

CITIZENS INC
Form 10-Q
May 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2015

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 000-16509

CITIZENS, INC.

(Exact name of registrant as specified in its charter)

Colorado

84-0755371

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

400 East Anderson Lane, Austin, TX

78752

(Address of principal executive offices)

(Zip Code)

(512) 837-7100

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

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

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

Yes No

As of April 30, 2015, the Registrant had 49,080,114 shares of Class A common stock, no par value, outstanding and 1,001,714 shares of Class B common stock outstanding.

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TABLE OF CONTENTS

	Page Number
Part I. Financial Information	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Financial Position, March 31, 2015 (Unaudited) and December 31, 2014</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income, Three Months Ended March 31, 2015 and 2014 (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows, Three Months Ended March 31, 2015 and 2014 (Unaudited)</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>24</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>44</u>
Item 4. <u>Controls and Procedures</u>	<u>45</u>
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	<u>46</u>
Item 1A. <u>Risk Factors</u>	<u>46</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>58</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>58</u>
Item 5. <u>Other Information</u>	<u>58</u>
Item 6. <u>Exhibits</u>	<u>59</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Financial Position

(In thousands)

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (cost: \$687,694 and \$667,966 in 2015 and 2014, respectively)	\$731,587	707,227
Fixed maturities held-to-maturity, at amortized cost (fair value: \$242,791 and \$232,891 in 2015 and 2014, respectively)	233,662	224,932
Equity securities available-for-sale, at fair value (cost: \$68,641 and \$68,787 in 2015 and 2014, respectively)	70,165	69,879
Mortgage loans on real estate	619	628
Policy loans	55,288	54,032
Real estate held for investment (less \$1,612 and \$1,575 accumulated depreciation in 2015 and 2014, respectively)	8,087	8,131
Other long-term investments	77	135
Total investments	1,099,485	1,064,964
Cash and cash equivalents	41,430	50,708
Accrued investment income	14,235	13,457
Reinsurance recoverable	4,251	4,425
Deferred policy acquisition costs	158,987	157,468
Cost of customer relationships acquired	22,858	23,542
Goodwill	17,255	17,255
Other intangible assets	973	976
Deferred tax asset	65,708	66,269
Property and equipment, net	6,283	6,352
Due premiums, net (less \$1,322 and \$1,364 allowance for doubtful accounts in 2015 and 2014, respectively)	10,492	10,777
Prepaid expenses	971	301
Other assets	1,144	1,061
Total assets	\$1,444,072	1,417,555

(Continued)

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Financial Position

(In thousands, except share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014
Liabilities and Stockholders' Equity		
Liabilities:		
Policy liabilities:		
Future policy benefit reserves:		
Life insurance	\$936,747	920,149
Annuities	60,828	59,727
Accident and health	1,212	1,216
Dividend accumulations	16,554	15,974
Premiums paid in advance	42,201	39,712
Policy claims payable	10,916	9,560
Other policyholders' funds	7,530	7,551
Total policy liabilities	1,075,988	1,053,889
Commissions payable	2,481	3,284
Federal income tax payable	76,647	78,818
Payable for securities in process of settlement	5,463	—
Other liabilities	21,431	23,205
Total liabilities	1,182,010	1,159,196
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A, no par value, 100,000,000 shares authorized, 52,215,852 shares issued and outstanding in 2015 and 2014, including shares in treasury of 3,135,738 in 2015 and 2014	259,383	259,383
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2015 and 2014	3,184	3,184
Accumulated deficit	(18,622	) (19,047
Accumulated other comprehensive income:		
Unrealized gains on securities, net of tax	29,128	25,850
Treasury stock, at cost	(11,011	) (11,011
Total stockholders' equity	262,062	258,359
Total liabilities and stockholders' equity	\$1,444,072	1,417,555

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Three Months Ended March 31,

(In thousands, except per share amounts)

(Unaudited)

	2015		2014
Revenues:			
Premiums:			
Life insurance	\$42,899		41,397
Accident and health insurance	375		351
Property insurance	1,292		1,265
Net investment income	11,069		9,906
Realized investment losses, net	(71)	)	(56)
Other income	296		169
Total revenues	55,860		53,032
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	19,403		16,457
Increase in future policy benefit reserves	17,298		17,698
Policyholders' dividends	2,309		2,102
Total insurance benefits paid or provided	39,010		36,257
Commissions	9,859		9,910
Other general expenses	7,551		6,502
Capitalization of deferred policy acquisition costs	(6,856)	)	(7,068)
Amortization of deferred policy acquisition costs	5,299		5,209
Amortization of cost of customer relationships acquired	647		531
Total benefits and expenses	55,510		51,341
Income before federal income tax	350		1,691
Federal income tax (benefit) expense	(75)	)	494
Net income	425		1,197
Per Share Amounts:			
Basic earnings per share of Class A common stock	\$0.01		\$0.02
Basic earnings per share of Class B common stock	—		0.01
Diluted earnings per share of Class A common stock	0.01		0.02
Diluted earnings per share of Class B common stock	—		0.01
Other comprehensive income:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	5,007		14,096
Reclassification adjustment for losses included in net income	36		32
Unrealized gains on available-for-sale securities, net	5,043		14,128
Income tax expense on unrealized gains on available-for-sale securities	1,765		4,954
Other comprehensive income	3,278		9,174
Comprehensive income	\$3,703		10,371
See accompanying notes to consolidated financial statements.			

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows

Three Months Ended March 31,

(In thousands)

(Unaudited)

	2015	2014	
Cash flows from operating activities:			
Net income	\$425	1,197	
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized losses on sale of investments and other assets	71	56	
Net deferred policy acquisition costs	(1,557)	(1,859))
Amortization of cost of customer relationships acquired	647	531	
Depreciation	199	323	
Amortization of premiums and discounts on investments	2,655	2,230	
Deferred federal income tax benefit	(1,204)	(1,023))
Change in:			
Accrued investment income	(778)	(471))
Reinsurance recoverable	174	(220))
Due premiums	285	822	
Future policy benefit reserves	17,191	17,697	
Other policyholders' liabilities	4,404	2,053	
Federal income tax receivable	(2,171)	1,496)
Commissions payable and other liabilities	(2,577)	(1,030))
Other, net	(753)	(1,293))
Net cash provided by operating activities	17,011	20,509	
Cash flows from investing activities:			
Maturities and calls of fixed maturities, available-for-sale	8,257	16,900	
Maturities and calls of fixed maturities, held-to-maturity	6,975	9,292	
Purchase of fixed maturities, available-for-sale	(24,392)	(36,161))
Purchase of fixed maturities, held-to-maturity	(16,562)	(6,347))
Calls of equity securities, available-for-sale	150	100	
Purchase of equity securities, available-for-sale	1	—	
Principal payments on mortgage loans	9	12	
Increase in policy loans, net	(1,256)	(1,420))
Sale of other long-term investments	58	1	
Sale of property and equipment	—	(283))
Purchase of property and equipment	(87)	—)
Net cash used in acquisition	—	(4,810))
Net cash used in investing activities	(26,847)	(22,716))

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

Three Months Ended March 31,

(In thousands)

(Unaudited)

	2015	2014	
Cash flows from financing activities:			
Annuity deposits	\$2,121	1,489	
Annuity withdrawals	(1,563	) (1,568)
Net cash provided by (used in) financing activities	558	(79)
Net decrease in cash and cash equivalents	(9,278	) (2,286)
Cash and cash equivalents at beginning of year	50,708	54,593	
Cash and cash equivalents at end of period	\$41,430	52,307	
Supplemental disclosures of operating activities:			
Cash paid during the period for income taxes, net	\$3,300	—	

Supplemental Disclosures of Non-Cash Investing Activities:

None.

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2015

(Unaudited)

(1) Financial Statements

Basis of Presentation and Consolidation

The accompanying consolidated financial statements of Citizens, Inc. and its wholly-owned subsidiaries have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

The consolidated financial statements include the accounts and operations of Citizens, Inc. ("Citizens"), a Colorado corporation, and its wholly-owned subsidiaries, CICA Life Insurance Company of America ("CICA"), Security Plan Life Insurance Company ("SPLIC"), Security Plan Fire Insurance Company ("SPFIC"), Citizens National Life Insurance Company ("CNLIC"), Magnolia Guaranty Life Insurance Company ("MGLIC"), Computing Technology, Inc. ("CTI") and Insurance Investors, Inc. ("III"). Citizens and its wholly-owned subsidiaries are collectively referred to as "the Company," "we," "us" or "our."

The consolidated statements of financial position for March 31, 2015, and the consolidated statements of comprehensive income and cash flows for the three months ended March 31, 2015 and 2014 and cash flows for the three-month periods ended March 31, 2015 and 2014, have been prepared by the Company without audit. In the opinion of management, all adjustments to present fairly the financial position, results of operations, and changes in cash flows at March 31, 2015 and for comparative periods have been made. The consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required for complete financial statements and should be read in conjunction with the Company's consolidated financial statements, and notes thereto, for the year ended December 31, 2014. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

We provide primarily life insurance and a small amount of health insurance policies through our insurance subsidiaries: CICA, SPLIC, MGLIC and CNLIC. CICA and CNLIC issue ordinary whole-life policies, credit life and disability, burial insurance, pre-need policies, and accident and health related policies, throughout the Midwest and southern United States. CICA also issues ordinary whole-life and endowment policies to non-U.S. residents. SPLIC offers final expense and home service life insurance in Louisiana, Arkansas and Mississippi, and SPFIC, a wholly-owned subsidiary of SPLIC, writes a limited amount of property insurance in Louisiana. MGLIC provides industrial life policies through independent funeral homes in Mississippi.

CTI provides data processing systems and services, as well as furniture and equipment, to the Company. III provides aviation transportation to the Company.

Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in the evaluation of other-than-temporary impairments on debt and equity securities and valuation allowances on investments, actuarially determined assets and liabilities and assumptions, goodwill impairment, valuation allowance on deferred tax assets, and contingencies relating to litigation and regulatory matters. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the worldwide debt or equity markets could have a material impact on the Consolidated Financial Statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

Reclassification

Reclassifications have been made in the current year related to certain prior year reported amounts to provide consistent presentation. No individual amounts were material.

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our 2014 Form 10-K Annual Report, which should be read in conjunction with these accompanying Consolidated Financial Statements.

(2) Accounting Pronouncements

Accounting Standards Recently Adopted

None.

Accounting Standards Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

(3) Segment Information

The Company has three reportable segments: Life Insurance, Home Service Insurance, and Other Non-Insurance Enterprises. The accounting policies of the segments are in accordance with U.S. GAAP and are the same as those used in the preparation of the consolidated financial statements. The Company evaluates profit and loss performance based on U.S. GAAP income before federal income taxes for its three reportable segments.

The Company has no reportable differences between segments and consolidated operations.

	Three Months Ended March 31, 2015			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	\$32,979	11,587	—	44,566
Net investment income	7,231	3,464	374	11,069
Realized investment losses, net	(56	) (15	) —	(71
Other income	214	48	34	296
Total revenue	40,368	15,084	408	55,860
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	13,560	5,843	—	19,403
Increase in future policy benefit reserves	16,137	1,161	—	17,298
Policyholders' dividends	2,295	14	—	2,309
Total insurance benefits paid or provided	31,992	7,018	—	39,010
Commissions	6,026	3,833	—	9,859
Other general expenses	3,159	3,830	562	7,551
Capitalization of deferred policy acquisition costs	(5,343	) (1,513	) —	(6,856
Amortization of deferred policy acquisition costs	4,549	750	—	5,299
Amortization of cost of customer relationships acquired	200	447	—	647
Total benefits and expenses	40,583	14,365	562	55,510
Income (loss) before income tax expense	\$(215	) 719	(154	) 350

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

	Three Months Ended March 31, 2014			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	\$31,811	11,202	—	43,013
Net investment income	6,283	3,287	336	9,906
Realized investment gains (losses), net	(64)	) 8	—	(56)
Other income	143	1	25	169
Total revenue	38,173	14,498	361	53,032
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	10,815	5,642	—	16,457
Increase in future policy benefit reserves	16,976	722	—	17,698
Policyholders' dividends	2,086	16	—	2,102
Total insurance benefits paid or provided	29,877	6,380	—	36,257
Commissions	6,238	3,672	—	9,910
Other general expenses	2,840	3,169	493	6,502
Capitalization of deferred policy acquisition costs	(5,659)	) (1,409)	) —	(7,068)
Amortization of deferred policy acquisition costs	4,407	802	—	5,209
Amortization of cost of customer relationships acquired	171	360	—	531
Total benefits and expenses	37,874	12,974	493	51,341
Income (loss) before income tax expense	\$299	1,524	(132)	) 1,691

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

(4) Earnings Per Share

The following tables set forth the computation of basic and diluted earnings per share.

	Three Months Ended	
	March 31, 2015	March 31, 2014
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income	\$425	1,197
Net income allocated to Class A common stock	\$421	1,185
Net income allocated to Class B common stock	4	12
Net income	\$425	1,197
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic earnings per share of Class A common stock	\$0.01	0.02
Basic earnings per share of Class B common stock	—	0.01
Diluted earnings per share of Class A common stock	0.01	0.02
Diluted earnings per share of Class B common stock	—	0.01

(5) Investments

The Company invests primarily in fixed maturity securities, which totaled 84.6% of total cash, cash equivalents and investments at March 31, 2015.

	March 31, 2015		December 31, 2014			
	Carrying Value	% of Total Carrying Value	Carrying Value	% of Total Carrying Value		
	(\$ In thousands)					
Fixed maturity securities	\$965,249	84.6	% \$932,159	83.6	%	
Equity securities	70,165	6.1	% 69,879	6.3	%	
Mortgage loans	619	0.1	% 628	0.1	%	
Policy loans	55,288	4.8	% 54,032	4.8	%	
Real estate and other long-term investments	8,164	0.7	% 8,266	0.7	%	
Cash and cash equivalents	41,430	3.7	% 50,708	4.5	%	
Total cash, cash equivalents and investments	\$1,140,915	100.0	% \$1,115,672	100.0	%	

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

The following tables represent the cost, gross unrealized gains and losses and fair value for fixed maturities and equity securities as of the periods indicated.

	March 31, 2015			
	Cost or Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities:				
Available-for-sale:				
U.S. Treasury securities	\$10,041	3,126	—	13,167
U.S. Government-sponsored enterprises States and political subdivisions	38,085	1,919	—	40,004
Foreign governments	423,372	22,039	1,146	444,265
Corporate	104	32	—	136
Commercial mortgage-backed	212,851	18,522	861	230,512
Residential mortgage-backed	203	8	—	211
Total available-for-sale securities	3,038	255	1	3,292
Held-to-maturity securities:	687,694	45,901	2,008	731,587
U.S. Government-sponsored enterprises	2,015	173	—	2,188
States and political subdivisions	201,716	9,117	426	210,407
Corporate	29,931	935	670	30,196
Total held-to-maturity securities	233,662	10,225	1,096	242,791
Total fixed maturities	\$921,356	56,126	3,104	974,378
Equity securities:				
Stock mutual funds	\$16,007	1,878	33	17,852
Bond mutual funds	50,976	66	640	50,402
Common stock	65	1	15	51
Preferred stock	1,593	267	—	1,860
Total equity securities	\$68,641	2,212	688	70,165

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

	December 31, 2014			
	Cost or	Gross	Gross	Fair
	Amortized	Unrealized	Unrealized	Value
	Cost	Gains	Losses	
	(In thousands)			
Fixed maturities:				
Available-for-sale securities:				
U.S. Treasury securities	\$ 10,056	2,924	—	12,980
U.S. Government-sponsored enterprises	38,312	1,937	—	40,249
States and political subdivisions	404,657	19,146	1,448	422,355
Foreign governments	104	31	—	135
Corporate	211,410	17,441	1,024	227,827
Commercial mortgage-backed	223	8	—	231
Residential mortgage-backed	3,204	249	3	3,450
Total available-for-sale securities	667,966	41,736	2,475	707,227
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	2,017	178	—	2,195
States and political subdivisions	192,875	7,782	388	200,269
Corporate	30,040	947	560	30,427
Total held-to-maturity securities	224,932	8,907	948	232,891
Total fixed maturity securities	\$ 892,898	50,643	3,423	940,118
Equity securities:				
Stock mutual funds	\$ 16,005	1,657	66	17,596
Bond mutual funds	50,976	60	796	50,240
Common stock	65	—	14	51
Preferred stock	1,741	253	2	1,992
Total equity securities	\$ 68,787	1,970	878	69,879

Mortgage-backed securities are also referred to as securities not due at a single maturity date throughout this report. The majority of the Company's equity securities are diversified stock and bond mutual funds.

Valuation of Investments in Fixed Maturity and Equity Securities

Held-to-maturity securities are reported in the financial statements at amortized cost and available-for-sale securities are reported at fair value.

The Company monitors all debt and equity securities on an on-going basis relative to changes in credit ratings, market prices, earnings trends and financial performance, in addition to specific region or industry reviews. The assessment of whether impairments have occurred is based on a case-by-case evaluation of underlying reasons for the decline in fair value. The Company determines other-than-temporary impairment by reviewing relevant evidence related to the specific security issuer as well as the Company's intent to sell the security, or if it is more likely than not that the Company would be required to sell a security before recovery of its amortized cost.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be

required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

cost basis, the other-than-temporary impairment is separated into the following: (a) the amount representing the credit loss; and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

The Company evaluates whether a credit impairment exists for debt securities by considering primarily the following factors: (a) changes in the financial condition of the security's underlying collateral; (b) whether the issuer is current on contractually obligated interest and principal payments; (c) changes in the financial condition, credit rating and near-term prospects of the issuer; (d) the length of time to which the fair value has been less than the amortized cost of the security; and (e) the payment structure of the security. The Company's best estimate of expected future cash flows used to determine the credit loss amount is a quantitative and qualitative process. Quantitative review includes information received from third party sources such as financial statements, pricing and rating changes, liquidity and other statistical information. Qualitative factors include judgments related to business strategies, economic impacts on the issuer and overall judgment related to estimates and industry factors. The Company's best estimate of future cash flows involves assumptions including, but not limited to, various performance indicators, such as historical and projected default and recovery rates, credit ratings, and current delinquency rates. These assumptions require the use of significant management judgment and include the probability of issuer default and estimates regarding timing and amount of expected recoveries, which may include estimating the underlying collateral value. In addition, projections of expected future debt security cash flows may change based upon new information regarding the performance of the issuer.

The primary factors considered in evaluating whether an impairment exists for an equity security include, but are not limited to: (a) the length of time and the extent to which the fair value has been less than the cost of the security; (b) changes in the financial condition, credit rating and near-term prospects of the issuer; (c) whether the issuer is current on contractually obligated payments; and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

No other-than-temporary impairments were recognized during the three months ended March 31, 2015 or 2014.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

The following tables present the fair values and gross unrealized losses of fixed maturities and equity securities that have remained in a continuous unrealized loss position for the periods indicated.

	March 31, 2015						Total Fair Value	Unrealized Losses	# of Securities
	Less than 12 months Fair Value	Unrealized Losses	# of Securities	Greater than 12 months Fair Value	Unrealized Losses	# of Securities			
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	\$34,614	189	34	23,089	957	12	57,703	1,146	46
Corporate	20,716	727	11	2,640	134	1	23,356	861	12
Residential mortgage-backed	115	1	3	—	—	—	115	1	3
Total available-for-sale securities	55,445	917	48	25,729	1,091	13	81,174	2,008	61
Held-to-maturity securities:									
States and political subdivisions	29,230	242	17	7,949	184	9	37,179	426	26
Corporate	4,942	490	2	2,841	180	1	7,783	670	3
Total held-to-maturity securities	34,172	732	19	10,790	364	10	44,962	1,096	29
Total fixed maturities	\$89,617	1,649	67	36,519	1,455	23	126,136	3,104	90
Equity securities:									
Stock mutual funds	\$5,257	33	4	—	—	—	5,257	33	4
Bond mutual funds	18,499	640	3	—	—	—	18,499	640	3
Common stocks	24	2	1	4	13	9	28	15	10
Total equities	\$23,780	675	8	4	13	9	23,784	688	17

As of March 31, 2015, the Company had 13 available-for-sale fixed maturity securities and 10 held-to-maturity fixed maturity securities that were in an unrealized loss position for greater than 12 months. We reported 9 common stock holding in an unrealized loss position for greater than 12 months as of March 31, 2015.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

March 31, 2015

(Unaudited)

	December 31, 2014						Total Fair Value	Unrealized Losses	# of Securities
	Less than 12 months Fair Value	Unrealized Losses	# of Securities	Greater than 12 months Fair Value	Unrealized Losses	# of Securities			
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	\$43,776	318	47	33,716	1,130	24	77,492	1,448	71
Corporate	26,671	780	24	2,530	244	2	29,201	1,024	26
Residential mortgage-backed	159	2	5	33	1	1	192	3	6
Total available-for-sale securities	70,606	1,100	76	36,279	1,375	27	106,885	2,475	103
Held-to-maturity securities:									
States and political subdivisions	21,233	74	16	15,429	314	21	36,662	388	37
Corporate	3,866	285	4	2,746	275	2	6,612	560	6
Total held-to-maturity securities	25,099	359	20	18,175	589	23	43,274	948	43
Total fixed maturities	\$95,705	1,459	96	54,454	1,964	50	150,159	3,423	146
Equity securities:									
Stock mutual funds	\$5,224	66	4	—	—	—			