at a 10 percent average annual rate since 1997 largely due to expanding pretax profit margins. These margins widened from 13.8 percent of operating revenues in 1997 to 16.9 percent this year due to more favorable mortality experience, $4.0 million of unlocking benefit in each of the past two years and improved operating efficiencies. Deferred acquisition cost assumptions were changed, or unlocked, to reflect the emergence of actual profit margins which were better than those assumed. These assumptions will be reviewed annually in the future and unlocked as necessary. However, the annual benefit is expected to be below that of the past two years. Operating expenses improved relative to revenues even as $2.4 million was invested in developing the banking and customer relationship management initiatives.

Kansas City Life Insurance Company - Group Operations

The group segment consists of life and disability coverages and a substantial block of group dental business. These products are sold through the Kansas City Life sales force and appointed group agents. The group marketplace is sizable and expanding, but it is also highly competitive. Thus the potential for sales growth is considerable, but profitable sales growth is challenging. Group took several significant steps the past two years to bolster earnings performance. First, the stop loss line was discontinued in late 1999. Second, the long-term disability business was reinsured late that year as well. Kansas City Life will continue to offer long-term disability products but they will be 80 percent reinsured with claims paid by the reinsurer. Finally, management was strengthened in the ASO claims paying service with resulting increased revenues and widened profit margins. The group segment provides one-fifth of corporate insurance revenues, 9 percent of sales and 2 percent of the Company's operating income.

Sales declined 5 percent a year on average since 1997. However, excluding the discontinued stop loss line of business, group sales rose 1 percent a year on average, with 4 percent growth in 2000. The dental line provides three-fourths of group sales and rose an average of 2 percent annually over the past three years.

The efforts taken to address the stop loss and long-term disability lines, while improving group's bottom line, dampened insurance revenue growth to 2 percent annually over the past three years. Excluding these two lines of business, revenues grew 4 percent annually, largely due to 8 percent average annual growth in dental, a line providing two-thirds of group revenues. Significantly, 2000's revenues were considerably above trend. Revenues rose 5 percent in total for the year, but increased 12 percent excluding the stop loss and long-term disability lines. Dental revenues rose 17 percent this year.

Group recorded operating losses in 1998 and 1999 but earned $831,000 this year as pretax operating margins tripled due to considerably improved claims ratios partially resulting from the efforts discussed above.

Sunset Life Insurance Company of America

Sunset Life offers interest sensitive and term products to individuals through personal producing general agents. Much of its operations were integrated into the corporate headquarters in 1999 resulting in significant efficiencies. Its marketing operations remain separate to provide the requisite focus on Sunset's particular markets and products in order to maximize their potential and to fully service the needs of Sunset's sales force. This segment generates 10 percent of consolidated insurance revenues, 5 percent of sales and one-fifth of operating income.

Sales declined the past two years, resulting in sales this year which are half those of 1997. This reflected changing consumer preferences, disruptions related to the integration of the company's operations and the transition to a new marketing team. It is expected that sales will rebound in 2001 since these disruptions are past and the new marketing management will more fully implement their strategies.

Insurance revenues were stable over the past three years. Pretax operating margins, however, rose from 19.4 percent of operating revenues in 1997 to 24.0 percent in 2000. The benefits provided both by unlocking deferred acquisition cost assumptions this year and by improved operating efficiency due to the integration mentioned above were only partially offset by less favorable mortality experience. Due to widening profit margins, operating earnings averaged 9 percent annual growth over the past three years.

SELECTED FINANCIAL DATA

(Thousands, except per share data)

	2000	1999	1998	1997	1996
Revenues:					
Insurance	**$ 253 619**	255 595	259 559	244 695	219 593
Investment income, net	**207 135**	207 682	202 402	197 345	191 494
Other	**16 024**	13 956	14 671	9 998	9 768
Operating revenues	**476 778**	477 233	476 632	452 038	420 855
Realized investment gains (losses)	**(3 871)**	2 860	11 426	14 505	3 013
	$ 472 907	480 093	488 058	466 543	423 868
Operating income	**$ 51 599**	43 186	41 085	35 433	40 357
Realized investment gains (losses), net	**(2 516)**	1 859	7 427	9 428	1 958
Net income	**$ 49 083**	45 045	48 512	44 861	42 315
Per common share:					
Operating income	**$ 4.29**	3.51	3.32	2.86	3.26
Realized investment gains (losses), net	**(.21)**	.15	.60	.77	.16
Net income	**$ 4.08**	3.66	3.92	3.63	3.42
Cash dividends	**$ 1.00**	.96	.90	.88	.84
Stockholders' equity:					
As reported	**$ 44.28**	40.86	46.58	42.84	37.40
Excluding unrealized gains and losses	**47.92**	45.28	42.42	39.90	37.16
Assets	**$ 3 646 261**	3 621 284	3 577 414	3 439 452	2 954 710
Net return on invested assets	**7.56%**	7.52	7.34	7.56	7.88
Life insurance in force	**$26 938 904**	26 747 316	26 641 664	26 595 709	22 148 738

The above is not covered by the report of independent auditors.
Per common share earnings information represents both basic and diluted earnings per common share.
Per share data has been adjusted for a two-for-one stock split in June 1999.

Old American Insurance Company

Old American offers traditional final expense coverage to the senior market through a general agency sales force. Positive steps have been taken to enhance the Company's profitability over the past several years. First, the underperforming home health business was sold in 1998. Second, underwriting standards on new business were strengthened that year as well. Although time is required for this to noticeably help earnings, its impact began to emerge this year. Additionally, Old American's operations are integrated with those of the Parent and Sunset Life in order to maximize economies of scale. Old American's marketing effort has been kept distinct from the other companies in the group for the same reasons as Sunset Life. This segment provides one-fourth of total insurance revenues, 7 percent of sales and 15 percent of consolidated operating income.

This year's sales were just three-fourths of those in 1997. However, the company chose to pursue more profitable sales growth by instituting more stringent underwriting standards. While this dampened growth in the short run, this places Old American in a stronger financial position, to the benefit of its policyowners, sales agents and stockholders. Recruiting efforts regarding new agents will intensify during 2001 in order to achieve improved sales growth.

Reflecting the sales trends discussed above, insurance revenues trended downward, declining 3 percent a year on average. However pretax operating margins rose from 4.5 percent of operating revenues in 1997 to 12.4 percent this year. This substantial improvement resulted from improved benefits ratios due to the changes in underwriting and the sale of the home health business discussed above. Additionally, operating expenses were well contained, declining 5 percent over the three-year period. These achievements resulted in 43 percent growth in operating earnings this year, and 41 percent average annual growth in earnings since 1997.

Market and Interest Rate Risk Analysis

Kansas City Life holds a diversified portfolio of investments which includes cash, bonds, preferred stocks, mortgage-backed securities, commercial mortgages and real estate. Each of these investments is subject to varying market risks which can affect their ability to earn a competitive return and their fair value. The majority of these assets are debt instruments and are considered fixed income investments. Thus the primary market risk affecting the Company is interest rate risk.

Generally, the coupon or dividend income represents the greatest portion of the fixed income investments' overall total return. As interest rates fall, as they have for most of the past decade, the coupon and dividend streams of older, higher-paying investments become relatively more valuable than newer, lower-yielding opportunities. Therefore, the market value of the older, high-paying investments increases. The opposite effect occurs as interest rates rise. The market value of such investments varies inversely to market interest rates.

The Federal Reserve Open Market Committee began raising interest rates during 1999 to reduce the risks of increasing inflation, thus pushing interest rates higher and reducing the value of bonds. At year end 1999, the securities' book value exceeded their market value by $86.7 million, a reversal from the previous year. Rates reversed during 2000 and generally moved lower beginning in May. By year end the portfolio's book value exceeded its market value by $71.0 million.

Due to the complex nature of interest rate movements and their uneven effects on the value of fixed income investments, complex computer programs are used to help predict changes in the value of its portfolio. Assuming that changes occur equally over the entire term structure of interest rates (the "yield curve"), it is estimated that a one percent (or 100 basis point) increase in rates translates to an $88.0 million ($97.0 million - 1999) loss of market value for the $2.2 billion securities portfolio. Conversely, a 100 basis point rate decrease translates to a $94.0 million increase in market value. The gain or loss due to changes in interest rates is affected by the portfolio's duration. Duration measures the time elapsing before cash flows are received. The longer the duration, the greater the variance in the portfolio's value for a given change in interest rates. Additionally, the larger size of the potential gain versus the potential loss indicates the portfolio has positive convexity, a term describing the skew in the securities' value changes.

Market changes rarely follow a linear pattern in one direction for any length of time. Within diversified portfolios, an investor will likely find embedded options, puts and calls, that change the structure of the cash flow stream. Mortgage-backed securities are particularly sensitive to interest rate changes. As long-term interest rates fall, homeowners become more likely to refinance their mortgage or move up to a larger home, causing a prepayment of the outstanding mortgage principal which must then be reinvested at a lower rate. Should interest rates rise suddenly, prepayments expected by investors may cease, extending the maturity of a mortgage pool by many years. This represents a further interest rate risk to investors.

The majority of the corporate investments are debt instruments of domestic corporations, governmental agencies and government sponsored enterprises. These obligations expose the Company to varying degrees of credit risk with the exception of certain agency obligations carrying the full faith and credit of the Federal government. Credit risk is the risk that the value of the investment may decline due to deterioration in the financial strength of the issuer, and thus the timely payment of principal or interest might not occur. This risk is mitigated by diversifying the investment portfolio across a broad range of issuers, and by limiting the amount invested in any particular entity. With the exception of certain government sponsored enterprises, there is no exposure at this year end to any single issuer in an amount greater than one percent of its assets on a book value basis.

Kansas City Life owns $62.0 million of foreign bonds. Since these are denominated in U.S. dollars, there is no exposure to any direct foreign currency risk. However, there is an indirect exposure to exchange markets to the extent that the issuers of these securities need to obtain dollars to fully fund their obligations. The Company has no material foreign exposure in its mortgage or real estate holdings.

Kansas City Life manages its investments under the constraints of an asset-liability management (ALM) program. Obligations to policyowners, mainly represented by the anticipated cash flows paid under insurance and annuity contracts, dictate the nature and construction of the investment portfolio. The ALM program is an effort to balance the investment opportunities available in the market place with the need to meet future cash obligations while optimizing policyowner returns.

As interest rates rise, policyowners become more likely to surrender policies or to borrow against the cash value, often to meet sudden needs or to invest in higher yielding opportunities. This disintermediation may force partial liquidation of the portfolio at a time when the fair market value of fixed income investments is falling. If interest rates fall, new cash receipts may have to be invested at interest rate levels below the minimum guaranteed rates payable to policyowners, eroding profit margins. Due to the strength of its normal cash flow, the Company can usually adapt to small sudden changes in interest rates, or even larger changes occurring over long periods of time. Extreme sudden market volatility, however, poses the greatest risk. A number of steps are taken to quantify and mitigate this risk under ALM.

For liquidity purposes, a number of short-term credit lines are maintained with the capacity to borrow additional capital. Agreements also exist with corresponding investment banks to borrow funds under reverse repurchase agreements. Kansas City Life has additional borrowing capacity through its membership in the Federal Home Loan Bank. The Company has $41.5 million in outstanding loans under this agreement which have been used to fund a short-term floating rate portfolio of mortgage-backed securities and collateralized mortgage obligations (CMO's).

The aforementioned risks may be hedged, from time to time, with the purchase or sale of certain derivatives contracts, mainly in the form of caps, floors, swaps or swaptions. These contracts work mainly as volatility insurance, to provide value in periods of extreme interest rate movement. Thus their value is largely a function of the likelihood of a rapid, dramatic market change. Kansas City Life conducts numerous probability-based computer simulations to test the effects on profitability of these market shifts, and to determine the value of derivatives hedging. Derivatives have not been used thus far due to a number of factors, including pricing, liquidity and the net value to the Company's business position. The corporate policy is to not engage in the trading of such instruments for speculative purposes, and derivatives markets will only be used to hedge a specific, identifiable risk for a specific period of time under specific conditions.

EXPECTED CASH FLOWS

(Millions)

	2001	2002	2003	2004	2005	There-after	Total Principal	Fair Value
Corporate bonds currently callable	$ 29	12	18	11	4	62	136	135
Average interest rate	9.06 %	10.20	8.71	7.96	8.86	6.10	7.57	
Mortgage backed securities and CMO's	117	26	24	23	21	91	302	295
Average interest rate	7.14 %	7.58	7.45	7.36	7.26	7.37	7.29	
All other securities	135	107	182	98	162	917	1 601	1 596
Average interest rate	6.92 %	7.10	6.87	7.07	7.08	7.39	7.27	
Total	$281	145	224	132	187	1 070	2 039	2 026

The table shows expected cash flows from principal repayments of bonds in the form of maturities, calls, sinking funds and prepayments.

Changes in Accounting Standards

Financial Accounting Standard (FAS) No. 133, "Accounting for Derivative Instruments and for Hedging Activities," as amended by FAS No. 137, provides comprehensive, consistent standards for the recognition and measurement of derivative and hedging activities. The Standard, which the Company will adopt January 1, 2001, is not anticipated to have a significant impact on Kansas City Life's reported results.

The National Association of Insurance Commissioners (NAIC) has issued comprehensive new guidelines to statutory accounting principles and practices for the life insurance industry which will take effect January 1, 2001. These revised guidelines are generally referred to as "codification." While this guide does not impact stockholder reporting, which is based on generally accepted accounting principles (GAAP), it does govern accounting practice and procedures required for reporting to state regulators. The Company will implement the guidelines as required with little impact to statutory surplus at any of our insurance companies.

Liquidity and Capital Resources

Kansas City Life generated $22.3 million in funds from its operations annually, on average, over the past three years after addressing receipts and withdrawals of policyowner contract deposits. Including funds provided by investment sales, maturities and paydowns, the Company generated an average of $689.2 million a year in new investments. Thus, liquidity is generally of little concern, although funds were borrowed over the three years in support of investment strategies. Additionally, as discussed earlier, assets and liabilities' maturities and yields are matched and cash flow testing is performed to ensure funds will be available as needed to meet future policyowner obligations.

The above comments exclude net proceeds from the variable line of business since these largely are partitioned into separate accounts rather than held in the Company's general investments. These separate accounts totaled $325.1 million this year end.

Kansas City Life's statutory equity comfortably exceeds the minimum capital deemed necessary to support its book of business, as determined by the risk based capital calculations and guidelines established by the NAIC.

Current legislative activities are not expected to have a significant impact on the ongoing operations of the business.

Book value, excluding the volatile effects of unrealized investment gains and losses, equaled $47.92 per share this year end and averaged 6 percent annual growth over the last three years. In January 2001, the Board of Directors raised the stockholder dividend to an indicated annual rate of $1.08 a share, an 8 percent increase. The Board also extended the stock repurchase program through 2001 to include the potential purchase of up to an additional one million shares, which would represent 8 percent of the shares outstanding. The Company purchased 126,000 of its shares on the open market for $4.0 million under this program during 2000.

CONSOLIDATED INCOME STATEMENT

(Thousands, except per share data and parenthetical comments)

	2000	1999	1998
REVENUES			
Insurance revenues:			
Premiums:			
Life insurance	**$ 99 195**	104 086	108 510
Accident and health	**44 641**	42 636	42 441
Contract charges	**109 783**	108 873	108 608
Investment revenues:			
Investment income, net	**207 135**	207 682	202 402
Realized investment gains (losses), net	**(3 871)**	2 860	11 426
Other	**16 024**	13 956	14 671
TOTAL REVENUES	**472 907**	480 093	488 058
BENEFITS AND EXPENSES			
Policy benefits:			
Death benefits	**113 403**	110 672	107 355
Surrenders of life insurance	**15 767**	14 592	19 368
Other benefits	**73 854**	70 702	72 190
Increase in benefit and contract reserves	**73 816**	85 206	84 427
Amortization of deferred acquisition costs	**26 828**	31 261	36 201
Insurance operating expenses	**100 735**	103 597	100 568
TOTAL BENEFITS AND EXPENSES	**404 403**	416 030	420 109
Income before Federal income taxes	**68 504**	64 063	67 949
Federal income taxes:			
Current	**15 633**	21 172	20 471
Deferred	**3 788**	(2 154)	(1 034)
	19 421	19 018	19 437
NET INCOME	**$ 49 083**	45 045	48 512
Basic and diluted earnings per share:			
Operating Income	**$4.29**	3.51	3.32
Realized investment gains (losses), net	**(.21)**	.15	.60
Net income	**$4.08**	3.66	3.92

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

	2000	1999
ASSETS		
Investments:		
Fixed maturities:		
Available for sale, at fair value (amortized cost $1,998,319,000; $2,079,458,000 - 1999)	**$1 934 157**	1 999 215
Held to maturity, at amortized cost (fair value $80,463,000; $107,570,000 - 1999)	**80 572**	107 606
Equity securities available for sale, at fair value (cost $100,866,000; $122,371,000 - 1999)	**94 269**	115 968
Mortgage loans on real estate, net	**396 731**	340 704
Real estate, net	**44 443**	42 011
Real estate joint ventures	**34 185**	37 336
Policy loans	**116 024**	118 521
Short-term investments	**54 171**	19 380
TOTAL INVESTMENTS	**2 754 552**	2 780 741
Cash	**13 391**	22 355
Accrued investment income	**41 028**	43 907
Receivables, net	**3 688**	7 552
Property and equipment, net	**20 701**	22 010
Deferred acquisition costs	**244 960**	236 370
Value of purchased insurance in force	**87 833**	95 636
Reinsurance recoverables	**135 378**	131 995
Deferred income taxes	**8 870**	14 716
Other assets	**10 712**	6 103
Separate account assets	**325 148**	259 899
	$3 646 261	3 621 284
LIABILITIES AND STOCKHOLDERS' EQUITY		
Future policy benefits:		
Life insurance	**$ 775 381**	782 341
Accident and health	**45 905**	47 215
Accumulated contract values	**1 619 887**	1 688 706
Policy and contract claims	**34 083**	34 721
Other policyholders' funds:		
Dividend and coupon accumulations	**61 354**	61 740
Other	**88 195**	90 885
Notes payable	**41 520**	69 500
Current income taxes payable	**6 383**	7 870
Other liabilities	**116 151**	84 602
Separate account liabilities	**325 148**	259 899
TOTAL LIABILITIES	**3 114 007**	3 127 479
Stockholders' equity:		
Common stock, par value $1.25 per share Authorized 36,000,000 shares, issued 18,496,680 shares	**23 121**	23 121
Paid in capital	**20 109**	18 498
Retained earnings	**651 324**	614 278
Accumulated other comprehensive loss	**(55 280)**	(59 095)
Less treasury stock, at cost (6,475,203 shares; 6,411,738 shares - 1999)	**(107 020)**	(102 997)
TOTAL STOCKHOLDERS' EQUITY	**532 254**	493 805
	$3 646 261	3 621 284

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	2000	1999	1998
COMMON STOCK, beginning and end of year	$ **23 121**	23 121	23 121
PAID IN CAPITAL:			
Beginning of year	**18 498**	17 633	16 256
Excess of proceeds over cost of treasury stock sold	**1 611**	865	1 377
End of year	**20 109**	18 498	17 633
RETAINED EARNINGS:			
Beginning of year	**614 278**	581 074	543 715
Net income	**49 083**	45 045	48 512
Other comprehensive income (loss):			
Unrealized gains (losses) on securities	**9 581**	(104 921)	15 094
Decrease (increase) in unfunded pension liability	**(5 766)**	360	(6 076)
Comprehensive income (loss)	**52 898**	(59 516)	57 530
Transfer other comprehensive (income) loss to accumulated other comprehensive income	**(3 815)**	104 561	(9 018)
Stockholder dividends of $1.00 per share ($.96 - 1999 and $.90 - 1998)	**(12 037)**	(11 841)	(11 153)
End of year	**651 324**	614 278	581 074
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):			
Beginning of year	**(59 095)**	45 466	36 448
Other comprehensive income (loss)	**3 815**	(104 561)	9 018
End of year	**(55 280)**	(59 095)	45 466
TREASURY STOCK, at cost:			
Beginning of year	**(102 997)**	(89 361)	(88 946)
Cost of 174,550 shares acquired (349,087 shares - 1999 and 24,640 shares - 1998)	**(5 600)**	(14 094)	(1 063)
Cost of 111,085 shares sold (32,243 shares - 1999 and 47,296 shares - 1998)	**1 577**	458	648
End of year	**(107 020)**	(102 997)	(89 361)
TOTAL STOCKHOLDERS' EQUITY	$ **532 254**	493 805	577 933

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2000	1999	1998
OPERATING ACTIVITIES			
Net income	$ **49 083**	45 045	48 512
Adjustments to reconcile net income to net cash from operating activities:			
Amortization of investment premium, net	**4 867**	2 061	2 398
Depreciation	**6 093**	5 265	5 153
Policy acquisition costs capitalized	**(35 775)**	(39 553)	(46 011)
Amortization of deferred acquisition costs	**26 828**	31 261	36 201
Realized investment (gains) losses	**3 871**	(2 860)	(11 426)
Changes in assets and liabilities:			
Future policy benefits	**(8 270)**	12 375	25 855
Accumulated contract values	**(8 246)**	(10 182)	(12 264)
Other policy liabilities	**(3 076)**	14 867	6 842
Income taxes payable and deferred	**8 147**	(14 748)	(11 399)
Other, net	**22 819**	18 449	(718)
NET CASH PROVIDED	**66 341**	61 980	43 143
INVESTING ACTIVITIES			
Purchases of investments:			
Fixed maturities available for sale	**(415 189)**	(654 943)	(644 087)
Fixed maturities held to maturity	**(3 304)**	(3 354)	–
Equity securities available for sale	**(22 134)**	(43 130)	(28 047)
Sales of fixed maturities available for sale	**369 027**	406 785	372 930
Maturities and principal paydowns of security investments:			
Fixed maturities available for sale	**115 557**	173 990	216 247
Fixed maturities held to maturity	**24 539**	10 913	30 453
Equity securities available for sale	**44 158**	22 644	28 043
Purchases of other investments	**(138 947)**	(36 300)	(78 298)
Sales, maturities and principal paydowns of other investments	**53 990**	59 655	60 500
Dispositions of insurance blocks - net cash paid	**–**	(5 162)	(13 250)
NET CASH PROVIDED (USED)	**27 697**	(68 902)	(55 509)
FINANCING ACTIVITIES			
Proceeds from borrowings	**58 445**	95 850	1 100
Repayment of borrowings	**(86 425)**	(26 350)	(1 100)
Policyowner contract deposits	**137 901**	148 993	175 421
Withdrawals of policyowner contract deposits	**(198 474)**	(181 367)	(187 028)
Cash dividends to stockholders	**(12 037)**	(11 841)	(11 153)
Disposition (acquisition) of treasury stock, net	**(2 412)**	(12 771)	962
NET CASH PROVIDED (USED)	**(103 002)**	12 514	(21 798)
Increase (decrease) in cash	**(8 964)**	5 592	(34 164)
Cash at beginning of year	**22 355**	16 763	50 927
CASH AT END OF YEAR	$ **13 391**	22 355	16 763

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are generally stated in thousands, except per share data)

SIGNIFICANT ACCOUNTING POLICIES

Organization

Kansas City Life Insurance Company is a Missouri domiciled stock life insurance company which, with its affiliates, is licensed to sell insurance products in 49 states and the District of Columbia. The Company offers a diversified portfolio of individual insurance, annuity and group products distributed primarily through numerous general agencies. In recent years, the Company's new business activities have been concentrated in interest sensitive and variable products.

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States (GAAP) and include the accounts of Kansas City Life Insurance Company and its subsidiaries, principally Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American). Significant intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to prior year results to conform with the current year's presentation. GAAP requires management to make certain estimates and assumptions which affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Recognition of Revenues

Traditional life insurance products include whole life insurance, term life insurance and certain annuities. Premiums for these products are recognized as revenues when due. Accident and health insurance premiums are recognized as revenues over the terms of the policies. Revenues for universal life and flexible annuity products are amounts assessed against contract values for cost of insurance, policy administration and surrenders, as well as amortization of deferred front-end contract charges.

Future Policy Benefits

For traditional life insurance products, reserves have been computed by a net level premium method based upon estimates at the time of issue for investment yields, mortality and withdrawals. These estimates include provisions for experience less favorable than actually expected. Investment yield assumptions for new issues are graded down and range from 7.25 percent to 5.25 percent. Mortality assumptions are based on standard mortality tables. The 1975-1980 Select and Ultimate Basic Table is used for business issued since 1977.

Reserves and claim liabilities for accident and health insurance include estimated unpaid claims and claims incurred but not reported. For traditional life and accident and health insurance, benefits and claims are charged to expense in the period incurred.

Liabilities for universal life and flexible annuity products represent accumulated contract values, without reduction for potential surrender charges, and deferred front-end contract charges which are amortized over the term of the policies. Benefits and claims are charged to expense in the period incurred net of related accumulated contract values. Interest on accumulated contract values is credited to contracts as earned. Crediting rates for universal life insurance and flexible annuity products ranged from 4.00 percent to 6.75 percent (3.85 percent to 6.50 percent - 1999 and 3.85 percent to 7.25 percent - 1998).

Withdrawal assumptions for all products are based on corporate experience.

Policy Acquisition Costs

The costs of acquiring new business, principally commissions, certain policy issue and underwriting expenses and certain variable agency expenses, are deferred. For traditional life products, deferred acquisition costs are amortized in proportion to premium revenues over the premium-paying period of related policies, using assumptions consistent with those used in computing benefit reserves. Acquisition costs for interest sensitive and variable products are amortized over a period not exceeding 30 years in proportion to estimated gross profits arising from interest spreads and charges for mortality, expenses and surrenders that are expected to be realized over the term of the contracts. The amortization is adjusted retrospectively when estimates of current or future gross profits to be realized from a block of business are revised. This asset is also adjusted for the impact on estimated gross profits of net unrealized gains and losses on securities.

Value of Purchased Insurance in Force

The value of purchased insurance in force arising from the acquisition of a life insurance subsidiary and a block of life insurance business is being amortized in proportion to projected future premium revenues or gross profits. Such amortization is included in insurance operating expenses. If these projections should change, the amortization is adjusted prospectively. This asset was increased $8,523,000 ($9,313,000 - 1999 and $9,609,000 - 1998) for accrual of interest and reduced $16,326,000 ($18,008,000 - 1999 and $17,194,000 - 1998) for amortization. The increase for accrual of interest for the life insurance subsidiary was calculated using a 13.0 percent interest rate for the life block and a 7.0 percent rate for the accident and health block and, on the acquired block, a 7.0 percent interest rate on the traditional life portion and a 5.4 percent rate on the interest sensitive portion. Total accumulated accrual of interest and amortization equal $62,942,000 and $97,941,000, respectively. The value of purchased insurance inforce is adjusted for the impact on estimated gross profits of net unrealized gains and losses on securities. Based upon current conditions and assumptions as to future events, the Company expects that the amortization will be between 6 and 8 percent of the asset's current carrying amount in each of the next five years.

Separate Accounts

These accounts arise from the sale of variable life insurance and annuity products. Their assets are legally segregated and are not subject to the claims which may arise from any other business of the Company. These assets are reported at fair value since the underlying investment risks are assumed by the policyholders. Therefore the related liabilities are recorded at amounts equal to the underlying assets. Investment income and gains or losses arising from separate accounts accrue directly to the policyholders and are, therefore, not included in investment earnings in the accompanying consolidated income statement. Revenues to the Company from separate accounts consist principally of contract maintenance charges, administrative fees and mortality and risk charges.

Participating Policies

Participating business at year end approximates 11 percent of the consolidated life insurance in force. The amount of dividends to be paid is determined annually by the Board of Directors. Provision has been made in the liability for future policy benefits to allocate amounts to participating policyholders on the basis of dividend scales contemplated at the time the policies were issued. Additional provisions have been made for policyholder dividends in excess of the original scale which have been declared by the Board of Directors.

Investments

Securities held to maturity and short-term investments are stated at cost adjusted for amortization of premium and accrual of discount. Securities available for sale are stated at fair value. Unrealized gains and losses on securities available for sale are reduced by deferred income taxes and related adjustments to deferred acquisition costs and the value of purchased insurance in force, and are included in accumulated other comprehensive income.

Mortgage loans are stated at cost adjusted for amortization of premium and accrual of discount less an allowance for possible losses. A loan is considered impaired if it is probable that contractual amounts due will not be collected. An allowance for possible impairment losses is based upon the loan's market price, or the fair value of the underlying collateral on a net realizable basis. Loans in foreclosure and loans considered to be impaired are placed on a non-accrual status. Other real estate investments are carried at depreciated cost. Real estate joint ventures are valued at cost adjusted for the Company's equity in earnings since acquisition. Policy loans are carried at cost less payments received. Premiums and discounts on fixed maturity securities are amortized over the life of the related security as an adjustment to yield using the effective interest method. Realized gains and losses on disposals of investments, determined by the specific identification method, are included in investment revenues.

Federal Income Taxes

Income taxes have been provided using the liability method. Under that method, deferred tax assets and liabilities are determined based on the differences between their financial reporting and their tax bases and are measured using the enacted tax rates.

Income Per Share

Due to the Company's capital structure and lack of other potentially dilutive securities, there is no difference between basic and diluted earnings per common share for any of the years or periods reported. The weighted average number of shares outstanding during the year was 12,033,725 shares (12,316,220 shares - 1999 and 12,394,104 shares - 1998). The actual number of shares outstanding at year end was 12,021,477 (12,084,942 - 1999).

Statutory Information and Stockholder Dividends Restriction

The Company's earnings, unassigned surplus (retained earnings) and stockholders' equity, on the statutory basis used to report to regulatory authorities, follow.

	2000	1999	1998
Net gain from operations	**$ 45 730**	41 902	35 185
Net income	**42 265**	42 012	36 152
Unassigned surplus at December 31	**311 804**	281 254	257 853
Stockholders' equity at December 31	**248 014**	219 875	209 246

Stockholder dividends may not exceed statutory unassigned surplus. Additionally, under Missouri law, the Company must have the prior approval of the Missouri

SIGNIFICANT ACCOUNTING POLICIES
(continued)

Director of Insurance in order to pay a dividend exceeding the greater of statutory net gain from operations for the preceding year or 10 percent of statutory stockholders' equity at the end of the preceding year. The maximum payable in 2001 without prior approval is $45,730,000. The Company believes these statutory limitations impose no practical restrictions on its dividend payment plans.

As of January 1, 2001, the Company will adopt new statutory codification guidelines as promulgated by the National Association of Insurance Commissioners (NAIC). The net effect to both net income and surplus is expected to be immaterial.

The Company is required to deposit a defined amount of assets with state regulatory authorities. Such assets had an aggregate carrying value of $18,000,000 ($21,000,000 - 1999 and $18,000,000 - 1998).

Comprehensive Income (Loss)

Comprehensive income is comprised of net income and other comprehensive income which includes unrealized gains or losses on securities available for sale and unfunded pension liabilities as shown below.

	Unrealized Gain (Loss) on Securities	Unfunded Pension Liability	Total
2000:			
Unrealized holding gains arising during the year	**$ 9 422**		**9 422**
Less: Realized losses included in net income	**(6 467)**		**(6 467)**
Net unrealized gains	**15 889**		**15 889**
Increase in unfunded pension liability	**–**	**(8 871)**	**(8 871)**
Effect on deferred acquisition costs	**(1 145)**		**(1 145)**
Deferred income taxes	**(5 163)**	**3 105**	**(2 058)**
Other comprehensive income (loss)	**$ 9 581**	**(5 766)**	**3 815**
1999:			
Unrealized holding losses arising during the year	$ (172 801)		(172 801)
Less: Realized losses included in net income	(2 527)		(2 527)
Net unrealized losses	(170 274)		(170 274)
Decrease in unfunded pension liability	–	554	554
Effect on deferred acquisition costs	8 858		8 858
Deferred income taxes	56 495	(194)	56 301
Other comprehensive income (loss)	$ (104 921)	360	(104 561)
1998:			
Unrealized holding gains arising during the year	$ 33 261		33 261
Less: Realized gains included in net income	9 360		9 360
Net unrealized gains	23 901		23 901
Increase in unfunded pension liability	–	(9 348)	(9 348)
Effect on deferred acquisition costs	(680)		(680)
Deferred income taxes	(8 127)	3 272	(4 855)
Other comprehensive income (loss)	$ 15 094	(6 076)	9 018

The accumulated balances related to each component of accumulated other comprehensive income follow.

	Unrealized Gain (Loss) on Securities	Change in Unfunded Pension Liability	Total
December 31, 1998	$ 51 542	(6 076)	45 466
Other comprehensive income (loss) for 1999	(104 921)	360	(104 561)
December 31, 1999	(53 379)	(5 716)	(59 095)
Other comprehensive income (loss) for 2000	**9 581**	**(5 766)**	**3 815**
December 31, 2000	**$ (43 798)**	**(11 482)**	**(55 280)**

REINSURANCE

	2000	1999	1998
Life insurance in force (in millions):			
Direct	**$ 24 120**	23 616	23 261
Ceded	**(6 514)**	(5 483)	(4 488)
Assumed	**2 818**	3 131	3 380
Net	**$ 20 424**	21 264	22 153
Premiums:			
Life insurance:			
Direct	**$ 120 908**	127 805	128 584
Ceded	**(27 818)**	(29 255)	(26 748)
Assumed	**6 105**	5 536	6 674
Net	**$ 99 195**	104 086	108 510
Accident and health:			
Direct	**$ 54 769**	56 723	54 022
Ceded	**(10 128)**	(14 087)	(11 581)
Net	**$ 44 641**	42 636	42 441

Contract charges arise generally from directly issued business. However contract charges also arise from a block of business assumed during 1997 as described below. Ceded benefit recoveries were $49,883,000 ($49,687,000 - 1999 and $57,048,000 - 1998).

Old American has two coinsurance agreements. One agreement reinsures certain whole life policies issued by Old American prior to December 1, 1986. These policies had a face value of $103,901,000 as of this year end. The reserve for future policy benefits ceded under this agreement was $44,331,000 ($46,741,000 - 1999). The second agreement ceded $10.4 million of home health care reserves in October 1998.

In 1997, Kansas City Life acquired a block of traditional life and universal life-type products. As of this year end, the block had $2.8 billion of life insurance in force ($3.1 billion - 1999). The block generated life insurance premiums of $5,544,000 ($5,788,000 - 1999). Additionally, in November 1999, the Company ceded its group long-term disability reserves, totaling $5.2 million.

The maximum retention on any one life is $350,000 for ordinary life plans and $100,000 for group coverage. A contingent liability exists with respect to reinsurance, which may become a liability of the Company in the unlikely event that the reinsurers should be unable to meet obligations assumed under reinsurance contracts.

PROPERTY AND EQUIPMENT

	2000	1999
Land	**$ 766**	766
Home office complex	**21 444**	21 404
Furniture and equipment	**34 741**	32 258
	56 951	54 428
Less accumulated depreciation	**(36 250)**	(32 418)
	$ 20 701	22 010

Property and equipment are stated at cost and depreciated using the straight-line method. The home office is depreciated over 25 to 50 years and furniture and equipment over 3 to 10 years, their estimated useful lives.

NOTES PAYABLE

	2000	1999
Federal Home Loan Bank loan with various maturities and a weighted average variable interest rate, currently 6.63 percent, secured by specified securities	**$ 41 520**	55 000
Commerce Bank unsecured revolving credit loan agreement providing a $20,000,000 line of credit with a variable interest rate, currently 6.95 percent	**–**	2 500
UMB Bank unsecured revolving credit loan agreements providing a $40,000,000 line of credit with a variable interest rate, currently 6.95 percent	**–**	12 000
	$ 41 520	69 500

As a member of the Federal Home Loan Bank with a capital investment of $14,937,000, the Company has the ability to borrow up to twenty times its capital investment, or $298,734,000, when collateralized from the bank. The Company earned a 7.00 percent average rate on the capital investment in the bank for 2000. All borrowing is used to enhance investment strategies. Interest paid on all borrowings equaled $2,146,000 ($1,135,000 - 1999 and $717,000 - 1998).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts for cash, short-term investments and policy loans as reported in the accompanying balance sheet approximate their fair values. The fair values for securities are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated using values obtained from independent pricing services or, in the case of private placements, are estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity of the investments. Fair values for mortgage loans are based upon discounted cash flow analyses using an interest rate assumption 2 percent above the comparable U.S. Treasury rate.

Fair values for the Company's liabilities under investment-type insurance contracts, included with accumulated contract values for flexible annuities and with other policyholder funds for supplementary contracts without life contingencies, are estimated to be their cash surrender values.

Fair values for the Company's insurance contracts other than investment contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

The carrying amounts and fair values of the financial instruments follow.

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments:				
Securities available for sale	**$2 028 426**	**2 028 426**	2 115 183	2 115 183
Securities held to maturity	**80 572**	**80 463**	107 606	107 570
Mortgage loans	**396 731**	**409 000**	340 704	328 973
Liabilities:				
Individual and group annuities	**$668 233**	**652 898**	743 438	724 908
Supplementary contracts without life contingencies	**20 761**	**20 761**	21 216	21 216

The following Investments Note provides further details regarding the investments above.

INVESTMENTS

Investment Revenues

Major categories of investment revenues are summarized as follows.

	2000	1999	1998
Investment income:			
Fixed maturities	**$ 156 117**	157 766	154 213
Equity securities	**9 678**	9 378	6 583
Mortgage loans	**29 478**	27 608	26 024
Real estate	**10 563**	9 907	9 587
Policy loans	**7 852**	7 959	8 098
Short-term	**3 025**	3 639	4 832
Other	**3 914**	3 709	3 948
	220 627	219 966	213 285
Less investment expenses	**(13 492)**	(12 284)	(10 883)
	$ 207 135	207 682	202 402
Realized gains (losses):			
Fixed maturities	**$ (12 614)**	(2 714)	8 052
Equity securities	**517**	126	1 360
Mortgage loans	**2 970**	1 500	–
Real estate	**4 316**	3 684	2 014
Other	**940**	264	–
	$ (3 871)	2 860	11 426

Unrealized Gains and Losses

Unrealized gains (losses) on the Company's securities follow.

	2000	1999	1998
Available for sale:			
End of year	**$ (70 758)**	(86 647)	83 627
Effect on deferred acquisition costs	**3 381**	4 526	(4 332)
Deferred income taxes	**23 579**	28 742	(27 753)
	$ (43 798)	(53 379)	51 542
Increase (decrease) in net unrealized gains during the year:			
Fixed maturities	**$ 9 697**	(99 595)	18 701
Equity securities	**(116)**	(5 326)	(3 607)
	$ 9 581	(104 921)	15 094
Held to maturity:			
End of year	**$ (109)**	(36)	8 011
Increase (decrease) in net unrealized gains during the year	**$ (73)**	(8 047)	2 177

Securities

The amortized cost and fair value of investments in securities at this year end follow.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Bonds:				
U.S. government	**$ 45 050**	**1 539**	**221**	**46 368**
Public utility	**290 415**	**2 143**	**10 726**	**281 832**
Corporate	**1 233 304**	**11 359**	**72 392**	**1 172 271**
Mortgage-backed	**381 224**	**5 138**	**2 051**	**384 311**
Other	**47 581**	**1 109**	**60**	**48 630**
Redeemable preferred stocks	**745**	**8**	**8**	**745**
Fixed maturities	**1 998 319**	**21 296**	**85 458**	**1 934 157**
Equity securities	**100 866**	**2 141**	**8 738**	**94 269**
	2 099 185	**23 437**	**94 196**	**2 028 426**
Bonds held to maturity:				
Public utility	**12 474**	**817**	**18**	**13 273**
Corporate	**62 947**	**1 123**	**2 308**	**61 762**
Other	**5 151**	**277**	**–**	**5 428**
	80 572	**2 217**	**2 326**	**80 463**
	$ 2 179 757	**25 654**	**96 522**	**2 108 889**

The amortized cost and fair value of investments in securities at last year end follow.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Bonds:				
U.S. government	$ 47 264	170	607	46 827
Public utility	270 618	1 938	11 098	261 458
Corporate	1 405 241	7 119	78 468	1 333 892
Mortgage-backed	299 933	5 522	3 480	301 975
Other	55 537	217	1 556	54 198
Redeemable preferred stocks	865	12	12	865
Fixed maturities	2 079 458	14 978	95 221	1 999 215
Equity securities	122 371	1 916	8 319	115 968
	2 201 829	16 894	103 540	2 115 183
Bonds held to maturity:				
Public utility	18 101	743	45	18 799
Corporate	83 429	1 282	2 127	82 584
Other	6 076	117	6	6 187
	107 606	2 142	2 178	107 570
	$ 2 309 435	19 036	105 718	2 222 753

The Company does not hold any non-income producing fixed maturity securities.

The distribution of the fixed maturity securities' contractual maturities at this year end follows. However, expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	Amortized Cost	Fair Value
Available for sale:		
Due in one year or less	**$ 32 978**	**30 380**
Due after one year through five years	**479 318**	**472 312**
Due after five years through ten years	**349 413**	**335 202**
Due after ten years	**755 386**	**711 952**
Mortgage-backed bonds	**381 224**	**384 311**
	$ 1 998 319	**1 934 157**
Held to maturity:		
Due in one year or less	**$ 20 809**	**20 877**
Due after one year through five years	**35 990**	**37 512**
Due after five years through ten years	**22 275**	**20 802**
Due after ten years	**1 498**	**1 272**
	$ 80 572	**80 463**

Sales of investments in securities available for sale, excluding normal maturities and calls, follow.

	2000	1999	1998
Proceeds	**$ 392 548**	428 425	422 241
Gross realized gains	**7 292**	9 455	12 512
Gross realized losses	**13 541**	10 371	5 234

The Company does not hold securities of any corporation and its affiliates which exceeded 10 percent of stockholders' equity.

No derivative financial instruments are employed.

Mortgage Loans

The Company holds no non-income producing mortgage loans ($1,528,000 - 1999). Mortgage loans are carried net of a valuation reserve of $4,030,000 ($7,000,000 - 1999).

The mortgage portfolio is diversified geographically and by property type as follows.

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Geographic region:				
East north central	**$ 28 139**	**28 612**	29 470	28 250
Mountain	**79 430**	**81 995**	69 522	67 325
Pacific	**137 559**	**141 781**	123 581	119 375
West south central	**58 847**	**61 521**	30 708	30 071
West north central	**71 921**	**73 799**	71 030	68 703
Other	**24 865**	**25 322**	23 393	22 249
Valuation reserve	**(4 030)**	**(4 030)**	(7 000)	(7 000)
	$ 396 731	**409 000**	340 704	328 973

Mortgage Loans *(Continued)*

	2000 Carrying Amount	2000 Fair Value	1999 Carrying Amount	1999 Fair Value
Property type:				
Industrial	**$ 258 195**	**265 770**	229 103	221 036
Retail	**18 699**	**19 436**	19 510	19 515
Office	**107 534**	**111 024**	81 540	78 310
Other	**16 333**	**16 800**	17 551	17 112
Valuation reserve	**(4 030)**	**(4 030)**	(7 000)	(7 000)
	$ 396 731	**409 000**	340 704	328 973

The Company has commitments which expire in 2001 to originate mortgage loans of $15,122,000.

No mortgage loans were foreclosed upon and transferred to real estate investments during the year (none - 1999 and $1,181,000 - 1998).

No mortgage loans were acquired in the sale of real estate assets during the year (none - 1999 and $2,025,000 - 1998).

Real Estate

Detail concerning the Company's real estate investments follows.

	2000	1999
Penntower office building, at cost:		
Land	**$ 1 106**	1 106
Building	**18 649**	18 582
Less accumulated depreciation	**(11 477)**	(10 881)
Foreclosed real estate, at lower of cost or net realizable value	**2 090**	4 655
Other investment properties, at cost:		
Land	**11 050**	6 110
Buildings	**37 958**	36 710
Less accumulated depreciation	**(14 933)**	(14 271)
	$ 44 443	42 011

Investment real estate, other than foreclosed properties, is depreciated on a straight-line basis. Penntower office building is depreciated over 60 years and all other properties from 10 to 35 years. Foreclosed real estate is carried net of a valuation allowance of $625,000 ($1,519,000 - 1999) to reflect net realizable value.

The Company held non-income producing real estate equaling $5,236,000 ($3,483,000 - 1999).

PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company has pension and other postretirement benefit plans covering substantially all its employees. The defined benefits pension plan covers employees who were age 55 or over with at least 15 years of vested service at December 31, 1997. This plan's benefits are based on years of service and the employee's compensation during the last five years of employment. Employees have a cash balance account consisting of credits to the account based upon an employee's years of service and compensation and interest credits. The closure of Sunset Life's office in 1999 and significant retirements at Kansas City Life resulted in the recognition of settlement and curtailment costs of $3,562,000 that year. The postretirement medical plans for the employees, full-time agents, and their dependents are contributory with contributions adjusted annually. The Company pays these medical costs as due and the plan incorporates cost-sharing features. The postretirement life insurance plan is noncontributory with level annual payments over the participants' expected service periods. The plan covers only those employees with at least one year of service as of December 31, 1997. The benefits in this plan are frozen using the employees' years of service and compensation as of December 31, 1997. The tables at the right outline the plans' funded status and their impact on the financial statements.

Noncontributory defined contribution retirement plans for general agents and eligible sales agents provide supplemental payments based upon earned agency first year individual life and annuity commissions. Contributions to these plans were $143,000 ($143,000 - 1999 and $134,000 - 1998). A noncontributory deferred compensation plan for eligible agents based upon earned first year commissions is also offered. Contributions to this plan were $583,000 ($609,000 - 1999 and $724,000 - 1998).

Savings plans for eligible employees and agents match employee contributions up to 6 percent of salary and agent contributions up to 2.5 percent of prior year paid commissions. Contributions expensed to the plan were $1,425,000 ($1,468,000 - 1999 and $1,485,000 - 1998). Effective in 1998, the Company may contribute an additional profit sharing amount up to 4 percent of salary depending upon corporate profits. The Company made a profit sharing contribution of 4 percent for 2000 equaling $1,098,000 (none - 1999 and 1998).

A noncontributory trusteed employee stock ownership plan covers substantially all salaried employees. No contributions have been made to this plan since 1992.

	Pension Benefits 2000	Pension Benefits 1999	Other Benefits 2000	Other Benefits 1999
Accumulated benefit obligation	**$ 98 273**	88 405	**–**	–
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 85 240**	102 869	**1 403**	1 614
Return on plan assets	**4 033**	934	**74**	82
Company contributions	**4 000**	2 400	**–**	–
Benefits paid	**(5 832)**	(20 963)	**(41)**	(293)
Fair value of plan assets at end of year	**$ 87 441**	85 240	**1 436**	1 403
Change in projected benefit obligation:				
Benefit obligation at beginning of year	**$ 98 351**	110 547	**16 942**	18 808
Service cost	**1 913**	2 760	**530**	626
Interest cost	**7 365**	7 673	**1 144**	1 200
Curtailment	**–**	469	**–**	(1 043)
Settlement	**–**	5 375	**–**	–
Net (gain) loss from past experience	**395**	(3 921)	**(1 641)**	(2 008)
Benefits paid	**(5 935)**	(24 552)	**(649)**	(641)
Benefit obligation at end of year	**$ 102 089**	98 351	**16 326**	16 942
Plan underfunding	**$ (14 648)**	(13 111)	**(14 890)**	(15 539)
Unrecognized net (gain) loss	**28 291**	26 404	**(1 020)**	557
Unrecognized prior service cost	**(6 500)**	(7 147)	**–**	–
Unrecognized net transition asset	**(311)**	(517)	**–**	–
Prepaid (accrued) benefit cost	**$ 6 832**	5 629	**(15 910)**	(14 982)
Amounts recognized in the consolidated balance sheet:				
Accrued benefit liability	**$ (10 833)**	(3 165)	**(15 910)**	(14 982)
Accumulated other comprehensive income	**17 665**	8 794	**–**	–
Net amount recognized	**$ 6 832**	5 629	**(15 910)**	(14 982)
Weighted average assumptions:				
Discount rate	**7.50 %**	7.75	**7.50**	7.75
Expected return on plan assets	**8.75**	8.75	**5.50**	5.50
Rate of compensation increase	**4.50**	4.50	**–**	–

The assumed growth rate of health care costs has a significant effect on the amounts reported as the table below demonstrates.

	One Percentage Point Change in the Growth Rate Increase	Decrease
Service and interest cost components	**$ 318**	**(263)**
Postretirement benefit obligation	**2 972**	**(2 317)**

The components of the net periodic benefits cost follow.

	Pension Benefits 2000	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 2000	Other Benefits 1999	Other Benefits 1998
Service cost	**$ 1 912**	2 760	2 746	**530**	626	615
Interest cost	**7 365**	7 673	7 650	**1 144**	1 200	1 194
Expected return on plan assets	**(7 211)**	(9 067)	(8 539)	**(78)**	(88)	(90)
Amortization of:						
Unrecognized net (gain) loss	**1 687**	1 014	1 152	**(20)**	52	76
Unrecognized prior service cost	**(647)**	(647)	(769)	**–**	–	–
Unrecognized net transition asset	**(206)**	(206)	(206)	**–**	–	–
Net periodic benefits cost	**$ 2 900**	1 527	2 034	**1 576**	1 790	1 795

For measurement purposes, a 10 percent annual increase in the per capita cost of covered health care benefits was assumed to decrease gradually to 6 percent in 2004 and thereafter.

SEGMENT INFORMATION

	Kansas City Life Individual	Kansas City Life Group	Sunset Life	Old American	Total
2000:					
Revenues from external customers	**$ 110 339**	**56 267**	**28 272**	**74 765**	**269 643**
Investment revenues	**155 420**	**767**	**34 456**	**16 492**	**207 135**
Segment operating income	**32 601**	**831**	**10 438**	**7 729**	**51 599**
Other significant noncash items:					
Increase (decrease) in policy reserves	**49 560**	**(389)**	**17 721**	**6 924**	**73 816**
Amortization of deferred acquisition costs	**11 437**	**–**	**5 138**	**10 253**	**26 828**
Amortization of the value of purchased insurance in force	**4 305**	**–**	**–**	**3 498**	**7 803**
Interest expense	**2 177**	**–**	**1**	**5**	**2 183**
Income tax expense	**12 172**	**356**	**3 751**	**3 142**	**19 421**
Segment assets	**2 696 884**	**10 948**	**531 393**	**407 036**	**3 646 261**
Expenditures for other long-lived assets	**2 640**	**40**	**–**	**15**	**2 695**
1999:					
Revenues from external customers	$ 113 399	53 311	26 750	76 091	269 551
Investment revenues	158 017	1 083	33 617	14 965	207 682
Segment operating income (loss)	30 622	(898)	8 049	5 413	43 186
Other significant noncash items:					
Increase in policy reserves	60 072	681	16 411	8 042	85 206
Amortization of deferred acquisition costs	12 443	–	7 765	11 053	31 261
Amortization of the value of purchased insurance in force	5 128	–	–	3 567	8 695
Interest expense	1 148	–	–	–	1 148
Income tax expense (benefit)	12 931	(385)	3 898	2 574	19 018
Segment assets	2 679 521	16 107	528 708	396 948	3 621 284
Expenditures for other long-lived assets	3 742	214	3	298	4 257
1998:					
Revenues from external customers	$ 112 898	52 537	28 794	80 001	274 230
Investment revenues	155 428	1 146	31 878	13 950	202 402
Segment operating income (loss)	27 918	(985)	8 954	5 198	41 085
Other significant noncash items:					
Increase in policy reserves	57 581	535	16 269	10 042	84 427
Amortization of deferred acquisition costs	16 861	–	8 323	11 017	36 201
Amortization of the value of purchased insurance in force	4 660	–	–	2 925	7 585
Interest expense	717	–	–	–	717
Income tax expense (benefit)	12 997	(422)	4 314	2 548	19 437
Segment assets	2 627 568	16 215	538 254	395 377	3 577 414
Expenditures for other long-lived assets	2 658	259	97	69	3 083

Enterprise-Wide Disclosures

	2000	1999	1998
Revenues from external customers by line of business:			
Variable life insurance and annuities	**$ 16 181**	11 153	6 928
Interest sensitive products	**93 602**	97 720	101 680
Traditional individual insurance products	**92 078**	97 616	103 171
Group life and disability products	**51 758**	49 106	47 780
Group ASO services	**4 509**	4 205	4 716
Other	**11 515**	9 751	9 955
Total	**$ 269 643**	269 551	274 230

Company operations have been classified and summarized into the four reportable segments at left. The segments, while generally classified along Company lines, are based upon distribution method, product portfolio and target market. The Parent Company was divided into two segments. The Kansas City Life - Individual segment consists of sales of variable life and annuities, interest sensitive products and traditional life insurance products by a career general agency sales force. The Kansas City Life - Group segment consists of sales of group life, disability and dental products and administrative services only (ASO) by the Company's career general agency sales force and appointed group agents. The Sunset Life segment consists of sales of interest sensitive and traditional products by personal producing general agents. The Old American segment markets whole life final expense products to seniors through a general agency sales force.

Separate investment portfolios are maintained for each of the companies. However, investments are allocated to the group segment based upon its cash flows. Its investment revenue is modeled using the year of investment method. Home office functions are fully integrated for the three companies in order to maximize economies of scale. Therefore, operating expenses are allocated to the segments based upon internal cost studies which are consistent with industry cost methodologies.

The totals at left agree to the selected financial data which reconciles to the consolidated financial statements. Intersegment revenues are not material. The Company operates solely in the United States and no individual customer accounts for 10 percent or more of the Company's revenue.

FEDERAL INCOME TAXES

A reconciliation of the Federal income tax rate and the actual tax rate experienced is shown below.

	2000	1999	1998
Federal income tax rate	**35 %**	35	35
Special tax credits	**(6)**	(5)	(6)
Other permanent differences	**(1)**	–	–
Actual income tax rate	**28 %**	30	29

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below.

	2000	1999
Deferred tax assets:		
Basis differences between tax and GAAP accounting for investments	**$ 18 493**	26 774
Future policy benefits	**50 404**	49 133
Employee retirement benefits	**14 579**	11 990
Other	**7 670**	9 413
Gross deferred tax assets	**91 146**	97 310
Deferred tax liabilities:		
Capitalization of policy acquisition costs, net of amortization	**47 235**	44 809
Property and equipment, net	**3 708**	3 841
Value of insurance in force	**30 449**	33 102
Other	**884**	842
Gross deferred tax liabilities	**82 276**	82 594
Net deferred tax asset	**$ 8 870**	14 716

A "valuation allowance" must be established for any portion of the deferred tax asset which is believed not to be realizable. In management's opinion, it is more likely than not that the Company will realize the benefit of the net deferred tax asset and, therefore, no valuation allowance has been established.

Federal income taxes paid for the year were $17,364,000 ($17,884,000 - 1999 and $20,164,000 - 1998).

Policyholders' surplus, which is frozen under the Deficit Reduction Act of 1984, is $40,500,000 for Kansas City Life, $2,800,000 for Sunset Life and $13,700,000 for Old American. The Companies do not plan to distribute their policyholders' surplus. Consequently, the possibility of such surplus becoming subject to tax is remote, and no provision has been made in the financial statements for taxes thereon. Should the balance in policyholders' surplus become taxable, the tax computed at current rates would approximate $20,000,000.

FEDERAL INCOME TAXES *(continued)*

Income taxed on a current basis is accumulated in "shareholders' surplus" and can be distributed to stockholders without tax to the Company. Shareholders' surplus equals $399,775,000 for Kansas City Life, $89,935,000 for Sunset Life and $66,657,000 for Old American.

QUARTERLY CONSOLIDATED FINANCIAL DATA *(unaudited)*

		First	Second	Third	Fourth
2000:					
Total revenues	**$**	**120 513**	**117 874**	**118 332**	**116 188**
Operating income	**$**	**12 802**	**13 764**	**14 485**	**10 548**
Realized gains (losses), net		**316**	**(42)**	**91**	**(2 881)**
Net income	**$**	**13 118**	**13 722**	**14 576**	**7 667**
Per common share:					
Operating income	**$**	**1.06**	**1.15**	**1.20**	**.88**
Realized gains (losses), net		**.03**	**(.01)**	**.01**	**(.24)**
Net income	**$**	**1.09**	**1.14**	**1.21**	**.64**
1999:					
Total revenues	$	120 040	117 038	123 667	119 348
Operating income	$	12 241	7 256	12 225	11 464
Realized gains, net		201	239	1 197	222
Net income	$	12 442	7 495	13 422	11 686
Per common share:					
Operating income	$	.99	.58	.99	.95
Realized gains, net		.01	.03	.10	.01
Net income	$	1.00	.61	1.09	.96

CONTINGENT LIABILITIES

The life insurance industry, including the Company and certain of its subsidiaries, has been subject to increased litigation pursued on behalf of purported classes of insurance purchasers questioning the conduct of insurers and their agents' marketing practices. The Company believes that the action described at right is part of this trend.

In a complaint filed in March 1998, Sunset Life and one of its agents was sued for unspecified compensatory and punitive damages alleging various forms of deceit, breach of fiduciary duty, and negligence in connection with the sale of a universal life insurance policy as a replacement for an existing policy. Subsequently, the complaint was amended to seek class action status and to add a claim under California's Business and Professions Code S17200 which authorizes individual plaintiffs to sue on behalf of the public to remedy specific delineated alleged unfair business practices, and to seek declaratory and injunctive relief. Sunset Life obtained a dismissal of the breach of fiduciary duty claim and the class action allegations, but the trial court refused to dismiss the S17200 allegations. All parties appealed and the court of appeals refused to overrule the trial court's failure to dismiss the S17200 claims and remanded the case for further discovery and proof regarding the class action allegations in the complaint. In the course of discovery, the court has ordered the disclosure of the names of all individuals who purchased universal life insurance policies from Sunset Life in replacement transactions from 1984 to the present and of all individuals who purchased Sunset Life universal life policies during that period and whose policies became under-funded. These individuals are currently being contacted, pursuant to court order, to determine whether they are willing to discuss this action with either the counsel for plaintiff or Sunset Life. It is expected that this contact will create further litigation. Plaintiff has filed a motion for certification as a class action and the hearing is presently scheduled in May 2001. Management denies the allegations, including the existence of a legitimate class and the existence of a uniform unfair business practice capable of resolution under section S17200, and intends to defend this matter vigorously. However, no assurances can be given regarding the outcome of this lawsuit and accordingly management cannot estimate its effect on the consolidated financial statements.

In addition to the above, the Company and certain of its subsidiaries are defendants in, or subject to, other claims or legal actions that arose in the ordinary course of business. Some of these lawsuits arose in jurisdictions that permit punitive damages disproportionate to the actual damages alleged. Although no assurances can be given and no determinations can be made at this time as to the outcome of any of these lawsuits or proceedings, the Company and its subsidiaries believe that there are meritorious defenses for these claims and are defending them vigorously. In management's opinion the amounts ultimately paid in these suits, if any, would have no material effect on the Company's consolidated results of operations and financial position.

REPORTS OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Kansas City Life Insurance Company

We have audited the accompanying consolidated balance sheet of Kansas City Life Insurance Company and subsidiaries (the Company) as of December 31, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the year ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kansas City Life Insurance Company and subsidiaries at December 31, 2000, and the consolidated results of their operations and their cash flows for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

KPMG LLP

Kansas City, Missouri
January 17, 2001

To the Board of Directors and Stockholders of Kansas City Life Insurance Company

We have audited the accompanying consolidated balance sheets of Kansas City Life Insurance Company and subsidiaries (the Company) as of December 31, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kansas City Life Insurance Company and subsidiaries at December 31, 1999, and the consolidated results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

ERNST & YOUNG LLP
Kansas City, Missouri
January 24, 2000

STOCKHOLDER INFORMATION

CORPORATE HEADQUARTERS

Kansas City Life Insurance Company
3520 Broadway
Post Office Box 219139
Kansas City, Missouri 64121-9139
Telephone: (816) 753-7000
Fax: (816) 753-4902
Internet: http://www.kclife.com
E-mail: kclife@kclife.com

NOTICE OF ANNUAL MEETING

The annual meeting of stockholders will be held at 9 a.m. Thursday, April 19, 2001, at Kansas City Life's corporate headquarters.

TRANSFER AGENT

Cheryl Keefer, Assistant Secretary
Kansas City Life Insurance Company
Post Office Box 219139
Kansas City, Missouri 64121-9139

10-K REQUEST

Stockholders may request a free copy of Kansas City Life's Form 10-K, as filed with the Securities and Exchange Commission, by writing to Secretary, Kansas City Life Insurance Company.

SECURITY HOLDERS

As of February 5, 2001, Kansas City Life had approximately 698 security holders, including individual participants in security position listings.

STOCK AND DIVIDEND INFORMATION

Stock Quotation Symbol
Over-the-Counter—KCLI

	Bid		Dividend
	High	**Low**	**Paid**
		(per share)	
2000:			
First quarter	**$35.63**	**22.13**	**$ .25**
Second quarter	**31.00**	**23.63**	**.25**
Third quarter	**35.38**	**26.13**	**.25**
Fourth quarter	**35.31**	**29.00**	**.25**
			$1.00
1999:			
First quarter	$43.82	39.25	$ .24
Second quarter	42.75	43.00	.24
Third quarter	52.25	34.50	.24
Fourth quarter	40.00	32.75	.24
			$ .96

The above has been restated to reflect a two-for-one stock split in June 1999.

A quarterly dividend of $.27 per share was paid February 20, 2001.

Over-the-counter market quotations are compiled according to Company records and may reflect inter-dealer prices, without markup, markdown or commission and may not necessarily represent actual transactions.

KANSAS CITY LIFE
INSURANCE COMPANY

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