CITIZENS INC
Form 10-K
March 24, 2016

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes ý No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes
ý No

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. ý Yes o 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). ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K). ý

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes   ý No

As of June 30, 2015, the aggregate market value of the Class A common stock held by non-affiliates of the registrant was approximately $342,443,795.

Number of shares of common stock outstanding as of March 7, 2016.
Class A: 49,080,114
Class B: 1,001,714

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Report incorporates by reference certain portions of the definitive proxy materials to be delivered to stockholders in connection with the 2016 Annual Meeting of Shareholders.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K are not statements of historical fact and constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the "Act"), including, without limitation, statements specifically identified as forward-looking statements within this document. Many of these statements contain risk factors as well. In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, in press releases, and in oral and written statements made by us or with the approval of the Company, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure, and other financial items, (ii) statements of our plans and objectives by our management or Board of Directors, including those relating to products or services, (iii) statements of future economic performance and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "assumes," "estimates," "plans," "projects," "could," "expects," "intends," "targeted," "may," "will" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that could cause the Company's future results to differ materially from expected results include, but are not limited to:

- Changes in the application, interpretation or enforcement of foreign insurance laws that impact our business, which derives the majority of its revenues from residents of foreign countries;
- Potential changes in amounts reserved for in connection with the noncompliance of a portion of our insurance policies with Sections 7702 under the Internal Revenue Code and the failure of certain annuity contracts to qualify under Section 72(s) of the Internal Revenue Code;
- Changes in foreign and U.S. general economic, market, and political conditions, including the performance of financial markets and interest rates;
- Changes in consumer behavior or regulatory oversight, which may affect the Company's ability to sell its products and retain business;
- The timely development of and acceptance of new products of the Company and perceived overall value of these products and services by existing and potential customers;
- Fluctuations in experience regarding current mortality, morbidity, persistency and interest rates relative to expected amounts used in pricing the Company's products;
- The performance of our investment portfolio, which may be adversely affected by changes in interest rates, adverse developments and ratings of issuers whose debt securities we may hold, and other adverse macroeconomic events;
- Results of litigation we may be involved in;
- Changes in assumptions related to deferred acquisition costs and the value of any businesses we may acquire;
- Regulatory, accounting or tax changes that may affect the cost of, or the demand for, the Company's products or services;
- Our concentration of business from persons residing in Latin America and the Pacific Rim;
- Changes in tax laws;
- Effects of acquisitions and restructuring, including possible difficulties in integrating and realizing the projected results of acquisitions;
- Changes in statutory or U.S. Generally Accepted Accounting Principles ("U.S. GAAP"), policies or practices;
- Our success at managing risks involved in the foregoing; and
- The risk factors discussed in "Part 1.-Item 1A- Risk Factors" of this report.

Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made.

We make available, free of charge, through our Internet website (http://www.citizensinc.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Section 16 Reports filed by officers and directors, news releases, and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission. We are not including any of the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

PART I

Item 1. BUSINESS

Overview

Citizens, Inc. ("Citizens") is an insurance holding company incorporated in Colorado serving the life insurance needs of individuals in the United States since 1969 and internationally since 1975. Through our insurance subsidiaries, we pursue a strategy of offering traditional insurance products in niche markets where we believe we are able to achieve competitive advantages. We had approximately $1.5 billion of assets at December 31, 2015 and approximately $4.5 billion of insurance in force. Our core insurance operations include issuing and servicing:

- U.S. Dollar-denominated ordinary whole life insurance and endowment policies predominantly sold to foreign residents, located principally in Latin America and the Pacific Rim, through independent marketing consultants;
- ordinary whole life insurance policies to middle income households concentrated in the Midwest, Mountain West and southern United States through independent marketing consultants; and
- final expense and limited liability property policies to middle and lower income households in Louisiana, Mississippi and Arkansas through employee and independent agents in our home service distribution channel and funeral homes

We were formed in 1969 by our founder, Harold E. Riley. Prior to our formation, Mr. Riley had many years of experience in the international and domestic life insurance business. Historically, our Company has experienced growth through acquisitions in the domestic market and through organic market expansion in the international market. We strive to generate bottom line return using knowledge of our niche markets and our well-established distribution channels.

Our business has grown, both internationally and domestically, in recent years, though our profitability has declined. From 2011 through 2015, revenues rose 22% from $194.2 million in 2011 to $236.3 million in 2015. During that same period, our assets grew 37% from $1,079.5 million to $1,484.0 million. During this same period, our net income declined 142% from $8.5 million to a net loss of $(3.6) million, primarily as a result of other than temporary impairments ("OTTI"), expense related to additional tax liability contingency and higher consulting costs in 2015. See Item 6. "Selected Financial Data" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report.

Recent Developments

In June 2015, the Company's Board of Directors appointed Harold E. Riley as Chairman Emeritus and his son Rick D. Riley as Chairman of the Board and Chief Executive Officer. The Board also promoted former Chief Financial Officer Kay E. Osbourn to Chief Corporate Officer and President, promoted Geoffrey M. Kolander to Senior Vice President, Chief Legal Officer and Corporate Strategy and hired David S. Jorgensen as Vice President, Chief Financial Officer and Treasurer.

In October 2015, Rick Riley, our Chairman and Chief Executive Officer, assumed leadership of our international business, replacing Randall H. Riley, the international marketing officer of one of our primary insurance subsidiaries, CICA Life Insurance Company of America.

Strategic Initiatives

The Company's Board of Directors and executive management team are currently assessing the Company's business model and business strategies with the assistance and support of external consultants and advisors. Specifically, we are evaluating certain elements and assumptions underlying the Company's historical business model to consider potential changes to align with our risk profile, the current economic and regulatory environment and sustainable business objectives. Incorporated in our business model review are analyses of (1) our products and profitability; (2) a potential restructuring of our international business and operations; (3) potential upgrades to our technology systems and operations with a strategic focus on cyber risk and our future business needs; and (4) potential changes in our executive management structure, personnel needs and compensation incentives.

A prolonged low interest rate period has forced us to revisit the benefits and dividends included under many policies offered internationally. In many cases, policy holders stand to benefit from significantly higher guarantees and dividends than the financial markets might otherwise offer. As such, the Company has responded to cut discretionary dividends on existing policies and revisit the structure of new policies sold internationally to better reflect the prolonged low interest rate environment that we face.

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The Company also is revisiting its investment strategies for premiums received in order to augment its rate of return. By combining more conservative interest rate features in our insurance policies with a more flexible investment strategy to manage our investment portfolio, we intend to grow bottom line returns to shareholders. There is risk that these changes will result in lower demand for new policies, or that the financial markets will make our investment strategy more difficult. Despite the risks, the Company believes that such moves are in the best interest of our shareholders.

The following pages describe the operations of our three business segments: Life Insurance, Home Service and Other Non-Insurance Enterprises. Revenues derived from any single customer did not exceed 10% of consolidated revenues in any of the last three years.

Life Insurance

Our Life Insurance segment issues ordinary whole life insurance in the United States and in U.S. Dollar-denominated amounts to foreign residents. These contracts are designed to provide a fixed amount of insurance coverage over the life of the insured and can utilize rider benefits to provide additional increasing or decreasing coverage and annuity benefits to enhance accumulations. Additionally, endowment contracts are issued by the Company, which are principally accumulation contracts that incorporate an element of life insurance protection. For the majority of our business, we retain the first $100,000 of risk on any one life, reinsuring the remainder of the risk. We operate this segment through our subsidiaries: CICA Life Insurance Company of America ("CICA") and Citizens National Life Insurance Company ("CNLIC").

International Sales

We focus our sales of U.S. Dollar-denominated ordinary whole life insurance and endowment policies to residents in Latin America and the Pacific Rim. As of December 31, 2015, we had insurance policies in force in approximately 30 countries, including Columbia, Venezuela, Taiwan, Ecuador and Argentina as our top producing countries. In 2015, international direct premiums comprised approximately 72% of our total direct premiums, and exceeded 10% or more of our premiums for each of the last three years. We have participated in the foreign marketplace since 1975. We believe positive attributes of our international insurance business include:

- larger face amount policies typically issued when compared to our U.S. operations, which results in lower underwriting and administrative costs per unit of coverage;
- premiums typically paid annually rather than monthly or quarterly, which saves us administrative expenses, accelerates cash flow and results in lower policy lapse rates than premiums with more frequently scheduled payments; and
- persistency experience and mortality rates that are comparable to our U.S. policies.

We have implemented several policies and procedures to limit the risks of asset and premium loss relating to our international business. Approvals for policy issuance are made in our Austin, Texas office and policies are issued and delivered to the independent consultants, who deliver the policies to the insureds. We have no offices, employees or assets outside of the United States. Insurance policy applications and premium payments are submitted by the independent consultants or customers to us, and we review the applications in our home offices in Austin, Texas. Premiums are paid in U.S. Dollars by check, wire or credit card. The policies we issue contain limitations on benefits for certain causes of death, such as homicide and careless driving. We have also developed disciplined underwriting criteria, which include medical reviews of applicants as well as background and reference checks. In addition, we have a claims policy that requires investigation of substantially all death claims. Furthermore, we perform background reviews and reference checks of prospective independent marketing firms and consultants.

Independent marketing firms and consultants specialize in marketing life insurance products and generally have several years of insurance marketing experience. We maintain contracts with the independent marketing firms pursuant to which they provide recruitment, training and supervision of their managers and associates in the service and placement of our products; however, all associates of these firms also contract directly with us as independent contractors and receive their compensation directly from us. Accordingly, should an arrangement between any independent marketing firm and us be terminated for any reason, we expect that we would seek to continue with the existing marketing arrangements with the associates of these firms. Our agreements with independent marketing firms and consultants typically provide that they are independent contractors responsible for their own operation expenses and are the representative of the prospective insured. In addition, the marketing firms guarantee any debts of their associates to us. The marketing firms receive commissions on all new and renewal policies serviced or placed by them or their associates. All of these contracts provide that the independent marketing firms and consultants are aware of and responsible for compliance with local laws.

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International Products

We offer several ordinary whole life insurance and endowment products designed to meet the needs of our non-U.S. policyowners. These policies have been structured to provide:

- U.S. Dollar-denominated cash values that accumulate, beginning in the first policy year, to a policyholder during his or her lifetime;
- premium rates that are competitive with or better than most foreign local companies;
- a hedge against local currency inflation;
- protection against devaluation of foreign currency;
- capital investment in a more secure economic environment (i.e., the United States); and
- lifetime income guarantees for an insured or for surviving beneficiaries.

Our international products have living benefit features. Every policy contains guaranteed cash values and is participating (i.e., provides for cash dividends as apportioned by the board of directors). Once a policyowner pays the annual premium and the policy is issued, the owner becomes entitled to a cash dividend as well as an annual guaranteed endowment, if elected. The policyowner has several options with regard to the dividend and annual guaranteed endowments, including the right to assign policy values to the Citizens, Inc. Stock Investment Plan, registered under the Securities Act of 1933 (the "Securities Act"), and administered in the United States by Computershare, our plan administrator and transfer agent.

International Competition

The life insurance business is highly competitive. We compete with a large number of stock and mutual life insurance companies internationally and domestically, as well as with financial institutions that offer insurance products. There are more than 800 life insurance companies in the United States, some of which also provide insurance to foreign residents.

We face competition primarily from companies formed and operated in the country in which the insureds reside, from companies that operate in the same manner as we do and from companies that are foreign to the countries in which policies are sold, but issue insurance policies denominated in the local currency of those countries. A substantial number of companies may be deemed to have a competitive advantage over us due to their significantly greater financial resources, histories of successful operations and larger marketing forces.

Because premiums on our international policies are paid in U.S. Dollars, and we pay claims and benefits in U.S. Dollars, we provide a product that is different from the products offered by foreign-domiciled companies. We believe our international policies are usually acquired by individuals in the upper middle class in their countries and those with significant net worth and earnings that place them in the upper income brackets of their respective countries. The policies sold by our foreign competitors are generally offered broadly and are priced using the mortality of the entire population of the geographic region. Our mortality charges are therefore typically lower, which provides a competitive advantage. Additionally, the assets backing the reserves for our foreign competitors' policies must be substantially invested in their respective countries and, therefore, are exposed to the inflationary risks and social or economic crises that have been more common in these foreign countries.

Domestic Sales

In 2015, domestic direct premiums comprised approximately 28% of our total direct premiums. The majority of our domestic inforce business results from blocks of business of insurance companies we have acquired over the past 17 years. Our acquisition transition strategy focuses on the introduction of our cash accumulation ordinary whole life products to independent marketing consultants associated with companies we have acquired, while continuing to service the needs of acquired policyholders.

In the Mountain West, Midwest and the southern United States, we seek to serve middle-income households through the sale of cash accumulation ordinary whole life insurance products. Our distribution strategy is through independent agents. Over the past few years, new product sales have been modest while existing policies have been running off at a greater pace compressing the block of insurance in force.

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Domestic Life Insurance Products

Our domestic life insurance products focus primarily on living needs and provide benefits focused toward accumulating money for the policyowner. The features of our domestic life insurance products include:

- cash accumulation/living benefits;
- tax-deferred interest earnings;
- guaranteed lifetime income options;
- monthly income for surviving family members;
- accidental death benefit coverage options; and
- an option to waive premium payments in the event of disability.

Our life insurance products are principally designed to address the insured's concern about outliving his or her monthly income, while at the same time providing death benefits. The primary purpose of our product portfolio is to help the insured create capital for needs such as retirement income, children's higher education funds, business opportunities, emergencies and health care needs.

Domestic Competition

The U.S. life insurance industry is a mature industry that, in recent years, has experienced little to no growth. Competition is intense because the life insurance industry is consolidating, with larger, more efficient and more effective organizations emerging from consolidation.

Many domestic life insurance companies have significantly greater financial, marketing forces and other resources, longer business histories and more diversified lines of insurance products than we do. We also face competition from companies marketing in person as well as with direct mail and Internet sales campaigns. Although we may be at a competitive disadvantage to these entities, we believe our premium rates and policy features are generally competitive with those of other life insurance companies selling similar types of ordinary whole life insurance.

Domestic Home Service Insurance

Our domestic Home Service segment operates in this market through our subsidiaries Security Plan Life Insurance Company ("SPLIC"), Magnolia Guaranty Life Insurance Company ("MGLIC") and Security Plan Fire Insurance Company ("SPFIC"), and focuses on the life insurance needs of the middle and lower income markets, primarily in Louisiana, Mississippi and Arkansas. Our policies are sold and serviced through a home service marketing distribution system of approximately 313 employee-agents who work on a route system and through over 307 funeral homes and independent agents to sell policies, collect premiums and service policyholders. To a lesser extent, our Home Service segment sells limited-liability, named peril property policies covering dwelling and contents. In 2015, our Home Service segment comprised 24%, or $47.6 million of our total direct premiums.

Home Service Products and Competition

Our home service insurance products consist primarily of small face amount ordinary whole life and pre-need policies, which are designed to fund final expenses for the insured, primarily consisting of funeral and burial costs. The average life insurance policy face amount issued was approximately $6,700 in 2015; therefore, the underwriting performed on these applications is limited. Our property coverages are limited to $30,000 maximum coverage on any one dwelling and contents, while content-only coverage and dwelling-only coverage is limited to $20,000. We face competition in Louisiana, Mississippi and Arkansas from other companies specializing in home service distribution of insurance. We seek to compete based upon our emphasis on personal service to our customers. We intend to continue premium growth within this segment via direct sales and acquisitions.

Other Non-Insurance Enterprises

Other Non-insurance Enterprises includes Computing Technology, Inc., which provides data processing services to the Company, and Insurance Investors, Inc., which provides aviation transportation to the Company. This segment also includes the results of Citizens, Inc., the parent Company.

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Operations and Technology

Our administrative operations principally serve our life insurance segment and are conducted primarily at our executive offices in Austin, Texas through approximately 122 administrative, operating and underwriting personnel. Our Home Service operations are conducted to a large degree from our district offices in Louisiana, Arkansas and Mississippi, as well as our service center in Donaldsonville, Louisiana. At our executive offices, we also perform policy design, marketing oversight, underwriting, accounting and reporting, actuarial, customer service, claims processing, administration and investing activities.

We have a single integrated system for our entire Company, which is a centrally-controlled, mainframe-based administrative system. Functions of our policy administrative system include policy set up, administration, billing and collections, commission calculation, valuation, automated data edits, storage backup, image management and other related functions. Each company we acquire is ultimately converted onto our administrative system. This system has been in place for more than 30 years and operated across multiple platforms and operating environments as technological efficiencies evolved. We update our administrative system on an ongoing basis but it does require programmers experienced in our IT environment.

We are currently reviewing technology options to transition from our legacy administration system to an upgraded, modernized technology platform that will service our needs into the future.

Enterprise Risk Management

The Company has recently established an enterprise risk management function (“ERM”) that is charged with providing analyses of the Company’s risks on an individual and aggregated basis and with ensuring that the Company’s risks remain within its risk appetite and tolerances. The Company's focus on ERM strengthens its risk management culture and discipline. The mission of ERM is to support the Company in achieving its strategic priorities by:

- Providing a comprehensive view of the risks facing the Company, including risk concentrations and correlations;
- Helping management define the Company’s overall capacity and appetite for risk by evaluating the risk return profile of the business relative to the Company’s strategic intent and financial underpinning;
- Assisting management in setting specific risk tolerances and limits that are measurable, actionable, and comply with the Company’s overall risk philosophy;
- Communicating and monitoring the Company’s risk exposures relative to set limits and recommending, or implementing as appropriate, mitigating strategies; and
- Providing insight to assist in growing the businesses and achieving optimal risk-adjusted returns within established guidelines.

Enterprise Risk Management Structure and Governance

While it is the job of the CEO and senior management to assess and manage the Company’ risk exposure, the Audit Committee of its Board of Directors is charged with discussing guidelines and policies to govern the process by which ERM is handled. The Audit Committee periodically discusses the Company’s major financial risk exposure and the steps management has taken to monitor and control such exposures.

The categories of risk exposures assessed and managed by senior management include, but are not limited to:

- Market risk, including credit, interest rate, equity market, and foreign exchange;
- Liquidity and capital requirements of the Company;

- Insurance risks, including those arising out of catastrophes and acts of terrorism;
- International business risks;
- Legal and regulatory compliance risks;
- Cybersecurity risk; and
- Any other risk that poses a material threat to the strategic viability of the Company.

Regulation

Our U.S. insurance operations are subject to a wide variety of laws and regulations. State insurance laws establish supervisory agencies with broad regulatory authority to regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of each state in which they are licensed. In addition, U.S. laws, such as the USA Patriot

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Act of 2001, the Foreign Corrupt Practices Act (“FCPA”), the Gramm-Leach-Bliley Act of 1999, the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act"), are examples of U.S. regulations that affect our business. We are subject to comprehensive regulations under the USA Patriot Act and the Bank Secrecy Act with respect to money laundering, as well as federal regulations regarding privacy and confidentiality. Our insurance products and thus our businesses also are affected by U.S. federal, state and local tax laws. The Dodd-Frank Act focuses on financial reform and may result in significant changes to the regulation of institutions operating in the financial services industry, including the Company. Legislative or regulatory requirements imposed by or promulgated in connection with this Act may make it more expensive for the Company to conduct its business, may have a material adverse effect on the overall business climate and could materially affect the profitability of the results of operations and financial condition of financial institutions. The Company is uncertain as to all of the impacts this legislation will have and cannot provide assurance it will not adversely affect its results of operations and financial condition. In general, government regulation at the federal level may increase and may result in unpredictable consequences for the Company. In addition, other federal laws and regulations apply to us in areas such as pension regulations, privacy, tort reform and taxation.

The purpose of the laws and regulations that affect our insurance business is primarily to protect our insureds and not our stockholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. In addition, insurance regulatory authorities (including state law enforcement agencies and attorneys general) periodically make inquiries and regularly conduct examinations regarding compliance by us and our subsidiaries with insurance, and other laws and regulations regarding the conduct of our insurance businesses. We cooperate with such inquiries and examinations and take corrective action when warranted.

Our insurance subsidiaries are collectively licensed to transact business in 32 states. We have insurance subsidiaries domiciled in the states of Colorado, Louisiana, Mississippi and Texas. Our U.S. insurance subsidiaries are licensed and regulated in all U.S. jurisdictions in which they conduct insurance business. The extent of this regulation varies, but most jurisdictions have laws and regulations based upon the National Association of Insurance Commissioners (“NAIC”) model rules governing the financial condition of insurers, including standards of solvency, types and concentration of investments, establishment and maintenance of reserves, credit for reinsurance and requirements of capital adequacy, and the business conduct of insurers, including marketing and sales practices and claims handling. In addition, statutes and regulations usually require the licensing of insurers and their agents, the approval of policy forms and related materials and the approval of rates for certain types of insurance products.

All U.S. jurisdictions in which our U.S. insurance subsidiaries conduct insurance business have enacted legislation that requires each U.S. insurance company in a holding company system, except captive insurance companies, to register with the insurance regulatory authority of its jurisdiction of domicile and to furnish that regulatory authority financial and other information concerning the operations of, and the interrelationships and transactions among, companies within its holding company system that may materially affect the operations, management or financial condition of the insurers within the system. These laws and regulations also regulate transactions between insurance companies and their parents and affiliates. Generally, these laws and regulations require that all transactions within a holding company system between an insurer and its affiliates be fair and reasonable and that the insurer's statutory capital and surplus following any transaction with an affiliate be both reasonable in relation to its outstanding liabilities and adequate to its financial needs. Statutory surplus is the excess of admitted assets over the sum of statutory liabilities and capital. For certain types of agreements and transactions between an insurer and its affiliates, these laws and regulations require prior notification to, and non-disapproval or approval by, the insurance regulatory authority of the insurer's jurisdiction of domicile.

We have never qualified to do business in any foreign country and have never submitted our insurance policies issued to residents of foreign countries for approval by any foreign or domestic insurance regulatory agency. We sell our policies to residents of foreign countries using foreign independent marketing firms and independent consultants, and we rely on those persons to comply with laws applicable to them in marketing our insurance products in their respective countries. We recently have undertaken a comprehensive compliance review of risks associated with foreign insurance laws and regulations, with assistance from independent outside advisors. We cannot predict the outcome of this review and cannot assure you that any of these laws, regulations, or application of them by foreign regulatory authorities will not have an adverse effect on the marketing efforts of our independent marketing consultants and, in turn, on our revenues and profitability.

The payment of dividends or other distributions to us by our insurance subsidiaries is regulated by the insurance laws and regulations of their respective states of domicile. The laws and regulations of some of these jurisdictions also prohibit an insurer from declaring or paying a dividend except out of its earned surplus or require the insurer to obtain regulatory approval before it may do so. In addition, insurance regulators may prohibit the payment of ordinary dividends or other payments by our insurance subsidiaries to us (such as a payment under a tax sharing agreement or for employee or other services) if they determine such payment could be adverse to policyholders or insurance contract holders of the subsidiary.

The laws and regulations of the jurisdictions in which our U.S. insurance subsidiaries are domiciled require that a controlling party obtain the approval of the insurance commissioner of the insurance company's jurisdiction of domicile prior to acquiring control of the insurer and may delay, deter or prevent a transaction our shareholders might consider desirable.

Risk-based capital ("RBC") requirements are imposed on life and property and casualty insurance companies. The NAIC has established minimum capital requirements in the form of RBC. RBC factors the type of business written by an insurance company, the quality of its assets, and various other aspects of an insurance company's business to develop a minimum level of capital called "authorized control level risk-based capital" and compares this level to adjusted statutory capital that includes capital and surplus as reported under statutory accounting principles, plus certain investment reserves. Should the ratio of adjusted statutory capital to control level risk-based capital fall below 200%, a series of actions by the affected company would begin.

Potential Changes in Regulation

Government actions in response to the recent financial crisis and market volatility could significantly impact our current regulations. As part of a comprehensive reform of financial services regulation known as the Dodd-Frank Act, Congress established an office within the federal government to collect information about the insurance industry, recommend standards, and represent the United States in dealing with foreign insurance regulators.

Item 1A. RISK FACTORS

Investing in our Company involves certain risks. Set forth below are certain risks with respect to our Company. Readers should carefully review these risks, together with the other information contained in this report. The risks and uncertainties we have described in this report are not the only ones we face. Additional risks and uncertainties not presently known to us, or that we currently deem not material, may also adversely affect our business. Any of the risks discussed in this report or that are presently unknown or not material, if they were to actually occur, could result in a significant adverse impact on our business, operating results, prospects or financial condition. References in the risk factors below to "we," "us," "our," "Citizens" and like terms relate to Citizens, Inc. and its subsidiaries on a U.S. GAAP consolidated financial statement basis, unless specifically identified otherwise. We operate our subsidiaries as separate and distinct entities with respect to corporate formalities.

Risks Relating to Our Business

The majority of our sales derive from residents of foreign countries and are subject to risks associated with political instability, currency control laws and foreign insurance laws. A significant loss of sales in these foreign markets could have a material adverse effect on our results of operations and financial condition.

The majority of our direct premiums, approximately 72% in 2015, are from foreign countries, primarily those in Latin America and the Pacific Rim. These sales are made through independent consultants who are located in these foreign countries. Many of these countries have a history of political instability, including regime changes, political uprisings, currency fluctuations and anti-democratic or anti-U.S. policies. There is a risk that political instability in these countries could have a material adverse effect on the ability of people living in these countries to purchase our insurance policies or our ability to sell our policies in those countries through our independent consultants or otherwise. The Company's future sales and financial results depend upon avoiding significant regulatory interruptions in receiving insurance policy applications and premiums from, and issuing insurance policies to, residents outside of the United States.

Currency control laws or other currency exchange restrictions in foreign countries could materially adversely affect our revenues by imposing restrictions on asset transfers outside of a country where our insureds reside. Difficulties in transferring funds from or converting currencies in certain countries could prevent our insureds in those countries from purchasing or paying premiums on our policies. There can be no assurance that such restrictions will not be imposed and that our revenues, results of operations and financial condition will not be materially adversely affected if they do occur.

We also face risks associated with the application of foreign laws to our sales of policies to residents in foreign countries. Traditionally, we have sought to address risks associated with the potential application of foreign laws to our sales of insurance policies in our foreign markets by, among other things, not locating any of our offices or assets in foreign countries, selling policies only through independent consultants rather than our own employees, requiring that all applications for insurance be submitted

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to and accepted only in our offices in the U.S., and requiring that policy premiums be paid to us in U.S. Dollars. Because we consider ourselves to be doing business only in the U.S., we have never sought to qualify to do business in any foreign country and have never submitted the insurance policies that we issue to residents of foreign countries for approval by any foreign or domestic insurance regulatory agency. We have sold our policies to residents of foreign countries using independent consultants and we have relied on those persons to comply with applicable laws in marketing our insurance products.

We recently have undertaken a comprehensive review of risks associated with the potential application of foreign laws to our sales of insurance policies in foreign countries, including laws that might require us to qualify to do business in a foreign country or to submit our policies for approval by a foreign insurance regulatory authority. The application of foreign laws to our sales of insurance policies in foreign countries requires a country-by-country analysis due to the lack of uniformity of regulation in those countries, and the application of the laws of some countries to our sales of insurance policies may be uncertain due to unclear regulations or the absence of legal precedent addressing circumstances similar to ours. While our compliance review is ongoing and we cannot predict its ultimate outcome, preliminary results indicate a risk that the government of a foreign country could determine, under its existing laws, that its residents may not buy life insurance from us unless we become qualified to do business in that country or unless our policies purchased by its residents receive prior approval from its insurance regulators. There also is a risk that foreign regulators may become more aggressive in enforcing any perceived violations of their laws. There is no assurance that, if a foreign country were to deem our sales of policies in that country to require that we qualify to do business in that country or submit our policies for approval by that country’s regulatory authorities, we would be able to, or would conclude that it is advisable to, comply with those requirements. Any determination by a foreign country that we or our policy sales are subject to regulation under their laws could therefore have a material adverse effect on our ability to sell policies in that country and, in turn, on our revenues and profitability. Ultimately, we may decide to withdraw from or avoid a particular market if we conclude that we are subject to its laws and regulations.

Any disruption to the marketing and sale of our policies to residents of a foreign country, resulting from the action of foreign regulatory authorities or otherwise, could have a material adverse effect on our revenues and profitability.

Our operating results and financial condition may be affected if the liabilities actually incurred differ, or if our estimates of those liabilities change, from the amounts we have reserved for in connection with the noncompliance of a portion of our life insurance policies with Section 7702 of the Internal Revenue Code and the failure of certain annuity contracts to qualify under Section 72(s) of the Internal Revenue Code.

We previously announced that we determined that a portion of the life and annuity insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 and 72(s) of the Internal Revenue Code ("IRC") of 1986. To the extent that these policies had unreported income build-up, we may be liable to the IRS for failure to withhold taxes or to notify policyholders of their obligation to pay taxes directly to the IRS. We have undertaken an analysis of our potential liability to the IRS arising from this matter, as well as other expenses we may incur to remediate (i.e., conform to the requirements of the IRS) certain previously issued domestic life insurance and annuity policies and to address any missed reporting for policies issued to non-U.S. citizens and have established a best estimate reserve of $14.6 million, net of tax as of December 31, 2015 for probable liabilities and expenses. We estimate the range of those probable liabilities and expenses to be $9.0 million to $45.5 million, net of tax. This estimated range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected.

We face financial and capital market risks in our operations.

As an insurance holding company with significant investment exposure, we face material financial and capital markets risk in our operations. Due to the low interest rate environment in recent years, we experienced significant call activity on our fixed income portfolio that decreased our investment yields compared to prior years. We also have recorded other-than-temporary impairments in the past several years due to credit related market declines and equity market volatility.

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Economic uncertainty has recently been exacerbated by the increased potential for default by one or more European sovereign debt issuers, the potential partial or complete dissolution of the Eurozone and its common currency and the negative impact of such events on global financial institutions and capital markets generally. Actions or inactions of European governments may impact these actual or perceived risks. Future actions or inactions of the United States government, including a shutdown of the federal government, could increase the actual or perceived risk that the U.S. may not ultimately pay its obligations when due and may disrupt financial markets.

Changes in market interest rates may significantly affect our profitability.

Some of our products, principally traditional whole life insurance with annuity riders, expose us to the risk that changes in interest rates will reduce our "spread," or the difference between the amounts we are required to pay under our contracts to policyholders and the rate of return we are able to earn on our investments intended to support obligations under the contracts. Our spread is an integral component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured, prepaid, been sold, or called at lower yields, reducing our investment margin. Our fixed income bond portfolio is exposed to interest rate risk as a significant portion of the portfolio is callable. Lowering interest crediting rates can help offset decreases in investment margins on some of our products. However, our ability to lower these rates could be limited by competition or contractually guaranteed minimum rates, and may not match the timing or magnitude of changes in asset yields.

Our investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may significantly reduce the value of our investments, and as a result, our financial condition may suffer.

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the bonds included in our portfolio and by other factors that may result in the recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

In particular, at December 31, 2015, fixed maturities represented $995.6 million or 91.5% of our total investments of $1,088.1 million. The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. An investment has prepayment risk when there is a risk that the timing of cash flows resulting from the repayment of principal might occur earlier than anticipated because of declining interest rates or later than anticipated because of rising interest rates. The impact of value fluctuations affects our consolidated financial statements, as a large portion of our fixed maturities are classified as available-for- sale, with changes in fair value reflected in our stockholders' equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders' equity, total comprehensive income and/or cash flows. Although at December 31, 2015, approximately 97.4% of our fixed maturities were investment grade with 82.5% rated A or above, all of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst-case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

Gross unrealized losses on fixed maturity and equity securities may be realized or result in future impairments, resulting in a reduction in our net income.

Fixed maturity and equity securities classified as available-for-sale are reported at fair value. Unrealized gains and losses on available-for-sale securities are recognized as a component of other comprehensive income (loss) and are, therefore, excluded from our net income. Our total gross unrealized losses on our available-for-sale securities portfolio at December 31, 2015 were $8.5 million. The accumulated change in estimated fair value of these securities is recognized in net income when the gain or loss is realized upon sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and an impairment charge to earnings is taken. Realized losses or impairments may have a material adverse effect on our net income in a particular quarterly or annual period.

Our actual claims losses may exceed our reserves for claims, and we may be required to establish additional reserves, which in turn may adversely impact our results of operations and financial condition.

We maintain reserves to cover our estimated exposure for claims relating to our issued insurance policies. Reserves, whether calculated under U.S. generally accepted accounting principles or statutory accounting practices prescribed by various state insurance regulators, do not represent an exact calculation of exposure, but instead represent our best estimates, generally involving actuarial projections, of what we expect claims will be based on mortality assumptions that are determined by various regulatory authorities. Many reserve assumptions are not directly quantifiable, particularly on a prospective basis. In addition, when we acquire other domestic life insurance companies, our assessment of the adequacy of acquired policy liabilities is subject to our estimates and assumptions. Reserve estimates are refined as experience develops, and adjustments to reserves are reflected in our statements of operations for the period in which such estimates are updated. Because establishing reserves is an inherently uncertain process involving estimates of future losses, future developments may require us to increase claims reserves, which may have a material adverse effect on our results of operations and financial condition in the periods in which such increases occur.

Unanticipated increases in early policyholder withdrawals or surrenders could negatively impact liquidity.

A primary liquidity concern is the risk of unanticipated or extraordinary early policyholder withdrawals or surrenders. Our insurance policies include provisions, such as surrender charges, that help limit and discourage early withdrawals, and we track and manage liabilities and attempt to align our investment portfolio to maintain sufficient liquidity to support anticipated withdrawal demands. However, early withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, including changes in economic conditions, changes in policyholder behavior or financial needs, changes in relationships with our independent consultants, changes in our claims-paying ability, or increases in surrenders among more mature policies that have been in force for more than fifteen years and are no longer subject to surrender charges. Any of these occurrences could adversely affect our liquidity, profitability and financial condition.

While we own a significant amount of liquid assets, a certain portion of investment assets are relatively illiquid. If we experience unanticipated early withdrawal or surrender activity, we could exhaust all other sources of liquidity and be forced to obtain additional financing or liquidate assets, perhaps on unfavorable terms. The availability of additional financing will depend on a variety of factors, such as market conditions, the availability of credit in general or more specifically in the insurance industry, the strength or weakness of the capital markets, the volume of trading activities, our credit capacity, and the perception of our long- or short-term financial prospects if we incur large realized or unrealized investment losses or if the level of business activity declines due to a market downturn. If we are forced to dispose of assets on unfavorable terms, it could have an adverse effect on our liquidity, results of operations and financial condition.

We may be required to accelerate the amortization of deferred acquisition costs and the costs of customer relationships acquired, which would increase our expenses and adversely affect our results of operations and financial condition.

At December 31, 2015, we had $165.4 million of deferred policy acquisition costs, or DAC. DAC represents costs that vary with and are primarily related to the successful sale and issuance of our insurance policies and are deferred and amortized over the estimated life of the related insurance policies. These costs include commissions in excess of ultimate renewal commissions, solicitation and printing costs, sales material costs and some support costs, such as underwriting and contract and policy issuance expenses. Under U.S. GAAP, DAC is amortized to income over the lives of the underlying policies, in relation to the profit stream.

In addition, when we acquire a block of insurance policies, we assign a portion of the purchase price to the right to receive future net cash flows from existing insurance and investment contracts and policies. This intangible asset, called the cost of customer relationships acquired, or CCRA, represents the actuarially estimated present value of future cash flows from the acquired policies. At December 31, 2015, we had $21.6 million of CCRA. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

Our amortization of DAC and CCRA generally depends upon anticipated profits from investments, surrender and other policy charges, mortality, morbidity, persistency and maintenance expense margins. For example, if our insurance policy lapse and surrender rates were to exceed the assumptions upon which we priced our insurance policies, or if actual persistency proves to be less than our persistency assumptions, especially in the early years of a policy, we would be required to accelerate the amortization of expenses we deferred in connection with the acquisition of the policy. We regularly review the quality of our DAC and CCRA to determine if they are recoverable from future income. If these costs are not recoverable, they are charged to expenses in the financial period in which we make this determination.

Unfavorable experience with regard to expected expenses, investment returns, surrender and other policy charges, mortality, morbidity, lapses or persistency may cause us to increase the amortization of DAC or CCRA, or both, or to record a current period expense to increase benefit reserves, any of which could have a material adverse effect on our results of operations and financial condition.

We may be required to recognize an impairment on the value of our goodwill, which would increase our expenses and materially adversely affect our results of operations and financial condition.

Goodwill represents the excess of the amount paid by us to acquire various life insurance companies over the fair value of their net assets at the date of the acquisition. Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the "reporting unit" level, which is either an operating segment or a business that is one level below the operating segment. Goodwill is impaired if its carrying value exceeds its implied fair value. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense, which could have a material adverse effect on our results of operations and financial condition. Goodwill in our consolidated financial statements was $17.3 million as of December 31, 2015.

We are a defendant in lawsuits, which may adversely affect our financial condition and detract from the time our management is able to devote to our business, and we are subject to risks related to litigation and regulatory matters.

From time to time we are, and have been, subject to a variety of legal and regulatory actions and investigations relating to our business operations, including, but not limited to:

- disputes over insurance coverage or claims adjudication;
- regulatory compliance with state laws, including insurance and securities regulations;
- regulatory compliance with U.S. federal securities laws, tax, anti-money laundering, bank secrecy, anti-bribery, anti-corruption and foreign asset control laws, among others;
- disputes with our independent marketing firms, independent consultants and employee-agents over compensation, termination of contracts and related claims;
- disputes regarding our tax liabilities;
- disputes relating to reinsurance and coinsurance agreements; and
- disputes relating to businesses acquired and operated by us.

In the absence of countervailing considerations, we would expect to defend any such claims vigorously. However, in doing so, we could incur significant defense costs, including attorneys' fees, other direct litigation costs and the expenditure of substantial amounts of management time that otherwise would be devoted to our business. Further, if we suffer an adverse judgment as a result of any claim, it could have a material adverse effect on our business, results of operations and financial condition.

A number of U.S. jurisdictions have been investigating life insurer practices for compliance with unclaimed property laws. Highly publicized incidents disclosed the practice by certain companies of using data available on the U.S.

Social Security Administration's Death Master File or a similar database in order to avoid paying periodic benefits under annuity contracts, but not using the same data base to determine when death benefits were owed. This asymmetric conduct by certain insurers has led a number of jurisdictions to require life insurers to use this same data to identify instances where amounts under life insurance policies and annuity contracts are payable and to locate and pay beneficiaries under such contracts. The National Conference of Insurance Legislators ("NCOIL") has adopted the Model Unclaimed Life Insurance Benefits Act ("Model Act") and several states have adopted legislation that is substantially similar to the Model Act adopted by NCOIL. The Model Act imposes new requirements on insurers to periodically compare their in force life insurance and annuity policies against the Death Master File, investigate any identified matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries or, if no beneficiary can be located, escheat the policy benefit to the respective state government as unclaimed property. The Model Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, and/or administrative penalties. It is also possible that life insurers may be subject to claims regarding their business practices as a result given the legal uncertainty in this area. However, recent court decisions in West Virginia and Florida have upheld the well-established insurance law principal that life insurance policies are not due and payable until the insurance company receives due proof of death, and have further held an insurance company has no duty to search the Death Master File or other databases to determine whether deaths have occurred that have not been reported to the company.

Despite the fact we have no history of the asymmetric conduct in question, we have received notices from the Louisiana Department of Treasury, the Arkansas Auditor of State and the Texas State Comptroller, indicating they intend to audit Citizens, Inc. and certain of its affiliates for compliance with unclaimed property laws. The audits may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and changes to the Company's procedures for the identification and escheatment of abandoned property. The Company believes additional escheatment of funds in Arkansas or Texas will not be material to our financial condition or results. However, additional escheatment of funds in Louisiana, which may subsequently be deemed abandoned under the Louisiana Department of Treasury’s audit, could be substantial for SPLIC. At this time, the Company is not able to estimate any of these possible amounts.

Reinsurers with which we do business could increase their premium rates and may not honor their obligations, leaving us liable for the reinsured coverage.

We reinsure certain risks underwritten by our various insurance subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. The high cost of reinsurance or lack of affordable coverage could adversely affect our results of operations and financial condition.

Our reinsurance facilities are generally subject to annual renewal. We may not be able to maintain our current reinsurance facilities and, even if highly desirable or necessary, we may not be able to obtain replacement reinsurance facilities in adequate amounts or at rates economic to us. If we are unable to renew our expiring facilities or to obtain new reinsurance facilities, either our net exposures would increase or, if we are unwilling or unable to bear an increase in net exposures, we may have to reduce the level of our underwriting commitments. In addition, our reinsurance facilities may be canceled, pursuant to their terms, upon the occurrence of certain specified events, including a change of control of our Company (generally defined as the acquisition of 10% or more of our voting equity securities) or the failure of our insurance company subsidiaries to maintain the minimum required levels of statutory surplus. Any of these potential developments could materially adversely affect our revenues, results of operations and financial condition.

In 2015, we reinsured $516.9 million of face amount of our life insurance policies. Amounts reinsured in 2015 represented10.4% of the face amount of direct life insurance in force in that year. Although the cost of reinsurance is, in some cases, reflected in premium rates, under certain reinsurance agreements, the reinsurer may increase the rate it charges us for reinsurance. If our cost of reinsurance were to increase, we might not be able to recover these increased costs, and our results of operations and financial condition could be materially adversely affected. See Note 5 to the Company's Consolidated Financial Statements.

Our international and domestic markets face significant competition. If we are unable to compete effectively in our markets, our business, results of operations and profitability may be adversely affected.

Our international marketing plan focuses on making available U.S. Dollar-denominated life insurance products to upper middle income and high net worth, high income individuals residing in more than 30 countries. New competition could increase the supply of available insurance, which could affect our ability to price our products at attractive profitable rates to us, thereby adversely affecting our revenues, results of operations and financial condition. Existing barriers to entry in the foreign markets we serve may not be sufficient to impede potential competitors from entering such markets. In connection with our business with foreign nationals, we experience competition primarily from the following sources, many of which have substantially greater financial, marketing and other resources than we have:

- Foreign operated companies with U.S. Dollar policies. We face direct competition from companies that operate in the same manner as we operate in our international markets.

- Companies foreign to the countries in which their policies are sold but that issue local currency policies. Another group of our competitors in the international marketplace consists of companies that are foreign to the countries in which their policies are sold but issue life insurance policies denominated in the local currencies of those countries. Local currency policies provide the benefit of assets located in the country of foreign residents, but entail risks of uncertainty due to local currency fluctuations, as well as the perceived instability and weakness of local currencies.

- Locally operated companies with local currency policies. We compete with companies formed and operated in the country in which our foreign insureds reside. Generally, these companies are subject to risks of currency fluctuations, and they primarily use mortality tables based on experience of the local population as a whole. These mortality tables are typically based on significantly shorter life spans than those we use. As a result, the cost of insurance from these companies tends to be higher than ours. Although these companies typically market their policies to a broader section of the population than do our independent marketing firms and independent consultants, there can be no assurance that these companies will not endeavor to place a greater emphasis on our target market and compete more directly with us.

In the United States, we compete with more than 800 other life insurance companies of various sizes. The life insurance business in the United States is highly competitive, in part because it is a mature industry that, in recent years, has experienced little to no growth in life insurance sales. Many domestic life insurance companies have substantially greater financial resources, longer business histories, larger sales forces and more diversified lines of insurance coverage than we do. Competition in the United States has also increased recently because the life insurance industry is consolidating, with larger, more efficient organizations emerging from the consolidation.

In addition, from time to time, companies enter and exit the markets in which we operate, thereby increasing competition at times when there are new entrants. We may lose business to competitors offering competitive products at lower prices, or for other reasons.

There can be no assurance that we will be able to compete effectively in any of our markets. If we do not, our business, results of operations and financial condition will be materially adversely affected.

Sales of our insurance products may be reduced if we are unable to (i) establish and maintain commercial relationships with independent marketing firms and independent consultants, (ii) attract and retain employee agents or (iii) develop and maintain our distribution sources.

We distribute our insurance products through several distribution channels, including independent marketing firms, independent consultants and our employee agents. These relationships are significant for both our revenues and our profits. In our life insurance segment, we depend almost exclusively on the services of independent marketing firms and independent consultants. In our home service insurance segment, we depend on employee agents whose role in our distribution process is integral to developing and maintaining relationships with policyholders. Significant competition exists among insurers in attracting and maintaining marketers of demonstrated ability. Some of our competitors may offer better compensation packages for marketing firms, independent consultants and agents and broader arrays of products and have a greater diversity of distribution resources, better brand recognition, more competitive pricing, lower cost structures and greater financial strength or claims paying ratings than we do. We compete with other insurers for marketing firms, independent consultants and employee agents primarily on the basis of our compensation and support services. Any reduction in our ability to attract and retain effective sales representatives could materially adversely affect our revenues, results of operations and financial condition.

Loss of the services of our senior management team, or the failure to fill key vacancies, could hinder our operations, marketing and business strategy and adversely impact our results of operations, financial condition or prospects.

We rely on our senior executive team comprised of Chairman of the Board and Chief Executive Officer, Rick D. Riley (age 62), President and Chief Corporate Officer, Kay E. Osbourn (age 49), Chief Financial Officer and Treasurer, David S. Jorgensen (age 52) and Chief Legal Officer, Geoffrey M. Kolander (age 40) to develop and execute our operating and marketing plans and strategy for expanding our business. We anticipate that their expertise will continue to be of substantial value in connection with our business and compliance strategies. The loss of the services of any of these individuals, or the failure to fill key vacancies such as our Chief Actuary position for an extended period of time, could have a significant adverse effect on our business and prospects. Due to our historical compensation philosophy that has focused primarily on cash compensation and excluded equity-based incentive compensation, employment agreements, change of control agreements or other compensation components of similar publicly traded companies, we face risk that we may limit our ability to retain and effectively incentivize our key executives and our ability to attract new executive talent in the competitive insurance industry. Further, we do not carry key-man insurance policies on any of their lives.

We are subject to extensive governmental regulation in the United States, which increases our costs of doing business and could restrict the conduct of our business.

We are subject to extensive regulation and supervision in U.S. jurisdictions where we do business, including state insurance regulations and U.S. federal securities, tax, anti-money laundering, bank secrecy, anti-corruption and foreign asset control laws. Insurance company regulation is generally designed to protect the interests of policyholders, with substantially lesser protections to shareholders of the regulated insurance companies. To that end, all the states in which we do business have insurance regulatory agencies with broad legal powers with respect to licensing companies to transact business; mandating capital and surplus requirements; regulating trade and claims practices; approving policy forms; and restricting companies' ability to enter and exit markets.

The capacity for an insurance company's growth in premiums is partially a function of its required statutory surplus. Maintaining appropriate levels of statutory surplus, as measured by statutory accounting practices prescribed or permitted by a company's state of domicile, is considered important by all state insurance regulatory authorities. Failure to maintain required levels of statutory surplus could result in increased regulatory scrutiny and enforcement action by regulatory authorities.

Most insurance regulatory authorities have broad discretion to grant, renew, suspend and revoke licenses and approvals, and could preclude or temporarily suspend us from carrying on some or all of our activities, including acquisitions of other insurance companies, require us to add capital to our insurance company subsidiaries, or fine us. If we are unable to maintain all required licenses and approvals, or if our insurance business is determined not to comply fully with the wide variety of applicable laws and regulations and their interpretations, including the USA Patriot Act, our revenues, results of operations and financial condition could be materially adversely affected.

Although the U.S. federal government has not historically regulated the insurance business, the Dodd-Frank Act, enacted in July 2010, expands the federal presence in insurance oversight. The Act's requirements include streamlining the state-based regulation of reinsurance and non-admitted insurance (also known as surplus lines insurance, which is property or casualty insurance written by a company that is not licensed to sell policies of insurance in a given state). This legislation also establishes a new Federal Insurance Office within the U.S. Department of the Treasury with powers over all lines of insurance except health insurance, certain long-term care insurance and crop insurance. The Federal Insurance Office is authorized to, among other things, gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters and preempt state insurance measures under certain circumstances. As this Act calls for numerous studies and contemplates further regulation, the future impact of the Act on our results of operations or our financial condition cannot be determined at this time, but could have an adverse impact on profitable operations.

Changes in U.S. regulation may adversely affect our results of operations and financial condition and limit our prospective growth.

Currently, the U.S. Federal Government does not directly regulate the insurance business, although initiatives for federal regulation of insurance are proposed by members of the U.S. Congress from time to time. However, federal legislation, regulations and administrative policies in several other areas can materially and adversely affect insurance companies, including our business. These areas include U.S. anti-money laundering laws and related regulations, including the Bank Secrecy Act and its implementing regulations (collectively, the “BSA”), other financial services regulations, securities regulation, including the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed from time to time.

Our failure to maintain effective information systems could adversely affect our business.

We must maintain and enhance our existing information systems and develop new information systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards and changing customer preferences. If we do not maintain adequate systems, we could experience adverse consequences, including products acquired through acquisition, inadequate information on which to base pricing, underwriting and reserve decisions, regulatory problems, failure to meet prompt payment obligations, increases in administrative expenses and loss of customers.

Some of our information technology systems and software are mainframe-based, legacy-type systems that require an ongoing commitment of resources to maintain current standards. Our systems utilize proprietary code requiring highly skilled personnel. Due to the unique nature of our proprietary operating environment, we could have difficulty finding personnel with the skills required to provide ongoing system maintenance and development as we seek to keep pace with changes in our products and business models, information processing technology, evolving industry and regulatory standards and policyholder needs. Our success is dependent upon, among other things, maintaining and enhancing the effectiveness of existing systems, as well as continuing to integrate, develop and enhance our information systems to support business processes in a cost-effective manner.

Our failure to maintain effective and efficient information systems, or our failure to efficiently and effectively consolidate our information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our results of operations and financial condition.

Our failure to protect confidential information and privacy could result in the unauthorized disclosure of sensitive or confidential corporate or customer information, damage to our reputation, loss of customers, fines, penalties and adverse effects on our results of operations and financial condition.

Our insurance subsidiaries are subject to privacy regulations. The actions we take to protect confidential information include among other things: monitoring our record retention plans and policies and any changes in state or federal privacy and compliance requirements; maintaining secure storage facilities for tangible records; and limiting access to electronic information in order to safeguard certain information.

In addition, the Gramm-Leach-Bliley Act requires that we deliver a notice regarding our privacy policy both at the delivery of an insurance policy and annually thereafter. Certain exceptions are allowed for sharing of information under joint marketing agreements. However, certain state laws may require us to obtain a policyholder's consent before we share information.

We have a written information security program with appropriate administrative, technical and physical safeguards to protect such confidential information. Cyber security attacks are on the rise throughout the world and while we believe we have taken reasonable steps to secure our customer information we could experience a breach of data. We closely monitor cyber attack attempts on our system, and we are not aware of any material breach of our cybersecurity, administrative, technical and physical safeguards or client data. Nevertheless, it is possible a cyber attack could go undetected and that preventative actions we take to reduce this risk of cyber-incidents and protect our information may be insufficient to prevent cyber attacks or other security breaches.

If we do not comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, loss of reputation, litigation exposure, disruptions to our operations or significant technical, legal and operating expenses, any of which could have a material adverse effect on our business, results of operations and financial condition.

General economic, financial market and political conditions may materially adversely affect our results of operations and financial condition.

Our results of operations and financial condition may be materially adversely affected from time to time by general economic, financial market and political conditions, both in the United States and in the foreign countries where our policyowners reside. These conditions include economic cycles such as: levels of consumer spending; levels of inflation; movements of the financial markets; availability of credit; fluctuations in interest rates, monetary policy or demographics; and legislative and competitive changes.

During periods of economic downturn, our insureds may choose not to purchase our insurance products, may terminate existing policies, permit policies to lapse or may choose to reduce the amount of coverage purchased, any of which could have a material adverse effect on our results of operations and financial condition. Also, our sales of new insurance policies might decrease.

Our insurance subsidiaries are restricted by applicable laws and regulations in the amounts of fees, dividends and other distributions they may make to us. The inability of our subsidiaries to make payments to us in sufficient amounts for us to conduct our operations could adversely affect our ability to meet our obligations or expand our business.

As a holding company, our principal asset is the stock of our subsidiaries. We rely primarily on statutorily permissible payments from our insurance company subsidiaries, principally through service agreements we have with our subsidiaries, to meet our working capital and other corporate expenses. The ability of our insurance company subsidiaries to make payments to us is subject to regulation by the states in which they are domiciled, and these payments depend primarily on approved service agreements between us and these subsidiaries and, to a lesser extent, the statutory surplus (which is the excess of assets over liabilities as determined under statutory accounting practices prescribed by an insurance company's state of domicile), future statutory earnings (which are earnings as determined in accordance with statutory accounting practices) and regulatory restrictions.

Generally, the net assets of our insurance company subsidiaries available for dividends are limited to either the lesser or greater (depending on the state of domicile) of the subsidiary's net gain from operations during the preceding year and 10% of the subsidiary's net statutory surplus as of the end of the preceding year as determined in accordance with accounting practices prescribed by insurance regulatory authorities.

Except to the extent that we are a creditor with recognized claims against our subsidiaries, claims of our subsidiaries' creditors, including policyholders, have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors and shareholders. If any of our subsidiaries becomes insolvent, liquidates or otherwise reorganizes, our creditors and shareholders will have no right to proceed in their own right against the assets of that subsidiary or to cause the liquidation, bankruptcy or winding-up of the subsidiary under applicable liquidation, bankruptcy or winding-up laws.

Adverse capital and credit market conditions may significantly affect our access to debt and equity capital and our cost of capital in seeking to expand our business.

The availability of equity and debt financing to us will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit capacity, as well as the possibility that investors or lenders could develop a negative perception of our long- or short-term financial prospects. Disruptions, uncertainty or volatility in the capital markets may also limit our access to equity capital for us to seek to expand our business. As such, we may be forced to delay raising debt or equity capital, or bear an unattractive cost of capital, which could adversely affect our ability to seek any acquisitions and negatively impact profitability of an acquisition.

Unexpected losses in future reporting periods may require us to adjust the valuation allowance against our deferred tax assets.

We evaluate our deferred tax asset (“DTA”) quarterly for recoverability based on available evidence. This process involves management's judgment about assumptions, which are subject to change from period to period due to tax rate changes or variances between our projected operating performance and our actual results. Ultimately, future adjustments to the DTA valuation allowance, if any, will be determined based upon changes in the expected realization of the net deferred tax assets. The realization of the deferred tax assets depends on the existence of sufficient taxable income in either the carry back or carry forward periods under applicable tax law. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we may be required to record a valuation allowance in future reporting periods. Such an adjustment could have a material adverse effect on our results of operation, financial condition and capital position.

We may experience greater risks associated with certain deficiencies recently identified in our BSA Program.

As required by the BSA regulations applicable to insurance companies, we have developed and implemented an anti-money laundering program that includes policies and procedures for complying with applicable BSA program, reporting and recordkeeping requirements and for preventing and detecting potential money laundering and other criminal activity (“BSA Program”). Based on an internal risk assessment and review we began in the first quarter of 2015, we have identified certain deficiencies in our BSA Program, and we are in the process of enhancing our BSA Program with additional controls based on our internal risk assessment.

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Risks Relating to Our Capital Stock

If our foreign policyholders reduced or ceased participation in our Stock Investment Plan (the “Plan”) or if a securities regulatory authority were to deem the Plan's operation contrary to securities laws, the volume of Class A common stock purchased on the open market through the Plan, and the price of our Class A common stock, could fall.

More than 98% percent of the shares of Class A common stock purchased under the Plan in 2015 were purchased by foreign holders of life insurance policies (or related brokers); the remaining 2% of the shares of Class A common stock purchased under the Plan in 2015 were purchased by approximately 640 participants resident in the United States. The Plan is registered with the SEC pursuant to a registration statement under the Securities Act of 1933, but is not registered under the laws of any foreign jurisdiction. If a foreign securities regulatory authority were to determine the offer and sale of our Class A common stock under the Plan were contrary to applicable laws and regulations of its jurisdiction, such authority may issue or assert a fine, penalty or cease and desist order against us in that foreign jurisdiction. There is a risk our Class A common stock price could be negatively impacted by a decrease in participation in the Plan. If fewer policyholders elect to participate in the Plan, or our international premium collections were to decrease as a result of regulatory, economic, or marketing impediments, the trading volume of our Class A common stock may decline from its present levels, the demand for our Class A common stock could be negatively impacted and the price of our Class A common stock could fall.

Control of our Company, through the ownership of our Class B Common Stock, may transfer from our Founder to a 501(c)(3) charitable foundation established by our Founder, and we cannot determine whether any change in our management, operations, or operating strategies will occur as a result of such an ownership change.

Harold E. Riley, our Founder and Chairman Emeritus, is the beneficial owner of 100% of our Class B common stock, which is held in the name of the Harold E. Riley Trust ("Trust"), of which he serves as Trustee. Our Class A and Class B common stock are identical in all respects, except the Class B common stock elects a simple majority of the Board and receives one-half of any cash dividends paid, on a per share basis, to the Class A shares. Therefore, Mr. Riley controls our Company. The Class A common stock elects the remainder of the Board. The Trust documents provide that upon Mr. Riley's death, the Class B common stock will be transferred from the Trust to the Harold E. Riley Foundation, a charitable organization established under 501(c)(3) of the Internal Revenue Code (the "Foundation"). The Foundation is organized as a public support charity for the benefit of its charitable beneficiaries, Baylor University and Southwestern Baptist Theological Seminary. The Foundation is governed by 11 trustees, five of which are appointed by its sole member, Harold Riley, three of which are appointed by Baylor University and three of which are appointed by Southwestern Baptist Theological Seminary. The trustees appointed by Harold Riley include himself, Dottie Riley, Rick Riley. In addition, the Trust documents provide that Mr. Riley may at any time transfer the Class B common stock held by the Trust to the Foundation. It is unclear what, if any, changes would occur to our board, management structure, or corporate operating strategies as a result of different ownership of our Class B common stock.

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There are a substantial number of our shares of Class A common stock issued to our executive officers, directors and management which are eligible for future sale in the public market. The sale of these shares could cause the market price of our Class A common stock to fall.

There were 49,080,114 shares of our Class A common stock issued and outstanding as of December 31, 2015. Our executive officers, directors and management owned approximately 3,172,927 shares of our Class A common stock as of December 31, 2015, representing approximately 6.5% of our then outstanding Class A common stock. Almost all of these shares have been registered for public resale and generally may be sold freely. In the event of a sale of some or all of these shares or the perceived sale of these shares, the market price of our Class A common stock could fall substantially.

The price of our Class A common stock may be volatile and may be affected by market conditions beyond our control.

Our Class A common stock price has historically fluctuated and is likely to fluctuate in the future and could decline materially because of the volatility of the stock market in general, decreased participation in the Plan referred to above or a variety of other factors, many of which are beyond our control, including: quarterly or annual variations in actual or anticipated results of our operations; interest rate fluctuations; changes in financial estimates by securities analysts; competition and other factors affecting the life insurance business generally; and conditions in the U.S. and world economies.

Our international markets, and the specific manner in which we conduct our business in those jurisdictions, may be subject to negative publicity in social media or other channels, which may negatively impact the market price of our Class A common stock

We interface with and distribute our products to residents of foreign countries that may be subject to the risks disclosed in our Item 1A. Risk Factor under the heading, “The majority of our sales derive from residents of foreign countries and are subject to risks associated with widespread political instability, currency control laws and foreign insurance laws. A significant loss of sales in these foreign markets could have a material adverse effect on our results of operations and financial condition". Venezuela is one such example. Accordingly, from time to time, bloggers or other social media outlets relevant to investors may focus attention on our exposure to these countries and the negative circumstances surrounding their governments, thereby subjecting us to periodic negative publicity. Negative publicity on investor blogs or through other media channels could impact trading in our stock and ultimately cause the market price of our Class A common stock to fall.

Our articles of incorporation and bylaws, as well as applicable state insurance laws, may discourage takeovers and business combinations that our shareholders might consider to be in their best interests.

Our articles of incorporation and bylaws, as well as various state insurance laws, may delay, deter, render more difficult or prevent a takeover attempt our shareholders might consider in their best interests. As a result, our shareholders will be prevented from receiving the benefit from any premium to the market price of our Class A common stock that may be offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging takeover attempts in the future.

The following provisions in our articles of incorporation and bylaws make it difficult for our Class A shareholders to replace or remove our directors and have other anti-takeover effects that may delay, deter or prevent a takeover attempt:

- holders of shares of our Class B common stock elect a simple majority of our board of directors, and all of these shares are owned by the Harold E. Riley Trust; and
- our board of directors may issue one or more series of preferred stock without the approval of our shareholders.

State insurance laws generally require prior approval of a change in control of an insurance company. Generally, such laws provide that control over an insurer is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of the insurer. In considering an application to acquire control of an insurer, an insurance commissioner generally will consider such factors as the experience, competence and financial strength of the proposed acquirer, the integrity of the proposed acquirer's board of directors and executive officers, the proposed acquirer's plans for the management and operation of the insurer, and any anti-competitive results that may arise from the acquisition. In addition, a person seeking to acquire control of an insurance company is required in some states to make filings prior to completing an acquisition if the acquirer and the target insurance company and their affiliates have sufficiently large market shares in particular lines of insurance in those states. These state insurance requirements may delay, deter or prevent our ability to complete an acquisition.

We have never paid any cash dividends on our Class A common stock and do not anticipate doing so in the foreseeable future.

We have never paid cash dividends on our Class A common stock, as it is our policy to retain earnings for use in the operation and expansion of our business. We do not expect to pay cash dividends on our Class A common stock for the foreseeable future.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We own our principal office in Austin, Texas, consisting of an 80,000 square foot office building in addition to approximately one acre of land nearby that houses storage facilities. Approximately 50,000 square feet is occupied or reserved for our operations. We also own a training facility at Lake Buchanan, Texas. In addition, we own other properties in Texas, Arkansas and Louisiana that are incidental to our operations.

Item 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is subject to various legal and regulatory actions which are immaterial to the Company's financial statements. For more information about the risks related to litigation and regulatory actions, please see the risk factor titled “We are a defendant in lawsuits, which may adversely affect our financial condition and detract from the time our management is able to devote to our business, and we are subject to risks related to litigation and regulatory matters.” in Item 1A. Risk Factors.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Class A common stock is traded on the New York Stock Exchange ("NYSE") under the symbol CIA.

Quarterly high and low closing prices per share of our Class A common stock as reported by the NYSE are shown below.

	2015		2014	
Quarter Ended	High	Low	High	Low
March 31	7.89	6.03	8.49	6.20
June 30	7.97	5.37	7.50	6.04
September 30	7.52	5.96	7.44	6.27
December 31	10.05	7.17	8.41	6.00

Equity Security Holders

The number of stockholders on record on March 7, 2016 was as follows:

- Class A Common Stock - 98,536
- Class B Common Stock - 1

We have never paid cash dividends on our Class A or B common stock and do not expect to pay cash dividends in the foreseeable future. For restrictions on our present and future ability to pay dividends, see Note 6 of the "Notes to Consolidated Financial Statements."

We did not purchase any of our equity securities during any quarter in 2013, 2014 or 2015.

Securities Authorized for Issuance Under Equity Compensation Plans

We do not maintain any equity compensation plans or arrangements. Thus, we do not have any securities authorized for issuance under these types of plans, nor have we issued any options, warrants or similar instruments to purchase any of our equity securities.

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Performance Comparison

The following graph compares the change in the Company’s cumulative total stockholder return on its common stock over a five-year period. The following graph assumes a $100 investment on December 31, 2010, and reinvestment of all dividends in each of the Company’s common shares, the New York Stock Exchange (“NYSE”) Composite and the Hemscott Group Index, a peer group of major U.S.-based insurance companies.

	2010	2011	2012	2013	2014	2015
Citizens, Inc.	$100.00	130.07	148.32	117.45	102.01	99.73
NYSE Composite	$100.00	96.16	111.53	140.85	150.35	144.21
Peer Group	$100.00	76.57	97.38	148.01	154.18	141.25

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The peer group index weights individual company returns for stock market capitalization. The companies included in the peer group index are shown in the following table.

American Equity Investment Life Holding	Investors Heritage Capital Corp.	Prudential Financial, Inc.
Atlantic American Corp.	Kansas City Life Ins. Co.	Prudential PLC
Aviva PLC	Life Partners Holdings, Inc.	Reins Group of America, Inc.
China Life Ins Co. Limited	Lincoln National Corp.	Symetra Financial Corp.
Citizens, Inc.	Manulife Financial Corp.	The Phoenix Companies, Inc.
Genworth Financial, Inc.	Metlife, Inc.	Torchmark, Corp.
Imperial Holdings, Inc.	National Western Life Ins. Co.	UTG, Inc.
Geneve Financial, Inc.	Primerica, Inc.	

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data of the Company. This should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8. "Financial Statements and Supplementary Data" of this Form 10-K.

	Years ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Operating items					
Insurance premiums	$194,480	188,532	176,158	169,873	161,395
Net investment income	45,782	41,062	36,597	31,725	30,099
Realized investment gains (losses)	(5,459)	(19)	(247)	196	765
Change in fair value of warrants	—	—	—	451	1,136
Total revenues	236,268	230,225	213,636	202,759	194,156
Net income (loss)	(3,579)	(6,505)	4,793	4,529	8,482
Balance sheet data					
Total assets	1,484,040	1,417,555	1,216,280	1,174,948	1,079,512
Total liabilities	1,241,523	1,159,196	970,471	911,840	831,470
Total stockholders' equity	242,517	258,359	245,809	263,108	248,042
Life insurance in force	4,478,202	4,662,660	4,616,128	4,976,157	5,244,200
Per share data					
Book value per share	4.84	5.16	4.91	5.25	4.97
Basic and diluted earnings (losses) per Class A share	(0.07)	(0.13)	0.10	0.09	0.17

See Item 1. "Business" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," for information that may affect the comparability of the financial data contained in the above table.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the consolidated financial condition and consolidated results of operations of the Company. It is intended to be a discussion of certain key financial information regarding the Company and should be read in conjunction with the Consolidated Financial Statements and related Notes to this report on Form 10-K.

Overview

We conduct operations as an insurance holding company emphasizing ordinary life insurance and endowment products in niche markets where we believe we can achieve competitive advantages. As an insurance provider, we collect premiums on an ongoing basis to pay future benefits to our policy and contract holders. Our core operations include issuing:

- whole life insurance;
- endowments;
- final expense; and
- limited liability property policies.

The Company derives its revenues principally from 1) premiums earned for insurance coverages provided to insureds; 2) net investment income; and 3) net realized capital gains and losses.

Profitability of our insurance operations depends heavily upon the Company’s underwriting discipline, as we seek to manage exposure to loss through favorable risk selection and diversification, management of claims, use of reinsurance, the size of our in force block, actual mortality and morbidity experience, and our ability to manage our expense ratio, which we accomplish through economies of scale and management of acquisition costs and other underwriting expenses.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future losses based on historical loss experience adjusted for known trends, the Company’s response to competitors, and expectations about regulatory and legal developments and expense levels. The Company seeks to price our insurance policies such that insurance premiums and future net investment income earned on premiums received will cover underwriting expenses and the ultimate cost of paying claims reported on the policies and provide for a profit margin. The profitability of fixed annuities, riders and other “spread-based” product features depends largely on the Company’s ability to earn target spreads between earned investment rates on assets and interest credited to policyholders.

The investment return, or yield, on invested assets is an important element of the Company’s earnings since insurance products are priced with the assumption that premiums received can be invested for a period of time before benefits are paid. The majority of the Company’s invested assets have been held in fixed maturities available-for-sale and held-to-maturity securities, primarily in asset classes of corporate bonds, municipal bonds, and government obligation bonds. The current and projected low interest rate environment is having a significant impact on the determination of insurance contract liabilities and assets regarding reserves and deferred acquisition costs.

The primary investment objective for the Company is to maximize economic value, consistent with acceptable risk parameters, including the management of credit risk and interest rate sensitivity of invested assets, while generating sufficient after-tax income to meet policyholder and corporate obligations. The Company maintains a conservative investment strategy that may vary based on a variety of factors including business needs, regulatory requirements and tax considerations.

In the first quarter of 2015, we determined that a portion of the life insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 of the Internal Revenue Code ("IRC") of 1986. As a result, we established a reserve as of December 31, 2014 of $11.4 million for probable liabilities and expenses associated with this tax compliance matter, which amount represented the low end of management's estimated range of those probable expenses and liabilities of $11.4 million to $40.0 million, net of tax. During 2015, we performed a by-policy calculation and have a best estimate as of December 31, 2015 of $12.6 million, after tax. In addition, we also booked a liability for IRC 72(s) failures related to annuity contracts of $2.5 million as of June 30, 2015. We have updated this liability based upon current information to $2.0 million as of December 31, 2015. These estimates include projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number

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of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected. In addition, we will incur other expenses related to this issue in 2016, including consulting fees and potential system costs. We are not able to reasonably estimate these amounts as of the reporting date.

Current Financial Highlights

The 2015 financial results are driven by our historical business management model and traditional life insurance product sales. The historically low interest rate environment continues to impact our results and our industry as investment yields are an integral component of our business operations.

- Our assets remained flat in 2015 and totaled $1.5 billion as of December 31, 2015 and December 31, 2014.

- Total stockholders' equity decreased from $258.4 million at December 31, 2014, to $242.5 million at December 31, 2015 due primarily to a decrease in net unrealized gains on available-for-sale securities due to higher interest rates in 2015 and net losses from other-than-temporary impairments charges in 2015.

- Insurance premiums rose 3.2% and 7.0% in 2015 and 2014, respectively, primarily from our life insurance segment, which increased $5.5 million from amounts reported in 2014.

- Net investment income increased 11.5% and 12.2% for 2015 and 2014, respectively, as rates have risen in 2015 compared to the prior two years. The average yield on the consolidated investment portfolio has changed from a yield of 4.11% in 2013 up to 4.21% in 2014 and increasing to a yield of 4.38% in 2015 as rates have risen and our new investments have been focused on municipals and corporates. The increase in the investment asset balances due to premium revenue growth has also contributed to the increase in net investment income.

- Realized net investment losses resulted from other-than-temporary impairments on investment securities which were recorded totaling $5.4 million and $0.4 million, in 2015 and 2014, respectively, and are reported as realized losses.

- During 2015, claims and surrenders expense increased 15.5% from the comparable period in 2014, primarily due to an increase in surrender benefits in the life segment compared to the 2014 levels.

- 2015 change in reserves resulted in reserve decreases related to surrender activity, primarily in the life segment and after the fifteenth policy duration.

- General expense remained at an increased level due to the tax compliance issue noted above relating to product qualification under IRC section 7702 and 72(s) and remediation costs that have been identified, as well as increased consulting costs for actuarial, tax, and legal assistance.

- We completed the acquisition of MGLIC in the first quarter of 2014 and the related results have been included in our financial results.

Life Insurance. For over thirty-six years, CICA and its predecessors have accepted policy applications from foreign nationals for U.S. Dollar-denominated ordinary whole life insurance and endowment policies. We make our insurance products available using third-party marketing organizations and independent marketing consultants.

Endowment product sales have been on the rise and represented approximately 76.1% of new sales in the life segment in 2015. The Company currently offers a fifteen and twenty year endowment and our top selling endowment is a product that matures at age sixty-five. We also introduced a new product in 2013 that is an endowment at age eighteen with a payout over four or five years.

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Through the domestic market of our Life Insurance segment, we provide ordinary whole life, credit life insurance, and final expense policies to middle and lower income families and individuals in certain markets in the mountain west, mid-west and southern U.S. The majority of our domestic revenues are generated by the policies of domestic life insurance companies we have acquired since 1987.

Home Service Insurance. We provide final expense ordinary and industrial life insurance to middle and lower income individuals in Louisiana, Mississippi and Arkansas. Our policies in this segment are sold and serviced through a home service marketing distribution system utilizing employee-agents who work on a route system to collect premiums and service policyholders, and through networks of funeral homes that collect premiums and provide personal policyholder service.

Economic and Insurance Industry Developments

Significant economic issues impacting our business and industry currently and into the future are discussed below.

- Slow increases in the interest rate environment will limit increases in profit margins for insurers. We have been impacted by the historically low interest rate environment over the past several years as our fixed income investment portfolio, primarily invested in callable securities, has been reinvested at lower yields. The Company's conservative investment strategy has not changed but we have focused new purchases into holding of state, municipalities and essential service issuers compared to our historical investment in U.S. government holdings. Our investment earnings also impact the reserve and Deferred Acquisition Costs ("DAC") balances, as assumptions are used in the development of the balances. Due to the recent decline in investment yields on our portfolio, our projection of long-term investment returns has declined. This has resulted in increasing the reserves on policies issued in the current year, as well as reducing the DAC asset.

- As an increasing percentage of the world population reaches retirement age, we believe we will benefit from increased demand for living benefit products rather than death products, as customers will require cash accumulation to pay expenses to meet their lifetime income needs. Our ordinary life products are designed to accumulate cash values to provide for living expenses in a policy owner's later years, while continuously providing a death benefit.

- We believe there is a trend toward consolidation of domestic life insurance companies, due to significant losses incurred by the life insurance industry as a result of the credit crisis and related economic pressures, as well as increasing costs of regulatory compliance for domestic life insurance companies. We believe this trend should benefit our acquisition strategy as more complementary acquisition candidates may become available for us to consider.

- Many of the events and trends affecting the life insurance industry have had an impact on the life reinsurance industry. These events have led to a decline in the availability of reinsurance. While we currently cede a limited amount of our primary insurance business to reinsurers, we may find it difficult to obtain reinsurance in the future, forcing us to seek reinsurers who are more expensive to us. If we cannot obtain affordable reinsurance coverage, either our net exposures will increase or we will have to reduce our underwriting commitments.

- While our management has extensive experience in writing life insurance policies for foreign residents, changes to foreign laws and regulations and their related application and enforcement, along with currency controls affecting our foreign resident insureds could adversely impact our revenues, results of operations and financial condition.

Acquisition History - Last Five Years

On August 1, 2011, SPLIC entered into assumption reinsurance agreements with Escude Life Insurance Company in Rehabilitation, and Benton Life Insurance Company in Rehabilitation. At the time the agreements were executed, both companies were under receivership with the Louisiana Department of Insurance. In total, SPLIC assumed approximately $4.5 million in reserve liabilities and received approximately $4.6 million in cash, with a minimal reinsurance ceding commission being paid. These transactions are accounted for under business combination accounting and are not deemed material.

On March 7, 2014, the Company acquired Magnolia Guaranty Life Insurance Company ("MGLIC") in the amount of $5.2 million. MGLIC is a Mississippi domiciled company that began writing business in 1992 and issues primarily industrial life policies through independent funeral homes in the state of Mississippi. We recorded $0.1 million of goodwill as a result of this transaction. MGLIC is reported in our home service segment.

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Consolidated Results of Operations

A discussion of consolidated results is presented below, followed by a discussion of Segment Operations and financial results by segment.

Revenues

Insurance revenues are primarily generated from premium revenues and investment income. In addition, realized gains and losses on investment holdings can significantly impact revenues from year to year.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues:			
Premiums:			
Life insurance	$187,686	181,857	169,683
Accident and health insurance	1,599	1,557	1,529
Property insurance	5,195	5,118	4,946
Net investment income	45,782	41,062	36,597
Realized investment losses, net	(5,459)	(19)	(247)
Other income	1,465	650	1,128
Total revenues	$236,268	230,225	213,636

Premium Income. Premium income derived from life, accident and health, and property insurance sales, increased 3.2% during 2015. The increase resulted primarily from renewal premiums, which increased 5.1% and 6.5% in the life segment for 2015 and 2014 and totaled $166.4 million, $159.7 million and $150.3 million on the consolidated level in 2015, 2014 and 2013, respectively. New sales, termed as first year premiums, decreased 2.7%, and increased 13.2%, and 4.0% in the life segment in 2015, 2014 and 2013. The decrease in new sales in the current year occurred in the last quarter of the year and may be related to the change in our marketing leadership from Randall Riley to Rick Riley which happened in October of 2015. Marketing transition takes time but we anticipate that our changes will be positive to the operations overall.

Endowment sales represent a significant portion of new business sales internationally with the 20-year endowment and endowment to age 65 as our top products. In addition, most of our life insurance policies contain a policy loan provision, which allows the policyholder to use cash value within a policy to pay premiums. The policy loan asset balance increased 11.4% and 10.6% in 2015 and 2014, year over year.

Net Investment Income. Net investment income increased to $45.8 million in 2015 compared to $41.1 million in 2014, due to an increase in yields from new investments primarily in municipal and corporate issues and as we experienced higher average invested assets as a result of investment of new premium revenue. Our yield on average invested assets increased 16 basis points from 2014 to 2015 and we increased the holdings in higher quality rated securities.

Net investment income performance is summarized as follows.

	Years Ended December 31,		
	2015	2014	2013

	(In thousands, except for %)		
Net investment income	$45,782	41,062	36,597
Average invested assets, at amortized cost	1,045,736	976,079	891,215
Yield on average invested assets	4.38 %	4.21 %	4.11 %

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We have traditionally invested in fixed maturity securities with a large percent held in callable issues. The sustained low interest rate environment of the past several years is now beginning to rise as noted in the table above. The interest rate direction is uncertain but if market interest rates begin to rise, our call risk will diminish, resulting in our fixed securities maturing at the stated maturity dates and our portfolio yield will rise more slowly over time, as new money investments would be made at higher rates.

Investment income from fixed maturity securities accounted for approximately 83.4% of total investment income for the year ended December 31, 2015. We have increased our investment purchases of corporate and municipal securities over the past several years, focusing on utility service sectors in these security categories. In addition, we currently have $21.5 million invested in equity securities related to bond and stock mutual funds as these securities offer a competitive yield with a shorter duration.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Gross investment income:			
Fixed maturity securities	$39,570	36,670	32,604
Equity securities	2,909	1,986	1,839
Mortgage loans	36	42	68
Policy loans	4,614	4,172	3,637
Long-term investments	247	287	229
Other	53	45	64
Total investment income	47,429	43,202	38,441
Less investment expenses	(1,647)	(2,140)	(1,844)
Net investment income	$45,782	41,062	36,597

Investment income from fixed maturity investments increased for the year of 2015 due to a rise in overall bond yields and an increase in the portfolio from new money investment purchases as noted above relative to the fixed maturity portfolio. In addition, the increase in the policy loans asset balance, which represents policyholders utilizing their accumulated policy cash value, contributed to the increase to investment income.

Realized Losses on Investments. In 2015, we recognized losses related to impairments on two bond mutual funds totaling $2.4 million and impairments on two bond issues totaling $3.0 million related to a utility and energy issuer. In 2014, we sold two equity bond funds which resulted in a realized loss of $0.4 million. The Company sold equity mutual funds in 2013, which were previously impaired, and realized gains of $0.4 million.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Realized investment gains (losses) are as follows.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Realized investment gains (losses):			
Sales, calls and maturities			
Fixed maturities	$(111)	359	199
Equity securities	37	49	(436)
Other long-term investments	—	—	(10)
Net realized investment gains (losses)	(74)	408	(247)
Other-than-temporary impairments ("OTTI"):			
Fixed maturities	(2,998)	—	—
Equity securities	(2,387)	(427)	—
Other long-term investments	—	—	—
Realized losses on OTTI	(5,385)	(427)	—
Net realized investment losses	$(5,459)	(19)	(247)

Benefits and Expenses

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	$78,879	68,269	64,427
Increase in future policy benefit reserves	77,929	82,847	74,220
Policyholders' dividends	10,747	10,102	9,470
Total insurance benefits paid or provided	167,555	161,218	148,117
Commissions	43,625	44,021	40,477
Other general expenses	33,143	36,591	26,590
Capitalization of deferred policy acquisition costs	(31,104)	(32,071)	(29,398)
Amortization of deferred policy acquisition costs	23,339	21,064	18,511
Amortization of cost of customer relationships acquired	2,317	2,182	2,408
Total benefits and expenses	$238,875	233,005	206,705

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Claims and Surrenders. As noted in the table below, claims, benefits and surrenders increased from $68.3 million in 2014 to $78.9 million in 2015.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Death claims	$24,638	22,452	21,723
Surrender expenses	31,682	24,321	21,989
Endowment benefits	16,273	16,534	15,718
Property claims	1,689	1,535	2,010
Accident and health benefits	388	520	425
Other policy benefits	4,209	2,907	2,562
Total claims and surrenders	$78,879	68,269	64,427

- The Company monitors death claims based upon expectations. These values may routinely fluctuate from year to year. We did experience several higher value claims in the life segment in the first quarter of 2015.

- Policy surrenders increased 30.3% in 2015 from 2014 and 10.6% from 2013 to 2014, or 0.7% and 0.5% of direct ordinary whole life insurance inforce for 2015 and 2014, respectively. The increase in surrender expense is primarily related to our international business and is expected to increase over time due to the aging of this block of business. A significant portion of surrenders relates to policies that have been in force over fifteen years and no longer have a surrender charge associated with them. Total direct insurance inforce reported in 2015 was $5.0 billion compared to $4.9 billion in 2014 and $4.7 billion 2013.

- Endowment benefits decreased slightly in 2015 compared to 2014 amounts. We have a series of international policies that carry an immediate endowment benefit of an amount selected by the policy owner. These benefits have been popular in the Pacific Rim and Latin America, where the Company has experienced increased interest in our guaranteed products in recent years. Like policy dividends, annual guaranteed endowments are factored into the premium and, as such, the increase has no impact on expected profitability. The Company expects these benefits to continue to increase as this block of business increases and persists.

- Property claims increased 10% to approximately $1.7 million in 2015 compared with the amount reported for 2014 due a slight increase in weather related claims. The Hurricane Issac claims experience in 2013 included $0.5 million of losses within our retention limits.

- Other policy benefits resulted primarily from interest paid on premium deposits and policy benefit accumulations and increased as these policy liabilities also increased.

Reserves. The change in future policy benefit reserves has decreased in 2015 by 5.9% primarily due to the high surrenders and increased in 2014 by 11.6% due primarily to the current low interest rate environment necessitating higher reserves for policies issued in the last few years due to lower long term yield projections compared to prior assumptions. In addition, we continue to experience growth in new sales of endowment products, which require higher initial reserve levels, than whole life products. Endowment sales totaled approximately $16.4 million, $16.1 million and $14.3 million in 2015, 2014 and 2013, respectively.

Policyholder Dividends. Policyholder dividends have risen at a rate corresponding with the growth rate in new international life insurance premiums. The Company issues long duration participating policies to foreign residents that are expected to pay dividends to policyholders based upon actual experience. Policyholder dividends are factored into the premiums at the time the product is developed and have no impact expected on profitability.

Commissions. Commission expense fluctuates in a direct relationship to new and renewal insurance premiums and has decreased 0.9% in 2015 compared to 2014 as first year premium revenues, on which higher commission rates are paid, have decreased.

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Other General Expenses. Total general expenses have decreased significantly on a consolidated basis in 2015 due primarily to the tax compliance issue we recognized in 2014 resulting in $10.2 million additional expense for future liabilities recorded. In 2015, we recorded an additional $3.4 million of expense related to this tax compliance issue. In 2014, we also settled litigation in the amount of $0.2 million which was filed in the aftermath of Hurricane Katrina by the Louisiana Attorney General against all insurers writing homeowner policies in Louisiana.

We perform an expense study on an annual basis, utilizing an enterprise-wide time study, and we adjust cost allocations among entities as needed based upon this review. Any allocation changes are reflected in the segment operations, but do not impact total expenses.

Deferred Policy Acquisition Costs. Capitalized deferred policy acquisition costs ("DAC") were $31.1 million, $32.1 million and $29.4 million in 2015, 2014 and 2013. These costs will vary based upon successful efforts related to newly issued policies and renewal business. Significantly lower amounts are capitalized related to renewal business in correlation with the lower commissions paid on that business compared to first year business which have higher commission rates.

Amortization of deferred policy acquisition costs is impacted by persistency and may fluctuate from year to year. Amortization in 2015 and 2014 increased as we experienced lower persistency in the life segment. In addition, the prolonged low interest rate environment impacted the assumptions used in the development of the DAC asset for new policies issued.

Federal Income Tax. Federal income tax expense (benefit) was $1.0 million, $3.7 million and $2.1 million in 2015, 2014 and 2013, respectively, resulting in effective tax rates of (37.3)%, (134.0)% and 30.8%, respectively. The changes in rates noted are the result of the tax compliance issue we identified in 2014 which impacted our effective tax rate in 2014 negatively by approximately $3.5 million due to approximately $10.0 million of these costs not being deductible for tax. Additionally, the Company set up a tax expense of $2.1 million for an uncertain tax position that is affecting the 2014 tax rate. The Company began purchasing tax-exempt state and local bonds in the second half of 2011 and continued to do so the last several years in the non-insurance companies where the full tax benefit can be realized. Differences between our effective tax rate and the statutory tax rate result from income and expense items that are treated differently for financial reporting and tax purposes.

Segment Operations

Our business is comprised of three operating business segments, as detailed below.

- Life Insurance
- Home Service Insurance
- Other Non-insurance Enterprises

Our insurance operations are the primary focus of the Company, as those segments generate the majority of our income. The amount of insurance, number of policies, and average face amounts of policies issued during the periods indicated are shown below.

Years Ended December 31,					
2015			2014		
Amount of Insurance	Number of Policies	Average Policy Face Amount	Amount of Insurance	Number of Policies	Average Policy Face Amount

	Issued	Issued	Issued	Issued	Issued	Issued
Life	$372,272,014	6,616	$56,268	$407,384,480	6,568	$62,026
Home Service	185,551,760	27,876	6,656	191,505,610	28,471	6,726

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

These segments are reported in accordance with U.S. GAAP. The Company evaluates profit and loss performance based on net income before federal income taxes.

	Income (Loss) Before Federal Income Taxes Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Life Insurance	$(5,420)	(4,907)	2,054
Home Service Insurance	4,378	2,870	6,027
Other Non-Insurance Enterprises	(1,565)	(743)	(1,150)
Total	$(2,607)	(2,780)	6,931

Life Insurance

Our Life Insurance segment primarily issues ordinary whole life insurance and endowment policies in U.S. Dollar-denominated amounts to foreign residents in approximately 30 countries through approximately 1,600 independent marketing consultants, and domestically through over 800 independent marketing firms and consultants throughout the United States.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenue:			
Premiums	$147,832	142,358	132,479
Net investment income	30,206	26,454	22,237
Realized investment losses, net	(3,873)	(182)	(222)
Other income	1,008	504	891
Total revenue	175,173	169,134	155,385
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	55,912	46,021	42,908
Increase in future policy benefit reserves	73,968	77,707	71,100
Policyholders' dividends	10,695	10,045	9,400
Total insurance benefits paid or provided	140,575	133,773	123,408
Commissions	28,336	28,863	26,033
Other general expenses	16,345	19,274	11,326
Capitalization of deferred policy acquisition costs	(25,268)	(26,242)	(23,830)
Amortization of deferred policy acquisition costs	19,964	17,759	15,701
Amortization of cost of customer relationships acquired	641	614	693
Total benefits and expenses	180,593	174,041	153,331
Income (loss) before federal income tax expense	$(5,420)	(4,907)	2,054

Premiums. Premium revenues increased for 2015 compared to 2014 and 2013, due to higher international renewal premiums, which have experienced strong persistency as this block of insurance ages. First year premiums decreased in the current year and may be related to the change in our marketing leadership which happened in October of 2015.

Marketing transition takes time but we anticipate that our changes will be positive to the operations overall. Sales from Colombia, Ecuador, Taiwan and Venezuela represented the majority of the premium increase.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Life Insurance premium breakout is detailed below.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premiums:			
First year	$21,541	22,142	19,568
Renewal	126,291	120,216	112,911
Total premium	$147,832	142,358	132,479

Endowment sales represent a significant portion of new business sales internationally, as these products continue to exceed our whole life sales in the current markets. In addition, most of our life insurance policies contain a policy loan provision, which allows the policyholder to use cash value of a policy to pay premiums. The policy loan asset balance increased 11.4% year over year.

The following table sets forth, by country, our direct premiums from our international life insurance business for the periods indicated. Our international business and premium collections could be impacted by future changes relative to laws, regulations or economic events in the countries from which we accept applications.

	Years ended December 31,								
	2015			2014			2013		
	(In thousands, except for %)								
Country									
Venezuela	$31,948	22.4	%	$31,175	22.8	%	$28,329	22.3	%
Colombia	27,589	19.3		27,472	20.1		24,734	19.5	
Taiwan	18,031	12.6		16,686	12.2		15,684	12.4	
Ecuador	15,527	10.9		15,364	11.2		14,969	11.8	
Argentina	9,714	6.8		8,979	6.6		9,343	7.4	
Other Non-U.S.	39,775	28.0		37,298	27.1		33,702	26.6	
Total	$142,584	100.0	%	$136,974	100.0	%	$126,761	100.0	%

We continue to report strong first year and renewal premiums in our top producing countries as noted above, however this business is dependent on our clients having access to U.S. dollars. Our international business and premium collections could be impacted by future changes relative to laws, regulations or economic events in the countries from which we accept applications as well as, by marketing or operational changes made by the Company. Venezuela is continuing to experience civil unrest due to local demonstrations against crime, corruption and soaring inflation. In addition, there could be law changes in countries that may impact activities of our independent consultants. See "Item 1A. Risk Factors" on pages 7 and 13 for additional information.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

The following table sets forth our direct premiums by state from our domestic business for the periods indicated.

	Years ended December 31,								
	2015			2014			2013		
	(In thousands, except for %)								
State									
Texas	$2,460	34.2	%	$2,630	36.1	%	$2,701	34.6	%
Indiana	1,372	19.1		1,363	18.7		2,000	25.6	
Florida	687	9.5		687	9.4		634	8.1	
Missouri	452	6.3		467	6.4		573	7.3	
Kentucky	443	6.2		467	6.4		490	6.3	
Other States	1,783	24.7		1,678	23.0		1,400	18.1	
Total	$7,197	100.0	%	$7,292	100.0	%	$7,798	100.0	%

A number of domestic life insurance companies we acquired had blocks of accident and health insurance policies, which we did not consider to be a core part of our business. We have ceded the majority of our accident and health insurance business to an unaffiliated insurance company under a coinsurance agreement.

Net Investment Income. Net investment income has increased as the annual yield has increased 17 basis points in this segment from 2014, as discussed in the Consolidated Results of Operations above.

	For the Years Ended December 31,					
	2015		2014		2013	
	(In thousands, except for %)					
Net investment income	$30,206		26,454		22,237	
Average invested assets, at amortized cost	684,590		623,498		549,578	
Annualized yield on average invested assets	4.41	%	4.24	%	4.05	%

Realized Investment Losses, Net. In 2015, the Company recognized losses on other-than-temporary impairments totaling $1.9 million related to two bond issuers and $1.9 million on two mutual fund holdings. Realized losses of $0.2 million in 2014 and 2013 were recognized due to the write-down and sale of mutual fund holdings in 2014 and 2013.

Claims and Surrenders. A breakout of claims and surrender benefits is detailed below.

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Death claims	$6,843	5,461	5,627
Surrender expenses	28,767	21,265	19,123
Endowment benefits	16,256	16,506	15,702
Accident and health benefits	325	287	303
Other policy benefits	3,721	2,502	2,153
Total claims and surrenders	$55,912	46,021	42,908

- Death claims expense increased 25.3% in 2015 compared to 2014 and decreased 3.0% in 2014 compared to 2013. We experienced several higher value claims in the first quarter of this year. Mortality experience is closely monitored by the Company as a key performance indicator and these amounts were within expected levels.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

- We noted a significant increase in surrender expense which is primarily related to our international business and is expected to increase over time due to the aging of this block of business. The majority of policy surrender benefits paid is attributable to our international business and was related to policies that have been in force over fifteen years, where surrender charges are no longer applicable.

- Endowment benefit expense results from the election by policyholders of a product feature that provides an annual benefit. This is a fixed benefit over the life of the contract, and this expense will increase with new sales and improved persistency.

- Other policy benefits resulted primarily from interest paid on premium deposits and policy benefit accumulations and increased as these policy liabilities also increased.

Increase in Future Policy Benefit Reserves. Policy benefit reserves in 2015 decreased compared to the same period in 2014, primarily as a result of the higher surrenders and lower new sales as noted above.

Endowment sales totaled approximately $16.4 million, $16.1 million and $14.3 million, representing approximately 76.1%, 72.7% and 73.1% of total new first year premium in 2015, 2014, and 2013, respectively.

Policyholder Dividends. Policyholder dividends have risen at a rate that corresponds with the growth rate in new international life insurance premiums. The Company issues long duration participating policies to foreign residents that are expected to pay dividends to policyholders based upon actual experience. The life company boards approve any dividends on an annual basis and may change the dividend rates as needed for business purposes. Policyholder dividends are factored into the premiums at the time the product is developed and therefore have no impact on expected profitability.

Capitalization and Amortization of Deferred Policy Acquisition Costs. Capitalized costs decreased, as commission related costs have decreased in the current year compared to 2014. Amortization of DAC increased in the current year by 12.4% from 2014 as we experienced increased lapse activity in the current year.

Commissions. Commission expense increase or decrease is directly related to the increase or decrease in premiums. First year policy premiums pay a higher commission rate than renewal policy premiums.

Other General Expenses. The expenses are allocated by segment, based upon an annual expense study performed by the Company. The 2015 expenses include an additional $4.4 million of increased costs related to the IRC tax compliance issue for life and annuity insurance remediation expense, as well as, consulting costs expenses related to actuarial, tax and legal services related to tax compliance and business analysis initiatives. In 2014, amounts are higher by $7.9 million as compared to 2013. This increase is due to the estimated remediation costs of $8.3 million associated with the tax compliance issue we identified. In 2013, expenses were up from 2012 amounts due to employee health claims, as we are self-insured, and employee costs associated with temporary employees assisting on operations projects that did not reappear in the current year.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Home Service Insurance

Our Home Service Insurance segment provides pre-need and final expense ordinary life insurance and annuities to middle and lower income individuals primarily in Louisiana, Mississippi and Arkansas. Our policies in this segment are sold and serviced through funeral homes and a home service marketing distribution system utilizing over 620 employees and independent agents.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenue:			
Premiums	$46,648	46,174	43,679
Net investment income	14,063	13,234	13,075
Realized investment gains (losses), net	(1,586)	116	(19)
Other income	86	29	141
Total revenue	59,211	59,553	56,876
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	22,967	22,248	21,519
Increase in future policy benefit reserves	3,961	5,140	3,120
Policyholders' dividends	52	57	70
Total insurance benefits paid or provided	26,980	27,445	24,709
Commissions	15,289	15,158	14,444
Other general expenses	13,349	15,036	12,739
Capitalization of deferred policy acquisition costs	(5,836)	(5,829)	(5,568)
Amortization of deferred policy acquisition costs	3,375	3,305	2,810
Amortization of cost of customer relationships acquired	1,676	1,568	1,715
Total benefits and expenses	54,833	56,683	50,849
Income before federal income tax expense	$4,378	2,870	6,027

In March of 2014 we completed the acquisition of MGLIC which is a wholly owned subsidiary of SPLIC. MGLIC is licensed in Mississippi and customarily sells policies through independent funeral homes. As part of the conversion process and transitioning policy administration to our computer system, we identified some operational challenges that we are working to improve related to our business processes. The risk profile of this business is higher than the debit based agent collections since the funeral home is the agent and beneficiary to the claims in many cases. We are in the process of incorporating policyholder direct mail and contact within the MGLIC operations to help mitigate risks. We anticipate that our Mississippi clients will experience enhanced support from the affiliated companies and operational benefits.

Premiums. The premiums in this segment increased slightly in 2015 compared to 2014. Premiums for 2013 do not contain approximately $2.0 million of premiums related to the MGLIC as this acquisition occurred in March of 2014.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

The following table sets forth our direct premiums by state for the periods indicated.

	Years ended December 31, 2015 (In thousands)			2014			2013		
State									
Louisiana	$42,537	89.4	%	$42,057	89.2	%	$41,769	93.2	%
Mississippi	2,564	5.4		2,631	5.6		493	1.1	
Arkansas	1,585	3.3		1,652	3.5		1,690	3.8	
Other States	871	1.9		832	1.7		875	1.9	
Total	$47,557	100.0	%	$47,172	100.0	%	$44,827	100.0	%

The increase in Mississippi for 2015 and 2014 is related to the MGLIC acquisition that occurred in 2014 which is domiciled and licensed in Mississippi. Sales are made by independent funeral home agents.

Net Investment Income. Net investment income has increased as our overall portfolio yield has increased 16 basis points from 2014 yield as discussed in the Consolidated Results of Operations above. MGLIC investment income included 10 months, for the period of ownership during 2014.

Net investment income for our home service insurance segment is summarized as follows:

	For the Years Ended December 31, 2015 (In thousands, except for %)		2014		2013	
Net investment income	$14,063		13,234		13,075	
Average invested assets, at amortized cost	300,174		296,355		290,340	
Annualized yield on average invested assets	4.68	%	4.52	%	4.50	%

Realized Investment Gains (Losses), Net. In 2015, the Company recognized losses on other-than-temporary impairments totaling $1.1 million related to two bond issuers and $0.5 million on two mutual fund holdings. In 2014, we recorded net gains of $0.1 million resulting from gains from calls and sales related to bonds of $0.2 million less an OTTI adjustment on mutual funds of $0.1 million. In 2013, we sold two bond mutual fund issues which resulted in a realized loss of $57,000 which was offset by bond gains on calls of $36,000.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Claims and Surrenders. A breakout of claims and surrender benefits is detailed below.

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Death claims	$17,794	16,991	16,096
Surrender expenses	2,915	3,056	2,866
Endowment benefits	17	28	16
Property claims	1,689	1,535	2,010
Accident and health benefits	63	233	122
Other policy benefits	488	405	409
Total claims and surrenders	$22,966	22,248	21,519

- Death claims expense was higher in 2014 compared to 2013 primarily from increased claims liability of $0.6 million as part of the remediation costs associated with the tax compliance issue we identified. This claims liability was released in 2015 due to a refined estimate of our tax compliance issue. In addition, there were more reported claims totaling approximately $0.5 million related to MGLIC that are included in the 2014. Mortality experience is closely monitored by the Company as a key performance indicator and these amounts were within expected levels.

- Surrender expenses are consistent with expectations for the current economic conditions.

- Property claims increased in 2015 compared to 2014 related to reported weather claims. The Hurricane Issac claims experience in 2013 included $0.5 million of losses within our retention limits.

Increase in Future Policy Benefit Reserves. The reserves have increased steadily with the consistent new business pattern. The change in reserves includes estimated reserve changes related to the IRC 7702 tax compliance issue of a decrease of $0.4 million and an increase of $1.4 million in 2015 and 2014, respectively. These reserves decreased in 2015 due to a more refined estimate. Absent the change in reserves related to the IRC tax issue, the change in reserves between the periods was minimal, excluding MGLIC additional reserves, as premiums were relatively flat and lapse experience was comparable for all three periods presented.

Commissions. The 2014 commission expense, excluding MGLIC amounts of $0.5 million, were comparable for all three periods presented based upon premiums collected.

Other General Expenses. These expenses are allocated by segment based upon an annual expense study performed by the Company. 2015 expenses include $0.2 million of estimated charges related to IRC 72s failures on annuities and a reduction of $1.1 million for decreased costs related to IRC 7702 life insurance remediation expense. Additionally, cost increased related to consulting costs for actuarial, tax and legal services related to tax compliance. The 2014 amounts are higher by $2.4 million as compared to 2013. This increase is due primarily to the estimated remediation costs of $1.9 million associated with the tax compliance issue we identified. In addition, expenses in 2014 increased as MGLIC related expenses are included in this segment in the current year. In 2013, we also settled litigation in the amount of $0.2 million which was filed in the aftermath of Hurricane Katrina by the Louisiana Attorney General against all insurers writing homeowner policies in Louisiana.

Capitalization and Amortization of Deferred Policy Acquisition Costs ("DAC"). DAC capitalization is directly correlated to fluctuations in first year commissions. Amortization was relatively level, excluding the MGLIC impact in 2014, as we experienced comparable lapse rates in the three years presented in this segment. We monitor lapse rates as a key component of our insurance operations.

Other Non-Insurance Enterprises

This segment represents the administrative support entities to the insurance operations whose revenues are primarily intercompany and have been eliminated in consolidation under GAAP, which typically results in a segment loss.

Investments

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Financial stability and the prevention of capital erosion are important investment considerations for the Company. A primary investment goal is the conservation of assets due to the long-term nature of a significant portion of our liabilities. The administration of our investment portfolios is handled internally, pursuant to board-approved investment guidelines, with all trading activity approved by a committee of each entity's respective board of directors. The guidelines used require that securities are of high quality and investment grade. State insurance statutes prescribe the quality and percentage of the various types of investments that may be made by insurance companies and generally permit investment in qualified state, municipal, federal and foreign government obligations, high quality corporate bonds, preferred and common stock, mortgage loans and real estate within certain specified percentages. The assets selected are intended to mature in accordance with the average maturity of the insurance products and to provide the cash flow for our insurance company subsidiaries to meet their respective policyholder obligations.

The following table shows the carrying value of our investments by investment category and cash and cash equivalents, and the percentage of each to total invested assets.

	December 31, 2015			December 31, 2014		
	Carrying Value (In thousands)	% of Total Carrying Value		Carrying Value (In thousands)	% of Total Carrying Value	
Fixed maturity securities:						
U.S. Treasury and U.S. Government-sponsored enterprises	$35,382	3.0	%	$55,246	5.0	%
Corporate	237,248	20.3		257,867	23.1	
Municipal bonds (2)	719,825	61.5		615,230	55.1	
Mortgage-backed (1)	3,015	0.2		3,681	0.3	
Foreign governments	131	—		135	—	
Total fixed maturity securities	995,601	85.0		932,159	83.5	
Short-term investments	251	—		—	—	
Cash and cash equivalents	82,827	7.1		50,708	4.5	
Other investments:						
Policy loans	60,166	5.1		54,032	4.8	
Equity securities	23,438	2.0		69,879	6.3	
Mortgage loans	594	0.1		628	0.1	
Real estate and other long-term investments	8,031	0.7		8,266	0.8	
Total cash, cash equivalents and investments	$1,170,908	100.0	%	$1,115,672	100.0	%

(1) Includes $2.6 million and $3.2 million of U.S. Government agencies and government-sponsored enterprise for the years ended December 31, 2015 and 2014, respectively.
(2) Includes $273.1 million and $272.0 million of securities guaranteed by third parties for the years ended December 31, 2015 and 2014, respectively.

The current year decline in U.S. government-sponsored securities is due to call activity from this sector and reinvestment into fixed maturity corporate and municipal bond categories. The Company has increased investments in municipals primarily related to Build America taxable bonds, essential services and corporate issuer holdings in the utility sector.

At December 31, 2015, investments in fixed maturity and equity securities were 87.0% of our total cash, cash equivalents and investments. All of our fixed maturities were classified as either available-for-sale or held-to-maturity securities at December 31, 2015 and 2014. We had no fixed maturity or equity securities that were classified as trading securities at December 31, 2015 or 2014.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

As previously discussed, our investment portfolios have been impacted significantly by the low interest rate environment over the past several years. The following table shows investment yields by segment operations as of December 31 for each year presented.

Year	Business Segment: Life Insurance	Business Segment: Home Service	Consolidated
2015	4.41 %	4.68 %	4.38 %
2014	4.24 %	4.52 %	4.21 %
2013	4.05 %	4.50 %	4.11 %

Yields on investment assets vary between segment operations due to different portfolio mixes and durations in the segments. The life segment previously invested more in U.S. Government securities, however over the past few years it has invested in municipal and corporate issuers and is now more similar to the home service segment which has had concentrations primarily in the municipal and corporate sectors.

Credit ratings reported for the periods indicated are assigned by a Nationally Recognized Statistical Rating Organization ("NRSRO") such as Moody’s Investors Service, Standard & Poor’s and Fitch Ratings. A credit rating assigned by a NRSRO is a quality based rating, with AAA representing the highest quality and D the lowest, with BBB and above being considered investment grade. In addition, the Company may use credit ratings of the National Association of Insurance Commissioners ("NAIC") Securities Valuation Office ("SVO") as assigned, if there is no NRSRO rating. Securities rated by the SVO are grouped in the equivalent NRSRO category as stated by the SVO and securities that are not rated by a NRSRO are included in the "other" category.

The following table shows the distribution of the credit ratings of our portfolio of fixed maturity securities by carrying value.

	December 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	% of Total Carrying Value	Carrying Value (In thousands)	% of Total Carrying Value
AAA	$76,026	7.6 %	$70,572	6.6 %
AA	497,781	50.0	431,779	46.9
A	247,381	24.9	256,626	27.7
BBB	148,656	14.9	141,690	15.1
BB and other	25,757	2.6	31,492	3.7
Totals	$995,601	100.0 %	$932,159	100.0 %

The Company made new investments in municipals and corporate bonds, primarily public utility issuers. Non-investment grade securities are the result of downgrades of issuers or securities acquired during acquisitions of companies, as the Company does not purchase below investment grade securities.

As of December 31, 2015, the Company held municipal securities that include third party guarantees. Detailed below is a presentation by NRSRO rating of our municipal holdings by funding type.

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Municipals shown including third party guarantees

	December 31, 2015									
	General Obligation		Special Revenue		Other		Total		% Based on	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Amortized Cost	
	(In thousands, except percentages)									
AAA	$54,135	51,713	19,688	18,989	—	—	73,823	70,702	10.0	%
AA	153,311	149,443	266,357	258,893	20,699	19,873	440,367	428,209	60.6	
A	33,790	33,723	135,189	131,840	10,350	9,974	179,329	175,537	24.8	
BBB	4,480	4,947	22,602	21,876	565	573	27,647	27,396	3.9	
BB and other	3,584	4,309	948	942	—	—	4,532	5,251	0.7	
Total	$249,300	244,135	444,784	432,540	31,614	30,420	725,698	707,095	100.0	%

Municipals shown excluding third party guarantees

	December 31, 2015									
	General Obligation		Special Revenue		Other		Total		% Based on	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Amortized Cost	
	(In thousands, except percentages)									
AAA	$30,588	30,294	3,410	3,396	—	—	33,998	33,690	4.8	%
AA	115,055	111,146	225,742	219,173	17,451	16,628	358,248	346,947	49.1	
A	41,363	40,181	136,344	132,363	11,912	11,580	189,619	184,124	26.0	
BBB	13,536	13,942	28,631	27,163	—	—	42,167	41,105	5.8	
BB and other	48,758	48,571	50,657	50,445	2,251	2,213	101,666	101,229	14.3	
Total	$249,300	244,134	444,784	432,540	31,614	30,421	725,698	707,095	100.0	%

The Company held investments in special revenue bonds that were greater than 10% of fair value based upon activity as of December 31, 2015, as shown in the table below.

Bond Issue Activity	Fair Value	Amortized cost	% of Total Fair Value	
	(In thousands)			
Education	$95,567	93,025	13.17	%
Utilities	149,481	144,855	20.60	%

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The tables below represent the Company's detailed exposure of municipal holdings in Louisiana, Texas and Florida, which comprise the most significant state concentrations of the total municipal portfolio as of December 31, 2015.

	December 31, 2015							
	General Obligation		Special Revenue		Other		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(In thousands)							
Louisiana securities including third party guarantees								
AA	$8,476	8,489	24,007	22,876	—	—	32,483	31,365
A	6,705	6,647	8,482	8,328	—	—	15,187	14,975
BBB	—	—	380	389	—	—	380	389
BB and other	—	—	463	455	—	—	463	455
Total	$15,181	15,136	33,332	32,048	—	—	48,513	47,184
Louisiana securities excluding third party guarantees								
AA	$9,075	8,895	22,721	21,920	—	—	31,796	30,815
A	5,611	5,716	6,894	6,665	—	—	12,505	12,381
BBB	—	—	2,558	2,297	—	—	2,558	2,297
BB and other	495	525	1,159	1,166	—	—	1,654	1,691
Total	$15,181	15,136	33,332	32,048	—	—	48,513	47,184

The Company invests in municipal securities of issuers in the state of Louisiana and receives a credit that reduces its premium tax liability in that state. At December 31, 2015, total holdings of municipal securities in Louisiana represented 6.7% of all municipal holdings based upon fair value.

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The Company also holds 24.7% of its municipal holdings in Texas issuers.

	December 31, 2015					
	General Obligation		Special Revenue		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(In thousands)					
Texas securities including third party guarantees						
AAA	$52,574	50,228	12,788	12,230	65,362	62,458
AA	53,982	52,992	28,393	27,640	82,375	80,632
A	3,366	3,341	17,816	17,207	21,182	20,548
BBB	—	—	9,798	9,261	9,798	9,261
BB and other	555	543	—	—	555	543
Total	$110,477	107,104	68,795	66,338	179,272	173,442
Texas securities excluding third party guarantees						
AAA	$30,138	29,850	2,834	2,833	32,972	32,683
AA	56,467	53,960	29,067	27,870	85,534	81,830
A	7,473	7,253	20,356	19,664	27,829	26,917
BBB	1,450	1,369	8,004	7,459	9,454	8,828
BB and other	14,949	14,672	8,534	8,512	23,483	23,184
Total	$110,477	107,104	68,795	66,338	179,272	173,442

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The Company also holds 11.2% of its municipal holdings in Florida issuers.

	December 31, 2015							
	General Obligation		Special Revenue		Other		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(In thousands)							
Florida securities including third party guarantees								
AAA	$549	526	3,833	3,704	—	—	4,382	4,230
AA	—	—	50,897	49,976	3,248	3,245	54,145	53,221
A	—	—	11,873	11,332	10,350	9,974	22,223	21,306
BB and other	—		485	487	—	—	485	487
Total	$549	526	67,088	65,499	13,598	13,219	81,235	79,244
Florida securities excluding third party guarantees								
AA	$549	526	33,430	32,790	—	—	33,979	33,316
A	—	—	29,500	28,624	11,912	11,580	41,412	40,204
BB and other	—	—	4,158	4,085	1,686	1,639	5,844	5,724
Total	$549	526	67,088	65,499	13,598	13,219	81,235	79,244

There were no other states or individual issuer holdings that represented or exceeded 10% of the total municipal portfolio as of December 31, 2015.

Impairment Considerations Related to Investments in Fixed Maturity and Equity Securities

We evaluate the carrying value of our fixed maturity and equity securities at least quarterly. 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 (“OTTI”) by reviewing all 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 OTTI has occurred, the amount of the OTTI 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, an OTTI 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 not more likely than not that the Company is required to sell the security before recovery of its amortized cost basis, the OTTI will be 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 OTTI related to the credit loss is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost is not adjusted for subsequent recoveries in fair value.

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We recorded a write-down in 2015 related to impairments on two bond mutual funds totaling $2.4 million and impairments on two bond issuers totaling $3.0 million related to a utility and energy issuer. In 2014, impairments of $0.4 million were recorded as a result of our OTTI analysis. There were no OTTI impairments recorded during 2013. Based upon our analysis of whether declines in fair value below cost are temporary or other-than-temporary, management believes that our investments in fixed maturity investments at December 31, 2015 were not impaired, and no additional other-than-temporary losses need to be recorded.

Gross unrealized losses on fixed maturities available-for-sale amounted to $7.9 million as of December 31, 2015 and $2.5 million as of December 31, 2014. This increase in gross unrealized losses was due to an increase in the interest rate environment in 2015. There were $0.6 million and $0.9 million of gross unrealized losses on equity securities as of December 31, 2015 and 2014. Information on unrealized gains and losses by category is set forth in our consolidated financial statements, Note 2 - Investments, in the "Notes to the Consolidated Financial Statements."

Reinsurance

As is customary among insurance companies, our insurance company subsidiaries reinsure with other companies portions of the life insurance risks they underwrite. A primary purpose of reinsurance agreements is to enable an insurance company to reduce the amount of risk on any particular life and, by reinsuring the amount exceeding the maximum amount the insurance company is willing to retain, to insure individuals in amounts larger than it could without such agreements. Even though a portion of the risk may be reinsured, our insurance company subsidiaries remain liable to perform all the obligations imposed by the policies issued by them and could be liable if their reinsurers were unable to meet their obligations under the reinsurance agreements.

We believe we have established appropriate reinsurance coverage based upon our net retained insured liabilities compared to our surplus.

The effect of reinsurance on premiums is as follows.

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Direct premiums	$197,337	191,438	179,386
Reinsurance assumed	353	421	188
Reinsurance ceded	(3,210)	(3,327)	(3,416)
Net premiums	$194,480	188,532	176,158

Our insurance subsidiaries monitor the solvency of their reinsurers in seeking to minimize the risk of loss in the event of default by a reinsurer. The primary reinsurers of our insurance subsidiaries are large, well-capitalized entities.

The effect of reinsurance on life insurance in force is as follows.

	For the Years Ended December 31,		
	2015	2014	2013
	(In millions)		
Direct written life insurance inforce	$4,958	4,911	4,732
Reinsurance assumed	37	269	352
Reinsurance ceded	(517)	(517)	(468)

Net life insurance inforce	$4,478	4,663	4,616

Virtually all of the Company's non-credit accident and health insurance has been reinsured and is administered by Unified Life Insurance Company, an unaffiliated party. The reinsurance recoverables under this agreement are collateralized by assets held in a trust for the benefit of the reinsured policies.

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The Company monitors the credit ratings of our life and property reinsurers. The ratings by A.M. Best Company range from B+ (Good) to A+ (Superior).

SPFIC has first and second event catastrophe reinsurance coverage of $10.0 million per event and a retention level of $500,000 per event. Thus, the first $500,000 of incurred claims and any claims in excess of $10.0 million are SPFIC's responsibility. The reinsurance premium for first event catastrophe reinsurance was $873,000, $967,000 and $1,107,000 in 2015, 2014 and 2013, respectively.

Liquidity and Capital Resources

Liquidity refers to a company's ability to generate sufficient cash flows to meet the needs of its operations. Liquidity is managed on insurance operations to ensure stable and reliable sources of cash flows to meet obligations and is provided by a variety of sources.

Our liquidity requirements are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. We historically have not had to liquidate investments to provide cash flow, and there were no liquidity issues in 2015 or 2014. Our investments consist of 67.6% of marketable debt securities and 2.2% of equity securities classified as available-for-sale that could be readily converted to cash for liquidity needs.

A primary liquidity concern is the risk of an extraordinary level of early policyholder withdrawals. We include provisions within our insurance policies, such as surrender charges, that help limit and discourage early withdrawals. Since these contractual withdrawals, as well as the level of surrenders experienced, have been largely consistent with our assumptions in asset liability management, our associated cash outflows have, historically, not had an adverse impact on our overall liquidity. Individual life insurance policies are less susceptible to withdrawal than annuity reserves and deposit liabilities because policyholders may incur surrender charges and undergo a new underwriting process in order to obtain a new insurance policy. Cash flow projections and cash flow tests under various market interest rate scenarios are also performed annually to assist in evaluating liquidity needs and adequacy. We currently anticipate that available liquidity sources and future cash flows will be adequate to meet our needs for funds.

Cash flows from our insurance operations historically have been sufficient to meet current needs. Cash flows from operating activities were $87.2 million, $97.9 million and $81.4 million for the years ended December 31, 2015, 2014 and 2013, respectively. We have traditionally also had significant cash flows from both scheduled and unscheduled fixed maturity security calls, maturities, redemptions, and prepayments, which totaled $95.6 million, $71.4 million and $92.7 million in 2015, 2014 and 2013. These cash flows, for the most part, are reinvested in fixed income securities. Net cash outflows from investment activity totaled $58.0 million, $104.0 million and $84.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. The outflows from investing activities for the year ended December 31, 2015, primarily related to the investment of excess cash and cash equivalents generated from operations during 2015. The Company's cash flows from financing activities were $3.0 million in 2015, $2.1 million in 2014 and $1.7 million in 2013.

See "Parent Company Liquidity and Capital Resources" below for a discussion of additional Parent Company liquidity.

In 2015, we determined that a portion of the life insurance and annuity policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 and 72(s) of the Internal Revenue Code ("IRC") of 1986. As a result, we have established a liability reserve of $14.6 million, net of tax for probable liabilities and expenses associated with this tax compliance matter, which represents management’s estimate and we have disclosed an estimated range related to probable liabilities and expenses of $9.0 million to $45.5 million, net of tax. This estimate and range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses.

This tax compliance issue impacts our policyholders and their tax liabilities relative to these products that fail 7702 and 72(s) for those that will not be remediated. The exposure related to future sales or products in force is unknown at this time. Policyholders

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could decide to surrender their policies due to this issue which would subsequently result in higher cash outflows due to an increase in surrender activity.

The NAIC has established minimum capital requirements in the form of RBC. RBC considers the type of business written by an insurance company, the quality of its assets, and various other aspects of an insurance company's business to develop a minimum level of capital called "Authorized Control Level Risk-based Capital" and compares this level to an adjusted statutory capital that includes capital and surplus as reported under statutory accounting principles, plus certain investment reserves. Should the ratio of adjusted statutory capital to control level risk-based capital fall below 200%, a series of remedial actions by the affected company would be required.

At December 31, 2015, all of our insurance subsidiaries were above the required minimum RBC levels.

In 2013, CICA contributed 50,000 shares of Citizens, Inc. Class A common stock to CNLIC as a capital contribution due to minimum capital and surplus considerations. The contributed shares had a fair market contributed value of and $0.4 million. These shares were subsequently purchased by Citizens, Inc., the ultimate parent, for $0.4 million cash in 2013.

Contractual Obligations and Off-balance Sheet Arrangements

We have committed to the following contractual obligations as of December 31, 2015, with the payments due by the period indicated below:

Contractual Obligation	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
	(In thousands)				
Operating leases	$551	337	203	11	—
Future policy benefit reserves:					
Life insurance	995,972	364	2,046	19,196	974,366
Annuities	64,933	31,784	14,246	6,142	12,761
Accident and health	1,118	1,118	—	—	—
Total future policy benefit reserves	1,062,023	33,266	16,292	25,338	987,127
Policy claims payable:					
Life insurance	8,949	8,949	—	—	—
Accident and health	234	234	—	—	—
Casualty	470	470	—	—	—
Total policy claims payable	9,653	9,653	—	—	—
Total contractual obligations	$1,072,227	43,256	16,495	25,349	987,127

The payments related to the future policy benefits and policy claims payable reflected in the table above have been projected utilizing assumptions based upon our historical experience and anticipated future experience.

The Company does not have off-balance sheet arrangements at December 31, 2015 and, therefore, does not expect any future effects on the Company's financial condition related to any such arrangements. We do not utilize special purpose entities as investment vehicles, nor are there any such entities in which we have an investment that engages in speculative activities of any nature, and we do not use such investments to hedge our investment positions.

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Parent Company Liquidity and Capital Resources

Citizens is a holding company and has had minimal operations of its own. Our assets consist of the capital stock of our subsidiaries, cash, fixed income securities, mutual funds and investment real estate. Our cash flows depend primarily upon the availability of statutorily permissible payments, primarily payments under management agreements from our two primary life insurance subsidiaries, CICA and SPLIC. The ability to make payments is limited by applicable laws and regulations of Colorado, CICA's state of domicile, and Louisiana, SPLIC's state of domicile, which subject insurance operations to significant regulatory restrictions. These laws and regulations require, among other things, that these insurance subsidiaries maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay to the holding company. We historically have not relied upon dividends from subsidiaries for our cash flow needs. However, CICA and SPLIC both dividend available funds from time to time in relation to new acquisition target strategies.

As of December 31, 2015, Citizens had fixed maturities available for sale of $54.2 million and cash of $15.8 million, which represents additional liquidity for future acquisitions, liquidity support for the life insurance companies and for general corporate purposes.

Additionally, a substantial portion of our international policyholders invest their policy cash dividends and benefits in our Class A common stock through our Stock Investment Plan (the “Plan”). Once a policyholder elects to participate in the Plan, their policy benefits can be used to purchase Citizens Class A common stock through the Plan in the open market. In addition, our existing holders of Class A common stock, our employees and our independent consultants are eligible to participate in the Plan. If fewer policyholders elect to participate in the Plan, or if our international premium collections were to decrease as a result of regulatory or marketing impediments, the trading volume of our Class A common stock may decline from its present levels.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Management considers an accounting estimate to be critical if: (1) it requires assumptions to be made that were uncertain at the time the estimate was made; and (2) changes in the estimate, or different estimates that could have been selected, could have a material effect on our consolidated results of operations or financial condition. While we believe that our estimates, assumptions and judgments are reasonable, they are based on information presently available. Actual results may differ significantly. Additionally, changes in our assumptions, estimates or assessments as a result of unforeseen events or otherwise could have a material impact on our financial position or results of operations.

Management has discussed the development and selection of its critical accounting estimates with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the disclosure presented below relating to them. See Footnote No. 1, “Summary of Significant Accounting Policies,” of the Notes to our Financial Statements for further information on our critical accounting policies.

Our critical accounting policies are as follows:

Policy Liabilities

Future policy benefit reserves have been computed by the net level premium method with assumptions as to investment yields, dividends on participating business, mortality and withdrawals based upon our experience. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of policy liabilities and the increase in future policy benefit reserves. Management's judgments and estimates for future policy benefit reserves provide for possible unfavorable deviation.

We continue to use the original assumptions (including a provision for the risk of adverse deviation) in subsequent periods to determine the changes in the liability for future policy benefits (the "lock-in concept") unless a premium deficiency exists. Management monitors these assumptions and has determined that a premium deficiency did not exist as of December 31, 2015. Management believes that our policy liabilities and increase in future policy benefit reserves as of the years ended December 31, 2015, 2014 and 2013 are based upon assumptions, including a provision for the risk of adverse deviation, that do not warrant revision.

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Deferred Policy Acquisition Costs

Acquisition costs, consisting of commissions and policy issuance, underwriting and agency expenses that relate to and vary with the successful production of new business, are deferred. These deferred policy acquisition costs are amortized primarily over the estimated profits, using the same assumptions as were used in computing liabilities for future policy benefits.

We utilize the factor method to determine the amount of costs to be capitalized and the ending asset balance. The factor method is based on the ratio of premium revenue recognized for the policies in force at the end of each reporting period compared to the premium revenue recognized for policies in force at the beginning of the reporting period. The factor method ensures that policies which lapsed or surrendered during the reporting period are no longer included in the deferred policy acquisition costs calculation. The factor method limits the amount of deferred costs to its estimated realizable value, provided actual experience is comparable to that contemplated in the factors.

Inherent in the capitalization and amortization of deferred policy acquisition costs are certain management judgments about what acquisition costs are deferred, the ending asset balance and the annual amortization. Approximately 94.0% of our capitalized deferred acquisition costs are attributed to first year excess commissions. The remaining 6.0% are attributed to costs that vary with and are directly related to the successful acquisition of new insurance business. Those costs generally include costs related to the production, underwriting and issuance of new business.

A recoverability test that considers, among other things, actual experience and projected future experience is performed at least annually. These annual recoverability tests initially calculate the available premium (gross premium less benefit and expense portion of premium) for the next 30 years. The available premium per policy and the deferred policy acquisition costs per policy are then calculated. The deferred policy acquisition costs are then evaluated over two methods utilizing reasonable assumptions and two other methods using pessimistic assumptions. The two methods using reasonable assumptions illustrate an early-deferred policy acquisition recoverability period. The two methods utilizing pessimistic assumptions still support early recoverability of our aggregate deferred policy acquisition costs. Management believes that our deferred policy acquisition costs and related amortization for the years ended December 31, 2015, 2014 and 2013 limits the amount of deferred costs to its estimated realizable value. This belief is based upon the analysis performed on capitalized expenses that vary with and are primarily related to the acquisition of new and renewal insurance business, utilization of the factor method and annual recoverability testing.

Cost of Customer Relationships Acquired

Cost of Customer Relationships Acquired ("CCRA") is established when we purchase a block of insurance. CCRA is amortized primarily over the emerging profit of the related policies using the same assumptions as were used in computing liabilities for future policy benefits. We utilize various methods to determine the amount of the ending asset balance, including a static model and a dynamic model. Inherent in the amortization of CCRA are certain management judgments about the ending asset balance and the annual amortization. The assumptions used are based upon interest, mortality and lapses at the time of purchase.

A recoverability test that considers, among other things, actual experience and projected future experience is performed at least annually. These annual recoverability tests initially calculate the available premium (gross premium less benefit and expense portion of premium) for the next thirty years. The CCRA is then evaluated utilizing reasonable assumptions. Management believes our CCRA and related amortization is recoverable for the years ended December 31, 2015, 2014 and 2013. This belief is based upon the analysis performed on estimated future results of the block and our annual recoverability testing.

Goodwill

Current accounting guidance requires that goodwill balances be reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event has occurred. A reporting unit is defined as an operating segment on one level below an operating segment. Most of the Company's reporting units, for which goodwill has been allocated, are equivalent to the Company's operating segment, as there is no discrete financial information available for the separate components of the segment or all of the components of the segment have similar economic characteristics.

The goodwill impairment test follows a multi-step process as defined under current accounting guidance. An initial review may be performed whereby the assessment is based upon qualitative factors before performing the first test step. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the

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carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

Management's determination of the fair value of each reporting unit incorporates multiple inputs including discounted cash flow calculations, peer company price to earnings multiples, the level of the Company's Class A common stock price and assumptions that market participants would make in valuing the reporting unit. Other assumptions can include levels of economic capital, future business growth, and earnings projections.

Valuation of Investments in Fixed Maturity and Equity Securities

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period.

Based upon current accounting guidance, investment securities must be classified as held-to-maturity, available-for-sale or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Fixed maturity securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and the Company has the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with the unrealized holding gains and losses, net of tax, reported in other comprehensive income and do not affect earnings until realized.

The Company evaluates all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, for determining if an OTTI exists pursuant to the accounting guidelines. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial conditions and near-term prospects of the issuer, and the ability and intent of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the Federal government or its agencies, by government-sponsored agencies, or whether downgrades by bond rating agencies have occurred, and reviews of the issuer's financial condition.

If management determines that an investment experienced an OTTI, management must then determine the amount of OTTI to be recognized in earnings. If management 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 cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of OTTI related to other factors will be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings will become the new amortized cost basis of the investment. If management intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Any recoveries related to the value of these securities are recorded as an unrealized gain (as other comprehensive income (loss) in shareholders' equity) and not recognized in income until the security is ultimately sold.

The Company from time to time may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Premium Revenue and Related Expenses

Premiums on life and accident and health policies are reported as earned when due or, for short duration contracts, over the contract period on a pro rata basis. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the estimated life of the contracts. This matching is accomplished by means of provisions for future benefits and the capitalization and amortization of deferred policy acquisition costs.

Annuities are accounted for in a manner consistent with accounting for interest bearing financial instruments. Our primary annuity products do not include fees or other such charges.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Tax Accounting

A deferred tax asset or deferred tax liability is recorded only if a determination is made that it is more-likely-than-not that the tax treatment on which the deferred tax item depends will be sustained in the event of an audit. These determinations inherently involve management's judgment. In addition, the Company must record a tax valuation allowance with respect to deferred tax assets if it is more-likely-than-not that the tax benefit will not be realized. This valuation allowance is in essence a contra account to the deferred tax asset. Management must determine the portion of the deferred tax asset and resulting tax benefit that may not be realized based upon judgment of expected outcomes. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record a valuation allowance in future reporting periods. Such a charge could have a material adverse effect on our results of operations, financial condition and capital position.

Contingencies

An estimated loss from a contingency is accrued and charged to results of operations only if both of the following conditions are met:

1. Information available prior to the issuance of the financial statements indicates that it is probable (virtual certainty is not required) that an asset has been impaired or a liability incurred as of the date of the financial statements; and
2. The amount of the loss can be reasonably estimated.

Reasonable estimation of a possible loss does not require estimating a single amount of the loss. It requires that a loss be accrued if it can be estimated within a range. If an amount within the range is a better estimate than any other amount within the range, that amount is accrued. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued.

A gain contingency is an uncertain situation that will be resolved in the future, possibly resulting in a gain. We do not allow the recognition of a gain contingency prior to settlement of the underlying event. If we were to have a gain contingency, we would disclose it in the notes to the financial statements.

Recent Accounting Pronouncements

See Item 8. Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 1. Accounting Pronouncements.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The nature of our business exposes us to market risk relative to our invested assets and policy liabilities. Market risk is the risk of loss that may occur when changes in interest rates and public equity prices adversely affect the value of our invested assets. Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the fair value of our investments. The fair value of our fixed maturity portfolio generally increases when interest rates decrease and decreases when interest rates increase.

The following table summarizes net unrealized gains and losses as of the dates indicated.

	December 31, 2015			December 31, 2014		
	Amortized Cost	Fair Value	Net Unrealized Gains (Losses)	Amortized Cost	Fair Value	Net Unrealized Gains (Losses)
	(In thousands)					
Fixed maturities, available-for-sale	$714,137	735,648	21,511	667,966	707,227	39,261
Fixed maturities, held-to-maturity	259,953	264,966	5,013	224,932	232,891	7,959
Total fixed maturities	$974,090	1,000,614	26,524	892,898	940,118	47,220
Total equity securities	$23,727	23,438	(289)	68,787	69,879	1,092

Market Risk Related to Interest Rates

Our exposure to interest rate changes results from our significant holdings of fixed maturity investments, policy loans and mortgage loans on real estate, all of which comprised over 90.2% of our cash and investment portfolio as of December 31, 2015. These investments are mainly exposed to changes in U.S. Treasury rates. Our fixed maturities investments include U.S. Government-sponsored enterprises, U.S. Government bonds, securities issued by government agencies, state and municipal bonds, and corporate bonds. Approximately 72.5% of the fixed maturities we owned at market value on December 31, 2015 are state and political subdivisions which are primarily municipal holdings. These holdings are diversified over several states.

Changes in interest rates typically have a sizable effect on the fair value of our debt and equities securities. The interest rate of the ten-year U.S. Treasury bond increased to 2.27% during the year ended 2015, from 2.17% at December 31, 2014. Net unrealized gains on fixed maturity securities totaled $26.5 million at December 31, 2015, compared to $47.2 million at December 31, 2014.

To manage interest risk, we perform periodic projections of asset and liability cash flows to evaluate the potential sensitivity of our investments and liabilities. We assess interest rate sensitivity on an annual basis with respect to our fixed maturities investments using hypothetical test scenarios that assume either upward or downward shifts in the prevailing interest rates. The Company performed an analysis of fair value changes using assumed 100 basis point upward shifts in interest rates, noting that the fair value of our fixed maturity investment portfolio of $1.0 billion would decrease approximately $50.2 million to a fair value of $950.4 million upon a 100 basis point increase. The following table shows the effects on the fair values of our fixed maturity investments based upon these scenarios.

	Fair Values of Fixed Maturity Investments Changes in Interest Rates in Basis Points			
	0	+100	+200	+300
	(In thousands)			
Assumed fair value	$1,000,614	950,419	902,563	851,694

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

While the test scenarios are for illustrative purposes only and do not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term change that illustrates the potential impact of such events. Due to the composition of our book of insurance business, we believe it is unlikely we would encounter large surrender activity due to an interest rate increase that would force us to dispose of our fixed maturities at a loss.

Our fixed maturity portfolio is exposed to call risk as a significant portion of the current holdings are callable. A decreasing interest rate environment can result in increased call activity as experienced over the past several years, and an increasing rate environment will likely result in securities being paid at their stated maturity.

There are no fixed maturities or other investments that we classify as trading instruments. Approximately 73.5% of fixed maturities were held in available-for-sale and 26.5% in held-to-maturity based upon fair value at December 31, 2015. At December 31, 2015 and 2014, we had no investments in derivative instruments, subprime loans or CDOs (collateralized debt obligations).

Market Risk Related to Equity Prices

Changes in the level or volatility of equity prices affect the value of equity securities we hold as investments. Our equity investments portfolio represented 2.2% of our total investments at December 31, 2015, with 91.9% invested in diversified equity and bond mutual funds.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to the financial statements, the notes thereto, and the report of our independent registered public accounting firm, as listed on the table of contents.

All other schedules have been omitted as the required information is inapplicable or the information required is presented in the financial statements or the notes thereto filed elsewhere herein.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure, among other things, material information relating to our Company, including its consolidated subsidiaries, is made known to our officers who certify our financial reports and to the other members of our senior management and the Board of Directors.

Our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO") are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon an evaluation at the end of the period, the Chief Executive Officer and Chief Financial Officer concluded that, in light of the material weakness described below, our disclosure controls and procedures were not effective as of the end of the period covered by this annual report.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

(b) Management Report on Internal Control over Financial Reporting

Management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed internal control over financial reporting based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 Framework ("COSO"). Based on that assessment, management has concluded that our internal control over financial reporting as of December 31, 2015 was not effective due to the material weakness described below.

As of December 31, 2015, we became aware of an ineffective management review control as it pertains to our tax review of external tax experts' complex documentation. Specifically, this documentation included the tax rollforward schedule that reconciles deferred taxes, uncertain tax position computations, life/non-life qualification tests and overall income tax expense recorded in the financial statements of the Company, all of which had some added complexity due to our IRC 7702 and 72(s) tax compliance issues. Although there is increased complexity of the tax documentation, management is responsible for the accuracy of the financial statements. Because of this ineffective management review control, there was a reasonable possibility that the Company's annual financial statements would have been filed containing a material misstatement. Management concludes there is a material weakness in this management review control. Management has begun documenting its remediation steps and strategy.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on our internal control over financial reporting. The report is included in item 9A(c) of this annual report.

(c) Attestation Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm
The Board of Directors and Shareholders of Citizens, Inc. and subsidiaries:
We have audited Citizens, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Citizens, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has identified a material weakness related to management's review of the income tax provision and related current payable and deferred income tax balances. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2015 financial statements, and this report does not affect our report dated March 24, 2016, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Citizens, Inc. and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

/s/ Ernst & Young LLP

San Antonio, Texas
March 24, 2016

(d) Changes in Internal Control over Financial Reporting

As previously discussed, as of December 31, 2015, management detected an ineffective management review control as it pertains to our tax review of external tax experts' complex documentation. This has resulted in a change in internal control over financial reporting during the current period. The Company did not have adequately designed and documented management review controls over the third party prepared tax documentation. Specifically, the management review controls did not adequately address management's expectations, criteria for investigation, and the level of precision used in the performance of the review controls, resulting in a material weakness in internal controls over financial reporting. Management has begun documenting its remediation steps and strategy.

As reported as of December 31, 2014, management became aware of an ineffective executive management review control as it pertains to our actuarial function that was relied upon by management. Due to the nature of the failure, management believed this was an entity level control failure related to personnel competency and a lack of appropriate sensitivity and precision in executive management's review of the actuarial function.

The material weakness related to the sensitivity and precision of management's review control over the actuarial function is assessed by management to have been fully remediated as of December 31, 2015.

Remediation of the material weakness identified deficiency related to personnel competency in the actuarial function is assessed by management to be ongoing as of December 31, 2015. However, in consideration of the changes and enhancements made to actuarial staff and support and the effective entity level controls, management does not believe that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis related to this deficiency. Therefore management assesses the identified deficiency related to personnel competency in the actuarial function as a significant deficiency, which is a deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the Company's financial reporting.

There were no other changes in the Company's internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Item 9B. OTHER INFORMATION

None

PART III

Items 10, 11, 12, 13 and 14 of this Report incorporate by reference the information in our definitive proxy material under the headings "Election of Directors and Executive Officers," "Executive Officer and Director Compensation," "Stock and Principal Stockholders," "Control of the Company," and "Principal Accounting Fees and Services," to be filed with the Securities and Exchange Commission within 120 days after December 31, 2015.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) Filings as Part of this Report
The financial statements and schedules listed on the following index to financial statements and financial statement schedules are filed under Item 8 as part of this Form 10-K.

(b)(3) Exhibits – See the Exhibit Index

All other schedules have been omitted because the required information is inapplicable or the information required is presented in the financial statements or the notes thereto filed elsewhere herein.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of Citizens, Inc.:
We have audited the accompanying consolidated balance sheets of Citizens, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 Citizens, Inc. and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Citizens Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 24, 2016 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

San Antonio, Texas
March 24, 2016

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Financial Position
December 31,
(In thousands)

Assets	2015	2014
Investments:		
Fixed maturities available-for-sale, at fair value (cost: $714,137 and $667,966 in 2015 and 2014, respectively)	$735,648	707,227
Fixed maturities held-to-maturity, at amortized cost (fair value: $264,966 and $232,891 in 2015 and 2014, respectively)	259,953	224,932
Equity securities available-for-sale, at fair value (cost: $23,727 and $68,787 in 2015 and 2014, respectively)	23,438	69,879
Mortgage loans on real estate	594	628
Policy loans	60,166	54,032
Real estate held for investment (less $1,721 and $1,575 accumulated depreciation in 2015 and 2014, respectively)	7,956	8,131
Other long-term investments	75	135
Short-term investments	251	—
Total investments	1,088,081	1,064,964
Cash and cash equivalents	82,827	50,708
Accrued investment income	15,406	13,457
Reinsurance recoverable	4,166	4,425
Deferred policy acquisition costs	165,362	157,468
Cost of customer relationships acquired	21,585	23,542
Goodwill	17,255	17,255
Other intangible assets	971	976
Deferred tax asset	68,764	66,269
Property and equipment, net	6,338	6,352
Due premiums, net (less $1,490 and $1,364 allowance for doubtful accounts in 2015 and 2014, respectively)	11,819	10,777
Prepaid expenses	162	301
Other assets	1,304	1,061
Total assets	$1,484,040	1,417,555

See accompanying notes to consolidated financial statements.

(Continued)

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Financial Position
December 31,
(In thousands, except share amounts)

Liabilities and Stockholders' Equity	2015	2014
Liabilities:		
Policy liabilities:		
Future policy benefit reserves:		
Life insurance	$995,972	920,149
Annuities	64,933	59,727
Accident and health	1,118	1,216
Dividend accumulations	18,465	15,974
Premiums paid in advance	43,220	39,712
Policy claims payable	9,653	9,560
Other policyholders' funds	7,518	7,551
Total policy liabilities	1,140,879	1,053,889
Commissions payable	2,757	3,284
Current federal income tax payable	71,225	78,818
Payable for securities in process of settlement	2,457	—
Other liabilities	24,205	23,205
Total liabilities	1,241,523	1,159,196
Commitments and contingencies (Notes 5 and 8)		
Stockholders' equity:		
Common stock:		
Class A, no par value, 100,000,000 shares authorized 52,215,852 shares issued and outstanding 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	(22,626)	(19,047)
Accumulated other comprehensive income:		
Unrealized gains on securities, net of tax	13,587	25,850
Treasury stock, at cost	(11,011)	(11,011)
Total stockholders' equity	242,517	258,359
Total liabilities and stockholders' equity	$1,484,040	1,417,555

See accompanying notes to consolidated financial statements.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
For the Years ended December 31,
(In thousands, except share amounts)

	2015	2014	2013
Revenues:			
Premiums:			
Life insurance	$187,686	181,857	169,683
Accident and health insurance	1,599	1,557	1,529
Property insurance	5,195	5,118	4,946
Net investment income	45,782	41,062	36,597
Realized investment losses, net	(5,459)	(19)	(247)
Other income	1,465	650	1,128
Total revenues	236,268	230,225	213,636
Benefits and expenses:			
Insurance benefits paid or provided:			
Claims and surrenders	78,879	68,269	64,427
Increase in future policy benefit reserves	77,929	82,847	74,220
Policyholders' dividends	10,747	10,102	9,470
Total insurance benefits paid or provided	167,555	161,218	148,117
Commissions	43,625	44,021	40,477
Other general expenses	33,143	36,591	26,590
Capitalization of deferred policy acquisition costs	(31,104)	(32,071)	(29,398)
Amortization of deferred policy acquisition costs	23,339	21,064	18,511
Amortization of cost of customer relationships acquired	2,317	2,182	2,408
Total benefits and expenses	238,875	233,005	206,705
Income (loss) before federal income tax expense	(2,607)	(2,780)	6,931
Federal income tax expense (benefit)	972	3,725	2,138
Net income (loss)	(3,579)	(6,505)	4,793
Per Share Amounts:			
Basic and diluted earnings (losses) per share of Class A common stock	$(0.07)	(0.13)	0.10
Basic and diluted earnings (losses) per share of Class B common stock	(0.04)	(0.07)	0.05
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	(24,217)	29,328	(34,183)
Reclassification adjustment for (gains) losses included in net income	5,415	20	227
	(18,802)	29,348	(33,956)

Unrealized gains (losses) on available-for-sale securities, net			
Income tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	(6,539)	10,293	(11,864)
Other comprehensive income (loss)	(12,263)	19,055	(22,092)
Comprehensive income (loss)	$(15,842)	12,550	(17,299)

See accompanying notes to consolidated financial statements

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2015, 2014, 2013
(In thousands)

	Common Stock Class A	Common Stock Class B	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total Stockholders' equity
Balance at January 1, 2013	$259,383	3,184	(17,335)	28,887	(11,011)	263,108
Comprehensive loss:						
Net income	—	—	4,793	—	—	4,793
Unrealized investment losses, net	—	—	—	(22,092)	—	(22,092)
Total comprehensive loss	—	—	4,793	(22,092)	—	(17,299)
Balance at December 31, 2013	259,383	3,184	(12,542)	6,795	(11,011)	245,809
Comprehensive income:						
Net loss	—	—	(6,505)	—	—	(6,505)
Unrealized investment gains, net	—	—	—	19,055	—	19,055
Total comprehensive income	—	—	(6,505)	19,055	—	12,550
Balance at December 31, 2014	259,383	3,184	(19,047)	25,850	(11,011)	258,359
Comprehensive loss:						
Net loss	—	—	(3,579)	—	—	(3,579)
Unrealized investment losses, net	—	—	—	(12,263)	—	(12,263)
Total comprehensive loss	—	—	(3,579)	(12,263)	—	(15,842)
Balance at December 31, 2015	$259,383	3,184	(22,626)	13,587	(11,011)	242,517

Consolidated Statements of Stockholders' Equity, Continued
For the Years Ended December 31, 2015, 2014, 2013
(In thousands)

A summary of the number of shares of common stock of Class A, Class B and treasury stock issued is as follows:

	Common Stock Class A	Common Stock Class B	Treasury Stock
Balance at January 1, 2013	52,216	1,002	(3,136)
Warrants exercised	—	—	—
Balance at December 31, 2013	52,216	1,002	(3,136)
Warrants exercised	—	—	—
Balance at December 31, 2014	52,216	1,002	(3,136)
Warrants exercised	—	—	—
Balance at December 31, 2015	52,216	1,002	(3,136)

See accompanying notes to consolidated financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31,
(In thousands)

	2015	2014	2013
Cash flows from operating activities:			
Net income (loss)	$(3,579)	(6,505)	4,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized losses on investments and other assets	5,459	19	247
Net deferred policy acquisition costs	(7,765)	(11,007)	(10,887)
Amortization of cost of customer relationships acquired	2,317	2,182	2,408
Depreciation	779	1,116	1,257
Amortization of premiums and discounts on investments	12,021	9,738	8,916
Deferred federal income tax benefit	4,043	(79,175)	(3,733)
Change in:			
Accrued investment income	(1,949)	(1,110)	(1,947)
Reinsurance recoverable	259	(31)	5,257
Due premiums	(1,042)	432	(682)
Future policy benefit reserves	77,770	82,767	69,933
Other policyholders' liabilities	6,059	8,840	3,820
Federal income tax payable	(7,593)	78,207	860
Commissions payable and other liabilities	473	13,003	732
Other, net	(99)	(542)	440
Net cash provided by operating activities	87,153	97,934	81,414
Cash flows from investing activities:			
Sale of fixed maturities, available-for-sale	—	3,074	316
Maturities and calls of fixed maturities, available-for-sale	75,231	50,405	54,273
Maturities and calls of fixed maturities, held-to-maturity	20,395	20,991	38,413
Purchase of fixed maturities, available-for-sale	(134,126)	(128,906)	(105,827)
Purchase of fixed maturities, held-to-maturity	(55,360)	(18,032)	(75,365)
Sale of equity securities, available-for-sale	43,163	15,029	5,996
Calls of equity securities, available-for-sale	150	200	500
Purchase of equity securities, available-for-sale	(602)	(36,297)	—
Principal payments on mortgage loans	34	43	838
Increase in policy loans, net	(6,134)	(5,164)	(5,875)
Sale of other long-term investments	60	2	2
Purchase of other long-term investments	—	(4)	(86)
Purchase of property and equipment	(590)	(481)	(393)
Maturity of short-term investments	—	—	2,872
Purchase of short-term investments	(255)	—	(531)
Cash used in acquisition, net	—	(4,810)	—
Net cash used in investing activities	(58,034)	(103,950)	(84,867)

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Years Ended December 31, Continued
(In thousands)

	2015	2014	2013
Cash flows from financing activities:			
Annuity deposits	8,103	7,243	6,296
Annuity withdrawals	(5,103)	(5,112)	(4,549)
Net cash provided by financing activities	3,000	2,131	1,747
Net increase (decrease) in cash and cash equivalents	32,119	(3,885)	(1,706)
Cash and cash equivalents at beginning of year	50,708	54,593	56,299
Cash and cash equivalents at end of year	$82,827	50,708	54,593
Supplemental Disclosure of Operating Activities:			
Cash paid during the year for income taxes	$4,522	4,670	5,011

Supplemental Disclosure of Non-Cash Investing Activities:

None

Supplemental Disclosures of Non-Cash Financing Activities:

None.

See accompanying notes to consolidated financial statements.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1: Summary of Significant Accounting Policies

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"), Citizens National Life Insurance Company ("CNLIC"), Security Plan Life Insurance Company ("SPLIC"), Security Plan Fire Insurance Company ("SPFIC"), Magnolia Guaranty Life Insurance Company ("MGLIC"), Computing Technology, Inc. ("CTI"), and Insurance Investors, Inc. ("III"). All significant inter-company accounts and transactions have been eliminated. Citizens and its wholly-owned subsidiaries are collectively referred to as "the Company", "we," or "our."

In accordance with our purchase agreement dated October 7, 2013, we finalized the MGLIC stock acquisition on March 7, 2014 for approximately $5.2 million in cash consideration. The assets recorded as of acquisition were $12.0 million, liabilities of $6.8 million and stockholders equity of $5.2 million. We recorded goodwill of $0.1 million related to this purchase. This entity is reported as part of our home service segment and is a wholly owned subsidiary of SPLIC.

We provide primarily life insurance and endowments, as well as a small amount of health insurance policies, through four of our subsidiaries - CICA, SPLIC, MGLIC and CNLIC. CICA and CNLIC issue ordinary whole-life policies, 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 and MGLIC offer final expense and industrial life insurance in Louisiana, Arkansas and Mississippi, and SPFIC, a wholly-owned subsidiary of SPLIC, writes a limited amount of property insurance in Louisiana.

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

Significant Accounting Policies

Investments

Investment securities are classified as held-to-maturity, available-for-sale or trading. Management determines the appropriate classification at the time of purchase. The classification of securities is significant since it directly impacts the accounting for unrealized gains and losses on securities. Fixed maturity securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and the Company has the ability to hold the securities to maturity. Securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with the unrealized holding gains and losses, net of tax, reported in other comprehensive income and do not affect earnings until realized. Fixed maturities consist primarily of bonds classified as available-for-sale or held-to-maturity. The Company does not classify any fixed maturities as trading. Equity securities (including non-redeemable preferred stock) are considered available-for-sale and are reported at fair value.

Unrealized gain (loss) of equity securities and fixed maturities held as available-for-sale is shown as a separate component of stockholders' equity, net of tax, and is a separate component of comprehensive income.

The Company evaluates all securities on a quarterly basis, and more frequently when economic conditions warrant additional evaluations, for determining if an other-than-temporary impairment ("OTTI") exists pursuant to the accounting guidelines. In evaluating the possible impairment of securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial conditions and near-term prospects of the issuer, and the ability and intent of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the Federal government or its agencies, by government-sponsored agencies, or whether downgrades by bond rating agencies have occurred, and reviews of the issuer's financial condition.

If management determines that an investment experienced an OTTI, management must then determine the amount of OTTI to be recognized in earnings. If management 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 cost basis less any current period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of OTTI related to other factors will be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings will become the new amortized cost basis of the investment. If management intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Any recoveries related to the value of these securities are recorded as an unrealized gain (as other comprehensive income (loss) in stockholders' equity) and not recognized in income until the security is ultimately sold.

The Company from time to time may dispose of an impaired security in response to asset/liability management decisions, future market movements, business plan changes, or if the net proceeds can be reinvested at a rate of return that is expected to recover the loss within a reasonable period of time.

Mortgage loans on real estate and policy loans are reported at unpaid principal balances.

Real estate and other long-term investments consist primarily of land and buildings that are recorded at depreciated cost. If the fair value of the real estate is less than the carrying value, an impairment loss is recognized and charged to earnings.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income is recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

The Company had cash equivalents, fixed maturities and equity securities with an aggregate fair value of 10.2 million and $10.3 million at December 31, 2015 and 2014, respectively, on deposit with various state regulatory authorities to fulfill statutory requirements.

Premium Revenue and Related Expenses

Premiums on life policies are recognized as earned when due. Due premiums on the balance sheet are net of allowances. Accident and health policies are recognized as revenue over the contract period on a pro rata basis. Benefits and expenses are associated with earned premiums so as to result in the recognition of profits over the estimated lives of the contracts. This matching is accomplished by means of a provision for future policy benefits and the capitalization and amortization of deferred policy acquisition costs.

Annuity policies, primarily flexible premium fixed annuity products, are accounted for in a manner consistent with accounting for interest bearing financial instruments. Premium receipts are not reported as revenue, rather as deposit liabilities to annuity contracts. The annuity products issued do not include fees or other such charges.

Deferred Policy Acquisition Costs

Acquisition costs, consisting of commissions and policy issuance, underwriting and agent convention expenses that are primarily related to and vary with the successful production of new and renewal business have been deferred. These deferred amounts, referred to as deferred policy acquisition costs ("DAC"), are recorded as an asset on the balance sheet and amortized to income in a systematic manner, based on related contract revenues or gross profits as appropriate.

Traditional life insurance and accident and health insurance acquisition costs are being amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing future policy benefit liabilities. For universal life type contracts and investment contracts that include significant surrender charges or that yield significant revenues from sources other than the investment contract holders' funds, the deferred contract acquisition cost amortization is matched to the recognition of gross profit. The effect on the DAC asset that would result from realization of unrealized gains or losses is recognized with an offset to accumulated other comprehensive income in consolidated stockholders' equity. If an internal replacement of insurance or investment contract modification substantially changes a contract as defined in current accounting guidance, then the DAC is written off immediately through income and any new deferrable costs associated with the new replacement are deferred. If a contract modification does not substantially change the contract, the DAC amortization on the original contract will continue and any acquisition costs associated with the related modification are immediately expensed.

We utilize the factor method to determine the amount of costs to be capitalized and the ending asset balance. The factor method is based on the ratio of premium revenue recognized for the policies in force at the end of each reporting period compared to the premium revenue recognized for policies in force at the beginning of the reporting period. The factor method ensures that policies lapsed or surrendered during the reporting period are no longer included in the deferred policy acquisition costs calculation. The factor method limits the amount of deferred costs to its estimated realizable value, provided actual experience is comparable to that contemplated in the factors.

Inherent in the capitalization and amortization of deferred policy acquisition costs are certain management judgments about what acquisition costs are deferred, the ending asset balance and the annual amortization. Approximately 94% of our capitalized deferred acquisition costs are attributed to first year and renewal excess commissions. The remaining 6% are attributed to costs that vary with and are directly related to the successful acquisition of new insurance business. Those costs generally include costs related to the production, underwriting and issuance of new business.

A recoverability test that considers, among other things, actual experience and projected future experience is performed at least annually. These annual recoverability tests initially calculate the available premium (gross premium less the benefit and expense portion of premium) for the next 30 years. The available premium per policy and the deferred policy acquisition costs per policy are then calculated. The deferred policy acquisition costs are then evaluated over two methods utilizing reasonable assumptions and two other methods using pessimistic assumptions. Management believes that our deferred policy acquisition costs and related amortization for the years ended December 31, 2015, 2014 and 2013 limits the amount of deferred costs to its estimated realizable value. This belief is based upon the analysis performed on capitalized expenses that vary with and are primarily related to the acquisition of new and renewal insurance business, utilization of the factor method and annual recoverability testing.

The components of deferred acquisition costs from year to year are summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Balance at beginning of period	$157,468	146,691	135,569
Capitalized	31,104	32,071	29,398
Amortized	(23,339)	(21,064)	(18,511)
Effects of unrealized (gains) losses	129	(230)	235
Balance at end of period	$165,362	157,468	146,691

Cost of Customer Relationships Acquired

Cost of customer relationships acquired ("CCRA") is established when we purchase a block of insurance. CCRA is amortized primarily over the emerging profit of the related policies using the same assumptions as were used in computing liabilities for future policy benefits. We utilize various methods to determine the amount of the ending asset balance, including a static model and a dynamic model. Inherent in the amortization of CCRA are certain management judgments about the ending asset balance and the annual amortization. The assumptions used are based upon interest, mortality and lapses at the time of purchase.

A recoverability test that considers, among other things, actual experience and projected future experience is performed at least annually. These annual recoverability tests initially calculate the available premium (gross premium less the benefit and expense portion of premium) for the next thirty years. The CCRA is then evaluated utilizing reasonable assumptions. Management believes that our CCRA and related amortization is recoverable for the years ended

December 31, 2015, 2014 and 2013. This belief is based upon the analysis performed on estimated future results of the block and our annual recoverability testing.

Cost of customer relationships acquired relative to purchased blocks of insurance is summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Balance at beginning of period	$23,542	23,374	25,116
Acquisitions	—	2,762	—
Amortization	(2,317)	(2,182)	(2,408)
Change in effects of unrealized (gains) losses on CCRA	360	(412)	666
Balance at end of period	$21,585	23,542	23,374

Estimated amortization of cost of customer relationship acquired in each of the next five years and thereafter is as follows. Actual future amortization will differ from these estimates due to variances from estimated future withdrawal assumptions.

	Amount (In thousands)
Year:	
2016	$1,894
2017	1,676
2018	1,531
2019	1,401
2020	1,284
Thereafter	14,251
	22,037
Effects of unrealized (gains) losses on CCRA	(452)
Total	$21,585

The value of CCRA in our various acquisitions, which is included in cost of customer relationships acquired in the accompanying consolidated financial statements, was determined based on the present value of future profits discounted at annual rates ranging from 3.7% to 8.5%.

Future Policy Benefits and Expenses

Future policy benefit reserves for traditional life insurance and accident and health insurance contract benefits and expenses are computed using a net level premium method, with assumptions as to investment yields, dividends on participating business, mortality and withdrawals based upon our experience, modified as necessary to reflect anticipated trends and to include provisions for possible unfavorable deviations.

The accrued account balance for non-traditional life insurance and investment contracts is computed as deposits net of withdrawals made by the contract holder, plus amounts credited based on contract specifications, less contract fees and charges assessed, plus any additional interest. Annuity interest crediting rates range from 3.0% to 5.5%

annually. Benefits and expenses are charged against the account balance to recognize costs as incurred over the estimated lives of the contracts. Expenses include interest credited to contract account balances and benefits paid in excess of contract account balances.

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Unpaid claims on accident and health policies represent the estimated liability for benefit expenses, both reported but not paid and incurred but not reported to the Company. Liabilities for unpaid claims are estimated using individual case basis valuations and statistical analyzes. Those estimates are subject to the effects of trends in claim severity and frequency.

Anticipated investment income is not considered in determining whether a premium deficiency exists with respect to short-duration contracts. Premium deposits accrue interest at rates ranging from 4.0% to 8.25% per annum. The cost of insurance is included in the premium when collected and interest is credited annually to deposit accounts.

The development of liabilities for future policy benefits requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense, and investment experience. These estimates are based primarily on historical experience and future expectations of mortality, morbidity, expense, persistency, and investment assumptions. Actual results could differ materially from estimates. We monitor actual experience and revise assumptions as necessary.

Goodwill and Other Intangible Assets

Goodwill is the difference between the purchase price in a business combination and the fair value of assets and liabilities acquired, and is not amortized. Other intangible assets include various state insurance licenses, which have been determined to have indefinite useful lives and, therefore, are not amortized. Both goodwill and other intangible assets with indefinite useful lives are subject to annual impairment analyzes.

The goodwill impairment test uses a two-step process as set forth under current accounting guidance. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. If the carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss is recognized in an amount equal to that excess.

Management's determination of the fair value of each reporting unit incorporates multiple inputs including discounted cash flow calculations, the level of the Company's Class A common stock price and assumptions that market participants would make in valuing the reporting unit. Other assumptions can include levels of economic capital, future business growth, and earnings projections.

As of December 31, 2015, the Company had goodwill of $12.6 million allocated to the Life Insurance segment and $4.6 million allocated to the Home Service Insurance segment. The Company completes its annual goodwill assessment for the individual reporting units within the Life Insurance segment and Home Service Insurance segment as of December 31 each year. There was no impairment of goodwill in 2015, 2014 or 2013.

Goodwill is summarized as follows:

	Net Amount (In thousands)
Balance at January 1, 2013 and 2014	$17,255
Acquisition	—

Adjustments	—
Balance at December 31, 2015	$17,255

Participating Policies

At December 31, 2015 and 2014, participating business approximated 61.3% and 60.7% of direct life insurance in force, respectively.

Future policy benefits on participating policies are estimated based on net level premium reserves for death and endowment policy benefits with interest rates ranging from 3.0% to 9.0%, and the cash surrender values described in such contracts. The scaling rate used for the 2015 portfolio ranged between 4.12% for 1 years and then going up to 4.53%

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

over 20 years and remaining there for the duration. Earnings and dividends on participating policies are allocated based on policies in force.

Policyholder dividends are determined based on the discretion of the Board of Directors of the policy issuing subsidiary. Policyholder dividends are accrued over the premium paying periods of the insurance contract.

Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share are computed under the if-converted method for convertible securities and the treasury stock method for warrants, giving effect to all potential dilutive common stock, including options, warrants and convertible/redeemable preferred stock. The basic and diluted earnings per share of Class B common stock are one half the earnings per share of the Class A common stock.

The following table sets forth the computation of basic and diluted earnings per share.

	Years Ended December 31,		
	2015	2014	2013
	(In thousands, except per share amounts)		
Basic and diluted earnings per share:			
Numerator:			
Net income (loss)	$(3,579)	(6,505)	4,793
Net income (loss) allocated to Class A common stock	$(3,543)	(6,439)	4,745
Net income (loss) allocated to Class B common stock	(36)	(66)	48
Net income (loss)	$(3,579)	(6,505)	4,793
Denominator:			
Weighted average shares of Class A outstanding - basic and diluted	49,080	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002	1,002
Total weighted average shares outstanding - basic and diluted	50,082	50,082	50,082
Basic and diluted earnings (losses) per share of Class A common stock	$(0.07)	(0.13)	0.10
Basic and diluted earnings (losses) per share of Class B common stock	(0.04)	(0.07)	0.05

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered.

A deferred tax asset is recorded only if a determination is made that it is more-likely-than-not that the tax treatment on which the deferred tax asset depends will be sustained in the event of an audit. These determinations inherently involve management's judgment. In addition, the Company must record a tax valuation allowance with respect to deferred tax assets if it is more-likely-than-not that the tax benefit will not be realized. This valuation allowance is in essence a contra account to the deferred tax asset. Management must determine the portion of the deferred tax asset and resulting tax benefit that may not be realized based upon judgment of expected outcomes. Due to significant estimates utilized in establishing the valuation allowance and the potential for changes in facts and circumstances, it is reasonably possible that we will be required to record adjustments to the valuation allowance in future reporting periods. Such a charge could have a material adverse effect on our results of operations, financial condition and capital position.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Property and Equipment

Property and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the useful lives of the assets, ranging from three to thirty years. We amortize leasehold improvements over the shorter of the related lease term or the estimated life of the improvements. The Company has no capital leases.

The following is a summary of property and equipment.

	For the Years Ended December 31,	
	2015	2014
	(In thousands)	
Property and equipment:		
Home office, land and buildings	$9,970	9,853
Furniture and equipment	2,531	2,504
Electronic data processing equipment and computer software	5,244	4,588
Automobiles and marine assets	293	368
Airplane	3,356	3,345
Total property and equipment	21,394	20,658
Accumulated depreciation	(15,056)	(14,306)
Balance at end of period	$6,338	6,352

Reinsurance Recoverable

Reinsurance recoverable includes expected reimbursements for policyholder claim amounts in excess of the Company's retention, as well as profit sharing and experience refund accruals. Reinsurance recoverable is reduced for estimated uncollectible amounts, if any.

Reinsurance premiums, losses and adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The cost of reinsurance related to long duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies. The cost of reinsurance related to short duration contracts is accounted for over the coverage period. Profit-sharing and similar adjustable provisions are accrued based on the experience of the underlying policies.

Contingencies

An estimated loss from a contingency is accrued and charged to results of operations only if both of the following conditions are met:

1. Information available prior to the issuance of the financial statements indicates that it is probable (virtual certainty is not required) that an asset has been impaired or a liability incurred as of the date of the financial statements; and
2. The amount of the loss can be reasonably estimated.

Reasonable estimation of a possible loss does not require estimating a single amount of the loss. It requires that a loss be accrued if it can be estimated within a range. If an amount within the range is a better estimate than any other amount within the range, that amount is accrued. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is accrued.

A gain contingency is an uncertain situation that will be resolved in the future, possibly resulting in a gain. We do not allow the recognition of a gain contingency prior to settlement of the underlying event. If we were to have a gain contingency, we would disclose it in the notes to the financial statements.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Cash Equivalents

The Company considers as cash equivalents all securities whose duration does not exceed 90 days at the date of acquisition.

Short-term Investments

The Company considers investments maturing within one year at acquisition as short-term. These securities are carried at amortized cost, which approximates market value.

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 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 materially from these estimates.

Reclassifications

Certain amounts presented in prior years have been reclassified to conform to the current presentation. No individual amounts were material.

Accounting Pronouncements and Regulatory Reform

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, 2017, 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.

Health Care Reform

The Affordable Care Act was passed by the U.S. Congress in 2010. The Company has considered its medical and dental plans provided for employees and agents. While the Company will incur additional costs associated with the implementation of this Act, it does not believe these costs or ongoing costs associated with this Act will have a material impact to the consolidated financial statements. The Company does not provide a separate prescription drug plan to its retirees. In addition, the Company does not sell any medical insurance or prescription drug coverage. The Company will continue to assess the information contained in this Act as additional guidance becomes available and as additional implications are understood or clarified.

Financial Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Dodd-Frank Act”) includes a provision to establish a Federal Insurance Office with the primary purpose of collecting information to better understand insurance issues at the federal level and to monitor the extent to which traditional underserved communities and consumers, minorities and low and moderate income persons have access to affordable insurance products. The Dodd-Frank Act also contains provisions affecting financial institutions, credit rating agencies and other commercial and consumer businesses.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Note 2: Investments

The Company invests primarily in fixed maturity securities, which totaled 85.0% of total investments and cash and cash equivalents at December 31, 2015. Holdings in high quality fixed maturity securities rated A or higher by Standard & Poor's, Inc. totaled 82.5% of investment holdings in this category, reflecting the conservative investment philosophy of the Company.

	December 31, 2015		December 31, 2014	
	Carrying Value (In thousands)	% of Total Carrying Value	Carrying Value (In thousands)	% of Total Carrying Value
Fixed maturity securities	$995,601	85.0	$932,159	83.6
Equity securities	23,438	2.0	69,879	6.3
Mortgage loans	594	0.1	628	0.1
Policy loans	60,166	5.1	54,032	4.8
Real estate and other long-term investments	8,031	0.7	8,266	0.7
Short-term investments	251	—	—	—
Cash and cash equivalents	82,827	7.1	50,708	4.5
Total cash, cash equivalents and investments	$1,170,908	100.0	$1,115,672	100.0

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The cost, gross unrealized gains and losses and fair value of investments in fixed maturities and equity securities, as of December 31, 2015 and 2014, are as follows.

	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale securities:				
U.S. Treasury securities	$9,995	2,597	—	12,592
U.S. Government-sponsored enterprises	19,676	1,104	—	20,780
States and political subdivisions	470,319	15,815	3,085	483,049
Foreign governments	104	27	—	131
Corporate	211,245	9,683	4,847	216,081
Commercial mortgage-backed	140	5	—	145
Residential mortgage-backed	2,658	214	2	2,870
Total available-for-sale securities	714,137	29,445	7,934	735,648
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	2,010	110	—	2,120
States and political subdivisions	236,776	6,756	883	242,649
Corporate	21,167	530	1,500	20,197
Total held-to-maturity securities	259,953	7,396	2,383	264,966
Total fixed maturity securities	$974,090	36,841	10,317	1,000,614
Equity securities:				
Stock mutual funds	$3,270	—	237	3,033
Bond mutual funds	18,798	55	349	18,504
Common stock	65	—	22	43
Preferred stock	1,594	266	2	1,858
Total equity securities	$23,727	321	610	23,438

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

For investments of available-for-sale fixed maturities that have unrealized losses as of December 31, 2015, the cost, gross unrealized losses that have been in a continuous unrealized loss position for less than 12 months, gross unrealized losses that have been in a continuous unrealized loss position for 12 months or longer and fair value are as follows.

	December 31, 2015								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
States and political subdivisions	$136,862	1,474	129	12,633	1,611	12	149,495	3,085	141
Corporate	70,081	4,330	69	3,308	516	3	73,389	4,846	72
Residential mortgage-backed	57	1	2	133	2	3	190	3	5
Total available-for-sale securities	207,000	5,805	200	16,074	2,129	18	223,074	7,934	218
Held-to-maturity securities:									
States and political subdivisions	$74,628	774	59	2,404	110	5	77,032	884	64
Corporate	4,585	641	4	2,160	858	2	6,745	1,499	6
Total held-to-maturity securities	79,213	1,415	63	4,564	968	7	83,777	2,383	70
Total fixed maturities	$286,213	7,220	263	20,638	3,097	25	306,851	10,317	288
Equity securities:									
Stock mutual funds	$3,030	237	4	2	—	1	3,032	237	5
Bond mutual funds	10,158	318	2	108	31	1	10,266	349	3
Preferred stocks	101	1	1	1	1	1	102	2	2
Common stocks	22	1	2	21	21	2	43	22	4
Total equities	$13,311	557	9	132	53	5	13,443	610	14

The available-for-sale fixed maturities in a gross unrealized loss position for more than 12 months is primarily related to rises in interest rates which results in lower market prices on fixed maturity securities that have lower coupons than the current market rate. This is interest rate risk and is not a signal of impairment. Management has completed its assessment of other-than-temporary impairment of these securities. Based on our evaluation of the credit worthiness of the issuers and because we do not intend to sell the investments, nor is it likely that we would be required to sell these investments, before recovery of their amortized cost bases, which may be maturity, none of the unrealized losses are considered to be other-than-temporary.

We monitor 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. Our impairment review, in accordance with current guidance, is performed by the Company at each reporting date and management uses its best judgment to decide if impairment is other-than-temporary. We determine other-than-temporary impairment by reviewing relevant evidence related to the specific security issuer, as well as our intent to sell the security or whether we more likely than not will be required to sell the security before its anticipated recovery. All securities with a market price below par were segregated and reviewed as of December 31, 2015 based upon the items above for impairment.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
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For investments of available-for-sale fixed maturities and equity securities that have unrealized losses as of December 31, 2014, the cost, gross unrealized losses that have been in a continuous unrealized loss position for less than 12 months, gross unrealized losses that have been in a continuous unrealized loss position for 12 months or longer and fair value are as follows.

	December 31, 2014								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	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	—	—	—	5,224	66	4
Bond mutual funds	26,228	796	4	—	—	—	26,228	796	4
Preferred stocks	234	2	4	—	—	—	234	2	4
Common stocks	46	1	2	4	13	9	50	14	11
Total equities	$31,732	865	14	4	13	9	31,736	878	23

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
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The amortized cost and fair value of fixed maturities at December 31, 2015 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon the final stated maturity.

	Cost or Amortized Cost (In thousands)	Fair Value
Available-for-sale securities:		
Due in one year or less	$29,996	30,382
Due after one year through five years	126,518	129,004
Due after five years through ten years	99,265	103,056
Due after ten years	458,358	473,206
Total available-for-sale securities	714,137	735,648
Held-to-maturity securities:		
Due in one year or less	10,373	10,443
Due after one year through five years	35,781	37,446
Due after five years through ten years	48,051	49,087
Due after ten years	165,748	167,990
Total held-to-maturity securities	259,953	264,966
Total fixed maturities	$974,090	1,000,614

The Company had no investments in any one entity which exceeded 10% of stockholders' equity at December 31, 2015. In addition, there were no investments that were non-income producing for the year ended December 31, 2015.

Major categories of net investment income are summarized as follows:

	For the Years Ended December 31, 2015 (In thousands)	2014	2013
Investment income on:			
Fixed maturities	$39,570	36,670	32,604
Equity securities	2,909	1,986	1,839
Mortgage loans on real estate	36	42	68
Policy loans	4,614	4,172	3,637
Long-term investments	247	287	229
Other	53	45	64
Total investment income	47,429	43,202	38,441
Investment expenses	(1,647)	(2,140)	(1,844)
Net investment income	$45,782	41,062	36,597

Proceeds and gross realized gains and losses from sales of fixed maturities available-for-sale for 2015, 2014 and 2013 are summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Proceeds	$—	3,074	316
Gross realized gains	$—	235	7
Gross realized losses	$—	—	1

In 2015, there were no sales of fixed maturities available-for-sale. In 2014, two bonds were sold for a gain related to the non-insurance subsidiaries holdings. There were no securities sold from the held-to-maturity portfolio in 2015, 2014 or 2013.

Proceeds and gross realized gains and losses from sales of equity securities for 2015, 2014 and 2013 are summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Proceeds	$43,163	15,029	5,996
Gross realized gains	$634	118	—
Gross realized losses	$599	169	428

In 2015, the Company sold six equity and bond mutual funds, some of which had been previously impaired, that resulted in a net gain of $35,000 due to regulatory accounting considerations. All mutual funds are considered common stocks for regulatory accounting purposes and the RBC charge for stocks is extremely high. In 2014 three equity and bond mutual funds were sold that resulted in a net loss of $51,000 due to circumstances that arose based upon the current environment and due to the fact that they were shorter duration funds. During 2013 two equity mutual funds were sold resulting in a net loss of $0.4 million, for tax planning purposes.

Realized investment gains (losses) are as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Realized investment gains (losses):			
Sales, calls and maturities:			
Fixed maturities	$(111)	359	199
Equity securities	37	49	(436)
Other long-term investments	—	—	(10)
Net realized gains (losses)	(74)	408	(247)
Other-than-temporary impairments ("OTTI")			
Fixed maturities	(2,998)	—	—
Equity securities	(2,387)	(427)	—

Realized loss on OTTI	(5,385)	(427)	—
Net realized investment gains (losses)	$(5,459)	(19)	(247)

We recorded OTTI write-downs in 2015 of $5.4 million related to two equity bond mutual funds and two bond issuers due to credit quality issues that arose in the current year.

The Company had realized losses of $111,000 from calls of fixed maturities in 2015.

Note 3: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We hold fixed maturity and equity securities that are carried at fair value.

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. All assets and liabilities carried at fair value are required to be classified and disclosed in one of the following three categories:

- Level 1 - Quoted prices for identical instruments in active markets.

- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs or whose significant value drivers are observable.

- Level 3 - Instruments whose significant value drivers are unobservable.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as U.S. Treasury securities, publicly traded mutual fund investments and individual stocks.

Level 2 includes those financial instruments that are valued by independent pricing services or broker quotes. These models are primarily industry-standard models that consider various inputs, such as interest rates, credit spreads and foreign exchange rates for the underlying financial instruments. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include corporate fixed maturity securities, U.S. Government-sponsored enterprise securities, municipal securities and certain mortgage and asset-backed securities.

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices utilizing significant inputs not based on, or corroborated by, readily available market information. This category consists of two private placement mortgage-backed securities where we cannot corroborate the significant valuation inputs with market observable data.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

The following table sets forth our assets and liabilities that are measured at fair value on a recurring basis as of the date indicated.

	December 31, 2015			
Available-for-sale investments	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$12,592	20,780	—	33,372
States and political subdivisions	—	483,049	—	483,049
Corporate	—	216,081	—	216,081
Commercial mortgage-backed	—	—	145	145
Residential mortgage-backed	—	2,870	—	2,870
Foreign governments	—	131	—	131
Total fixed maturities	12,592	722,911	145	735,648
Equity securities:				
Stock mutual funds	3,033	—	—	3,033
Bond mutual funds	18,504	—	—	18,504
Common stock	43	—	—	43
Preferred stock	1,858	—	—	1,858
Total equity securities	23,438	—	—	23,438
Total financial assets	$36,030	722,911	145	759,086

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

	December 31, 2014			
Available-for-sale investments	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$12,980	40,249	—	53,229
States and political subdivisions	—	422,355	—	422,355
Corporate	—	227,827	—	227,827
Commercial mortgage-backed	—	—	231	231
Residential mortgage-backed	—	3,450	—	3,450
Foreign governments	—	135	—	135
Total fixed maturities	12,980	694,016	231	707,227
Equity securities:				
Stock mutual funds	17,596	—	—	17,596
Bond mutual funds	50,240	—	—	50,240
Common stock	51	—	—	51
Preferred stock	1,992	—	—	1,992
Total equity securities	69,879	—	—	69,879
Total financial assets	$82,859	694,016	231	777,106

Financial Instruments Valuation

Fixed maturity securities, available-for-sale. At December 31, 2015, the fixed maturities, valued using a third-party pricing source, totaled $722.9 million for Level 2 assets and comprised 95.2% of total reported fair value. Fair values for Level 3 assets are based upon unadjusted broker quotes that are non-binding. The Level 1 and Level 2 valuations are reviewed and validated quarterly through random testing by comparisons to separate pricing models, other third party pricing services, and back tested to recent trades. In addition, we obtain information relative to the third party pricing models and review model parameters for reasonableness. For the period ended December 31, 2015, there were no material changes to the valuation methods or assumptions used to determine fair values, and no broker or third party prices were changed from the values received.

There were no transfers made between level 1 and 2 securities at December 31, 2015 or 2014.

Equity securities, available-for-sale. Fair values of these securities are based upon quoted market price and are classified as Level 1 assets.

The following table presents additional information about fixed maturity securities measured at fair value on a recurring basis and for which we have utilized significant unobservable (Level 3) inputs to determine fair value:

	December 31, 2015	2014
	(In thousands)	
Beginning Balance at January 1,	$231	309
Total realized and unrealized gains (losses)		
Included in net income	—	—
Included in other comprehensive income	(2)	(1)
Principal paydowns	(84)	(77)
Transfer in and (out) of Level 3	—	—
Ending Balance at December 31,	$145	231

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications, if any, are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

Financial Instruments not Carried at Fair Value

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instrument. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions. The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheets at each year-end were as follows:

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Financial assets:				
Fixed maturities, held-to-maturity	$259,953	264,966	224,932	232,891
Mortgage loans	594	617	628	652
Policy loans	60,166	60,166	54,032	54,032
Short-term investments	251	251	—	—
Cash and cash equivalents	82,827	82,827	50,708	50,708
Financial liabilities:				
Annuities - investment contracts	$47,222	46,905	42,837	37,978

Fair values for fixed income securities, which are characterized as Level 2 assets in the fair value hierarchy, are based on quoted market prices for the same or similar securities. In cases where quoted market prices are not available, fair values are based on estimates using present value or other assumptions, including the discount rate and estimates of future cash flows.

Mortgage loans are secured principally by residential properties and commercial properties. Weighted average interest rates for these loans were approximately 6.2% and 6.3% per year, as of December 31, 2015 and 2014, respectively, with maturities ranging from 2 to 26 years. Management estimated the fair value using an annual interest rate of 6.25% at December 31, 2015 and 2014. Our mortgage loans are considered Level 3 assets in the fair value hierarchy.

Policy loans have a weighted average annual interest rate of 7.7% as of December 31, 2015 and 2014, respectively, and have no specified maturity dates. The aggregate fair value of policy loans approximates the carrying value reflected on the consolidated balance sheet. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies that we have in force and cannot be valued separately and are not marketable. Therefore, the fair value approximates the carrying value and policy loans are considered Level 3 assets in the fair value hierarchy.

The fair value of short-term investments approximate carrying value due to their short-term nature. Our short-term investments are considered Level 2 assets in the fair value hierarchy.

The fair value of cash and cash equivalents approximate carrying value and are characterized as Level 1 assets in the fair value hierarchy.

The fair value of the Company's liabilities under annuity contract policies, which are considered Level 3 assets, was estimated at December 31, 2015 using discounted cash flows based upon a swap rate curve with interest rates ranging from 0.60% to 3.02% based upon swap rates adjusted for various risk adjustments. The fair value of liabilities under all insurance contracts are taken into consideration in the overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

Note 4: Policy Liabilities

Various assumptions used to determine the future policy benefit reserves of life insurance include the following: a) valuation interest rates from 2.5% to 6.75% per year; b) mortality assumptions are from the 1955 to 1960, 1965 to 1970, 1975 to 1980 and 2001 Select and Ultimate mortality tables; and c) withdrawals are based primarily on actual historical termination rates.

The following table presents information on changes in the liability for life, accident and health and property policy and contract claims for the years ended December 31, 2015, 2014 and 2013.

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Policy claims payable at January 1	$9,560	9,488	11,015
Less: reinsurance recoverable	950	686	1,188
Net balance at January 1	8,610	8,802	9,827
Acquisition of MGLIC	—	40	—
Add claims incurred, related to:			
Current year	26,911	24,541	24,575
Prior years	(197)	(33)	(417)
	26,714	24,508	24,158
Deduct claims paid, related to:			
Current year	19,584	17,691	17,443
Prior years	6,630	7,049	7,740
	26,214	24,740	25,183
Net balance December 31	9,110	8,610	8,802
Plus: reinsurance recoverable	543	950	686

Policy claims payable, December 31	$9,653	9,560	9,488

The Company experienced favorable development in 2015 of $197,000. No unusual claims or trends have been noted.

The Company experienced favorable development in 2014 of $624,000 which was primarily related to SPLIC. IRC Section 7702 remediation claims costs added $591,000 to the prior years claims incurred making it look less favorable than actual experience. The favorable development in 2013 of $417,000 primarily related to CICA.

Note 5: Reinsurance

In the normal course of business, the Company reinsures portions of certain policies that we underwrite to limit disproportionate risks. During 2015 and 2014, we retained varying amounts of individual insurance up to a maximum retention of $100,000 on any life. The Company also reinsures 100% of our accidental death benefit rider coverage. Catastrophe reinsurance is in place for our property policies. In 2015 and 2014, this reinsurance provided $10,000,000 of coverage above a $500,000 deductible. Our health insurance policies are substantially all reinsured on a 100% coinsurance basis. We remain contingently liable to the extent that the reinsuring companies cannot meet their obligations under these reinsurance treaties.

Our amounts recoverable from reinsurers represent receivables from and reserves ceded to reinsurers. We obtain reinsurance from multiple reinsurers, and we monitor concentration as well as financial strength ratings of our principal reinsurers. The ratings by A.M. Best Company range from B+ (Good) to A+ (Superior). To protect our position, we have established and funded a trust to cover the contingent liabilities related to accident and health reinsurance ceded to Unified Life Insurance Company, which represents $50,000 of the $4.2 million of reinsurance recoverable at December 31, 2015.

Assumed and ceded life reinsurance activity as of December 31, 2015 and 2014 is summarized as follows:

	At December 31,	
	2015	2014
	(In thousands)	
Aggregate assumed life insurance in force	$36,766	268,641
Aggregate ceded life insurance in force	$(516,933)	(516,643)
Net life insurance in force	$4,478,202	4,662,660

The Company's reinsurance recoveries on ceded reinsurance were $4.2 million in 2015 and $4.4 million in 2014. Premiums, claims and surrenders assumed and ceded for all lines of business for these years are summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premiums from short-duration contracts:			
Direct	$7,223	7,209	7,129
Assumed	—	—	—
Ceded	(873)	(967)	(1,107)
Net premiums earned	6,350	6,242	6,022
Premiums from long-duration contracts:			
Direct	190,114	184,229	172,257
Assumed	353	421	188
Ceded	(2,337)	(2,360)	(2,309)
Net premiums earned	188,130	182,290	170,136
Total premiums earned	$194,480	188,532	176,158
Claims and surrenders assumed	$414	466	232
Claims and surrenders ceded	$(1,013)	(1,108)	(424)

SPFIC has catastrophe reinsurance that covers the first event in excess of a $500,000 deductible up to $10.0 million. In consideration for a reinstatement premium, second event coverage is provided in excess of a $500,000 deductible up to $10.0 million. The annual premium was approximately $0.9 million in 2015, $1.0 million in 2014 and $1.1 million in 2013.

Note 6: Stockholders' Equity and Restrictions

The two classes of our common stock are equal in all respects, except (a) each Class A share receives twice the cash dividends paid on a per share basis to the Class B common stock; and (b) the Class B common stock elects a simple majority of the Board of Directors of Citizens and the Class A common stock elects the remaining directors.

The table below shows the combined total of all of our insurance subsidiaries' capital and surplus and net income (loss) for life insurance operations and property insurance operations, although these amounts are not all available as dividends to Citizens, Inc., because only CICA is directly owned by Citizens, Inc. All other subsidiaries are owned by CICA.

	For the Years Ended December 31,	
	2015	2014
Combined Statutory Stockholders' Equity	(In thousands)	
Life insurance operations	$87,242	97,662
Property insurance operations	6,462	5,853
Total statutory equity	$93,704	103,515

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

	For the Years Ended December 31,		
	2015	2014	2013
Combined Statutory Net Income (Loss)	(In thousands)		
Life insurance operations	$(7,972)	(5,821)	4,584
Property insurance operations	607	749	(41)
Total statutory net income (loss)	$(7,365)	(5,072)	4,543

Generally, the net assets of the insurance subsidiaries available for transfer to their immediate parent are limited to the greater of the subsidiary net gain from operations during the preceding year or 10% of the subsidiary net statutory surplus as of the end of the preceding year as determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities. Under these practices, total surplus at December 31, 2015 was $31.9 million and net loss from operations was $(1.2) million for CICA. Based upon statutory net gain from operations and surplus of CICA as of and for the year ended December 31, 2015, a dividend of approximately $3.2 million could be paid to the Company without prior regulatory approval in 2016. Payments of dividends in excess of such amounts would generally require approval by regulatory authorities.

CICA, CNLIC, SPLIC, MGLIC and SPFIC have calculated their risk based capital ("RBC") in accordance with the National Association of Insurance Commissioners' Model Rule and the RBC rules as adopted by their respective states of domicile. All insurance subsidiaries exceeded RBC minimum levels at December 31, 2015.

Note 7: Commitments and Contingencies

Qualification of Life Products

As of December 31, 2014, we determined that a portion of the life insurance policies issued by our subsidiary insurance companies failed to qualify for the favorable U.S. federal income tax treatment afforded by Sections 7702 of the Internal Revenue Code ("IRC") of 1986. This tax code section allows for qualifying products sold to clients to have favorable tax treatment such as the products inside build up is not taxable. By identifying certain products that we have sold with the intention of this favorable tax treatment but in fact they do not qualify under the IRC rules, our policyholders and CICA may now be subject to additional tax liabilities. The policies at issue were sold most substantially to non-U.S. citizens residing abroad and to a lesser extent domestically. Based upon a review of the options available to the Company we have determined we will not remediate our endowments and endowment-like products under IRC 7702 we have sold to non-U.S. citizens. We do intend to remediate the domestic products we have sold to U.S. citizens. In addition, as part of our continuing review we determined in July of 2015 certain annuity contracts do not contain qualifying language under IRC 72(s) as intended that would have provided for favorable tax treatment of the annuities. This issue affects both our domestic and international contract holders. The Company has continued to refine the understanding of the tax failures as previously reported by preparing an individual policy calculation and has reflected the related exposure for the current reporting period as noted below. Failure of these policies to qualify under IRC Sections 7702 and 72(s) has resulted in additional liabilities and expenses as described below. The products have been and continue to be appropriately reported under U.S. GAAP for financial reporting.

The failure of these policies to qualify under Sections 7702 and 72(s) results in an estimated liability as of December 31, 2015 of $14.6 million, after tax, related to projected IRS toll charges and fees of $13.4 million as well as claims liability for past claims and reserves increases to bring policies into compliance totaling $1.2 million. The range of financial estimates relative to this issue is $9.0 million to $45.5 million, after tax. This estimated range includes projected toll charges and fees payable to the IRS, as well as estimated increased payout obligations to current and former holders of non-compliant domestic life insurance policies expected to result from remediation of those policies. The amount of our liabilities and expenses depends on a number of uncertainties, including the number of prior tax years for which we may be liable to the IRS, the number of domestic life insurance policies we will be required to remediate, and the methodology applicable to the calculation of taxable benefits under non-compliant policies. Given the range of potential outcomes and the significant variables assumed in establishing our estimates, actual amounts incurred may exceed our reserve and also could exceed the high end of our estimated range of liabilities and expenses. To the extent the amount reserved by the Company is insufficient to meet the actual amount of our liability and expenses, or if our estimates of those liabilities and expenses change in the future, our financial condition and results of operation may be materially adversely affected. Management believes that based upon current information we have recorded the best estimate liability to date.

Accruals for loss contingencies are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. The process of determining our best estimate and the estimated range was a complex undertaking including insight from external consultants and involved management’s judgment based upon a variety of factors known at the time. In addition, we have recorded expenses of $2.0 million in 2015 and it is reasonably possible that we may incur additional costs associated with these issues in 2016 related to potential system remediation and consulting costs. We believe these costs could be $0.5 million to $1.5 million but due to the uncertainty of actions we cannot reasonably estimate these costs with any reliability. Actual amounts incurred may exceed this estimate and will be recorded as they become probable and can be reasonably estimated.

Litigation

In 2007 and in the aftermath of Hurricane Katrina, the Attorney General for the State of Louisiana filed suit against SPFIC and every other homeowner insurer doing business in the State of Louisiana, on behalf of the State of Louisiana and certain Road Home fund recipients. On July 18, 2013, a full and final settlement was reached between SPFIC and the State of Louisiana resolving all claims against SPFIC in the Road Home matter for approximately $183,000. This amount did not have a material impact on the consolidated financial statements.

From time to time we are subject to legal and regulatory actions relating to our business. We defend all claims vigorously. As a result, we incur defense costs, including attorneys' fees, other direct litigation costs and the expenditure of management time that otherwise would be devoted to our business. If we suffer an adverse judgment as a result of litigation claims, it could have a material adverse effect on our business, results of operations and financial condition

Compliance

As part of our efforts to review and improve our compliance controls, we completed an internal risk assessment of our compliance with the Bank Secrecy Act ("BSA") anti-money laundering requirements. We are in the process of enhancing our BSA compliance program with additional controls based on our risk assessment. Although we are not yet able to determine the extent of any potential loss, we cannot assure you that the impact of any non-compliance will not have a material impact upon the company.

Unclaimed Property Contingencies

The Company has been informed by the Louisiana Department of Treasury, Arkansas Auditor of State and the Texas State Comptroller, that they authorized an audit of Citizens, Inc. and its affiliates for compliance with unclaimed property laws. This audit is being conducted by Verus Financial LLC on behalf of the states.

The external audit may result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, administrative penalties, interest, and changes to the Company's procedures for the identification and escheatment of abandoned property. The Company believes additional escheatment of funds in Arkansas or Texas will not be material to our financial condition or results of operations. However, additional escheatment of funds in Louisiana, which may subsequently be deemed abandoned under the Louisiana Department of Treasury’s audit, could be substantial for SPLIC if the Louisiana Department of Treasury chooses to disregard recent unclaimed property litigation in favor of the insurance industry. At this time, the Company is not able to estimate any of these possible amounts in 2016.

We have the following operating lease commitments as of December 31, 2015 with the payments due by the periods indicated below.

	Lease Commitments (In thousands)
Less than 1 year	$337
1 year to 3 years	203
3 years to 5 years	11
More than 5 years	—
Total	$551

Operating lease expense was $0.6 million for the year ended December 31, 2015, and $0.6 million and $0.6 million for the same periods ended 2014 and 2013.

Note 8: Segment and Other Operating 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 described in the summary of significant account policies. We evaluate profit and loss performance based on U.S. GAAP net income before federal income taxes for our three reportable segments.

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

	December 31, 2015			
	Life Insurance	Home Service	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$147,832	46,648	—	194,480
Net investment income	30,206	14,063	1,513	45,782
Realized investment gains (losses), net	(3,873)	(1,586)	—	(5,459)
Other income	1,008	86	371	1,465
Total revenue	175,173	59,211	1,884	236,268
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	55,912	22,967	—	78,879
Increase in future policy benefit reserves	73,968	3,961	—	77,929
Policyholders' dividends	10,695	52	—	10,747
Total insurance benefits paid or provided	140,575	26,980	—	167,555
Commissions	28,336	15,289	—	43,625
Other general expenses	16,345	13,349	3,449	33,143
Capitalization of deferred policy acquisition costs	(25,268)	(5,836)	—	(31,104)
Amortization of deferred policy acquisition costs	19,964	3,375	—	23,339
Amortization of cost of customer relationships acquired	641	1,676	—	2,317
Total benefits and expenses	180,593	54,833	3,449	238,875
Income (loss) before income tax expense	$(5,420)	4,378	(1,565)	(2,607)

	December 31, 2014			
	Life Insurance	Home Service	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$142,358	46,174	—	188,532
Net investment income	26,454	13,234	1,374	41,062
Realized investment losses, net	(182)	116	47	(19)
Other income	504	29	117	650
Total revenue	169,134	59,553	1,538	230,225
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	46,021	22,248	—	68,269
Increase in future policy benefit reserves	77,707	5,140	—	82,847
Policyholders' dividends	10,045	57	—	10,102
Total insurance benefits paid or provided	133,773	27,445	—	161,218
Commissions	28,863	15,158	—	44,021
Other general expenses	19,274	15,036	2,281	36,591
Capitalization of deferred policy acquisition costs	(26,242)	(5,829)	—	(32,071)
Amortization of deferred policy acquisition costs	17,759	3,305	—	21,064
Amortization of cost of customer relationships acquired	614	1,568	—	2,182
Total benefits and expenses	174,041	56,683	2,281	233,005
Income (loss) before income tax expense	$(4,907)	2,870	(743)	(2,780)

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Notes to Consolidated Financial Statements, Continued

	December 31, 2013			
	Life Insurance	Home Service	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$132,479	43,679	—	176,158
Net investment income	22,237	13,075	1,285	36,597
Realized investment gains (losses), net	(222)	(19)	(6)	(247)
Decrease in fair value of warrants	—	—	—	—
Other income	891	141	96	1,128
Total revenue	155,385	56,876	1,375	213,636
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	42,908	21,519	—	64,427
Increase in future policy benefit reserves	71,100	3,120	—	74,220
Policyholders' dividends	9,400	70	—	9,470
Total insurance benefits paid or provided	123,408	24,709	—	148,117
Commissions	26,033	14,444	—	40,477
Other general expenses	11,326	12,739	2,525	26,590
Capitalization of deferred policy acquisition costs	(23,830)	(5,568)	—	(29,398)
Amortization of deferred policy acquisition costs	15,701	2,810	—	18,511
Amortization of cost of customer relationships acquired	693	1,715	—	2,408
Total benefits and expenses	153,331	50,849	2,525	206,705
Income (loss) before income tax expense	$2,054	6,027	(1,150)	6,931

The table below summarizes assets by segment.

	For the Years Ended December 31,	
	2015	2014
	(In thousands)	
Assets:		
Life Insurance	$1,014,776	942,664
Home Service Insurance	389,478	395,531
Other Non-Insurance Enterprises	79,786	79,360
Total assets	$1,484,040	1,417,555

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued

Major categories of earned premiums are summarized as follows:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Premium income:			
Ordinary life	$187,479	181,596	169,667
Group life	207	261	16
Accident and health	1,599	1,557	1,529
Property	5,195	5,118	4,946
Total premium income	$194,480	188,532	176,158

Geographic Information

The following table sets forth the Company's annual total of earned premiums from geographic area for the years indicated:

	For the Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Area:			
United States	$54,753	54,464	52,625
Venezuela	31,948	31,175	28,329
Colombia	27,589	27,472	24,734
Taiwan	18,031	16,686	15,684
Ecuador	15,527	15,364	14,969
Argentina	9,714	8,979	9,343
Other foreign countries	39,775	37,298	33,702
Net reinsurance	(2,857)	(2,906)	(3,228)
Total	$194,480	188,532	176,158

Note 9: Income Taxes

Our federal income tax expense (benefit) was $1.0 million, $3.7 million and $2.1 million in 2015, 2014 and 2013, respectively. This represents effective tax rates of (37.3)%, (134.0)% and 30.8%, respectively. The 2014 impact is the result of costs to remediate the tax compliance issue we identified in early 2015 which impacted the 2014 effective tax rate negatively by approximately $3.5 million due to approximately $10.0 million of these costs not being deductible for tax. Additionally, after further refinement of these amounts in 2015 plus the effects of toll charges for the IRC Section 72(s) tax compliance issue identified in the second quarter of 2015, an additional $3.3 million of nondeductible toll charges were recorded in 2015, which negatively impacted the current year tax rate by $1.2 million. The Company previously had a valuation allowance related to OTTI write downs on stocks and stock mutual funds in 2008. Due to the sale of these mutual funds in 2009 and 2010, the valuation allowance was released in its entirety in 2009 and 2010. Part of this valuation allowance was released to other comprehensive income ("OCI") in 2009 due to the increase in fair value of mutual funds and stocks still owned. As the stocks and mutual funds have been disposed of since 2009, this valuation allowance has been released as reductions of tax expense. During 2015, 2014 and 2013, $42,000, and $21,000 and $20,000 has been released as a reduction of tax expense, respectively. The entire valuation allowance has now been released.

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The table below summarizes the changes in the valuation allowance.

	Deferred Tax Liability	Other Comprehensive Income	Goodwill	Income Tax Expense (Benefit)
	(In thousands)			
Balance at December 31, 2012	$—	(83)	1,058	(975)
Release of valuation allowance in 2013	—	20	—	(20)
Balance at December 31, 2013	—	(63)	1,058	(995)
Release of valuation allowance in 2014	—	21	—	(21)
Balance at December 31, 2014	—	(42)	1,058	(1,016)
Release of valuation allowance in 2015	—	42	—	(42)
Balance at December 31, 2015	$—	—	1,058	(1,058)

A reconciliation of federal income tax expense computed by applying the federal income tax rate of 35% in 2015, 2014 and 2013 to income (loss) before federal income tax expense is as follows:

	Years Ended December 31,					
	2015		2014		2013	
	Amount	%	Amount	%	Amount	%
	(In thousands)					
Expected tax expense (benefit)	$(912)	35.0 %	$(973)	35.0 %	$2,426	35.0 %
Release of valuation allowance previously held in other comprehensive income	(42)	1.6	(21)	0.8	(20)	(0.3)
Taxable intercompany stock sales	—	—	—	—	143	2.1
Tax-exempt interest and dividends-received deduction	(746)	28.6	(862)	31.0	(397)	(5.7)
Adjustment of prior year taxes	(317)	12.2	1	—	60	0.9
Effect of graduated rates	(71)	2.7	(89)	3.2	(100)	(1.4)
Effect of uncertain tax position	1,890	(72.5)	2,136	(76.8)	—	—
Nondeductible costs to remediate tax compliance issue	1,152	(44.2)	3,514	(126.4)	—	—
Other	18	(0.7)	19	(0.8)	26	0.2
Total income tax expense (benefit)	$972	(37.3)%	$3,725	(134.0)%	$2,138	30.8 %

Income tax expense (benefit) consists of:

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Current	$(3,071)	82,900	5,871
Deferred	4,043	(79,175)	(3,733)

Total income tax expense (benefit)	$972	3,725	2,138

Deferred tax expense is comprised of $4.1 million deferred tax expense less $42,000 tax benefit released from OCI.

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The components of deferred federal income taxes are as follows:

	Years Ended December 31,	
	2015	2014
	(In thousands)	
Deferred tax assets:		
Future policy benefit reserves	$118,697	123,058
Net operating and capital loss carryforwards	583	16
Accrued policyholder dividends and expenses	71	1,349
Investments	3,848	1,047
State income tax credits	123	125
Other	22	389
Total gross deferred tax assets	123,344	125,984
Valuation allowance	—	—
Total gross deferred tax assets net of valuation allowance	123,344	125,984
Deferred tax liabilities:		
Deferred policy acquisition costs, cost of customer relationships acquired and intangible assets	(46,001)	(45,398)
Unrealized gains on investments available-for-sale	(7,428)	(14,123)
Accrued policyholder dividends	(984)	—
Other	(167)	(194)
Total gross deferred tax liabilities	(54,580)	(59,715)
Net deferred tax asset	$68,764	66,269

A summary of the changes in the components of deferred federal and state income taxes is as follows:

	At December 31,	
	2015	2014
	(In thousands)	
Deferred federal and state income taxes:		
Balance January 1,	$66,269	(1,704)
Deferred tax (expense) benefit	(4,085)	79,154
Acquisition of MGLIC	—	(909)
Investments available-for-sale	6,695	(10,382)
Effects of unrealized gains on DAC, CCRA and reserves	(115)	110
Balance December 31,	$68,764	66,269

The Company and our subsidiaries had no net operating losses at December 31, 2015. At December 31, 2015 and 2014, we determined that as a result of our historical income, projected future income, tax planning strategies, and the nature of the items from which the deferred tax assets are derived, other than assets for which OTTI was recorded, it was more likely than not that the deferred tax assets would be realized. The Company has sufficient unrealized gains in its available-for-sale portfolio so as not to need a valuation allowance for OTTI write downs.

The Company and our subsidiaries had approximately $1.7 million of capital loss carry-forwards at December 31, 2015 which expire, if unused in, 2020.

At December 31, 2015, the Company had accumulated approximately $3.3 million in our "policyholders' surplus account." This is a special memorandum tax account into which certain amounts not previously taxed, under prior tax laws, were accumulated. No new additions are expected to be made to this account. Federal income taxes will become payable thereon at the then current tax rate (a) when and if distributions to shareholders, other than stock dividends and other limited exceptions, are made in excess of the accumulated previously taxed income; or (b) when a company ceases to be a life insurance company as defined by the Internal Revenue Code and such termination is not due to another life insurance company acquiring its assets in a nontaxable transaction. We do not anticipate any transactions that would cause any part of this amount to become taxable. However, should the balance at December 31, 2015 become taxable, the tax computed at present rates would be approximately $1.2 million.

The Company recognizes only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority.

A reconciliation of unrecognized tax benefits is as follows:

	At December 31, 2015 (In thousands)	2014
Balance at January 1,	$81,459	1,539
Additions based on tax positions related to the current year	3,608	10,132
Additions for tax positions of prior years	1,570	71,327
Reductions for tax positions of prior years	(8,558)	(1,539)
Balance December 31,	$78,079	81,459

This unrecognized tax benefit is reported net in current federal income tax payable in the Consolidated Statement of Financial Position.

None of the Company’s unrecognized tax benefits at December 31, 2015 would affect the effective tax rate if recognized. There is a reasonable possibility that the unrecognized tax benefit relative to reserve deductions will decrease by $78.1 million within the next twelve months based upon the filing of an accounting method change in 2016.

The Company’s practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company has recorded a material interest expense uncertainty of $3.5 million, net of tax, with respect to an unrecognized tax benefit as of December 31, 2015.

The Company's Federal income tax return is filed on a consolidated basis with the following entities:

Citizens, Inc.
CICA Life Insurance Company of America
Security Plan Life Insurance Company
Security Plan Fire Insurance Company
Computing Technology, Inc.
Insurance Investors, Inc.
Citizens National Life Insurance Company

The method of allocation among companies is subject to a written tax sharing agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. Intercompany tax balances are settled quarterly.

The Company and our subsidiaries file income tax returns in the U.S. Federal jurisdiction and various U.S. states. Most of our subsidiaries are not subject to examination by U.S. tax authorities for years prior to 2012.

Note 10: Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) are reported net of the effects of income taxes of 35% in 2015, 2014 and 2013, as indicated below.

	Amount (In thousands)	Tax Effect	Amount
Year ended December 31, 2015			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	$(24,545)	8,591	(15,954)
Reclassification adjustment for (gains) losses included in net income	5,415	(1,895)	3,520
Effects on DAC and CCRA	328	(115)	213
Change in tax valuation allowance	—	(42)	(42)
Other comprehensive income (loss)	$(18,802)	6,539	(12,263)
Year ended December 31, 2014			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	$29,643	(10,375)	19,268
Reclassification adjustment for (gains) losses included in net income	20	(7)	13
Effects on DAC and CCRA	(315)	110	(205)
Change in tax valuation allowance	—	(21)	(21)
Other comprehensive income	$29,348	(10,293)	19,055
Year ended December 31, 2013			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	$(35,318)	12,361	(22,957)
Reclassification adjustment for (gains) losses included in net income	227	(79)	148
Effects on DAC and CCRA	1,135	(398)	737
Change in tax valuation allowance	—	(20)	(20)
Other comprehensive income	$(33,956)	11,864	(22,092)

Note 11: Benefit Plans

The Company sponsors a defined contribution profit-sharing plan. Employees with one year of service can participate. Contributions are made at the discretion of the Board of Directors and are subject to a tiered vesting schedule. There were no employer contributions to the plan in 2015, $1.0 million, in 2014 and $0.6 million in 2013, respectively. The plan does not permit employee contributions.

The Company is primarily self-insured for employee health benefits. The Company records its self-insurance liability based on claims filed and an estimate of claims incurred but not yet reported. There is stop-loss coverage for amounts in excess of $100,000 per individual per year. If more claims are made than were estimated or if the costs of actual claims increase beyond what was anticipated, reserves recorded may not be sufficient and additional accruals may be required in future periods.

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Note 12: Related Party Transactions

The Company sponsors the Citizens, Inc. Stock Investment Plan (the "Plan"), which is administered by an independent third party. The Plan is a means for new and existing investors in our Class A Common Stock to purchase and sell shares at market prices. Each share purchased through the Plan is registered in the name of the investing shareholder. The Company offers the Plan to our policyholders for automatic investment of policy benefits, including policyholder dividends and annual endowment benefits. We do not have possession of, or control over, any amounts invested through the Plan.

Citizens, Inc. purchased Class A common shares during 2014 that were held by a subsidiary at market value as of the transaction date, which approximated $0.4 million. This transaction was eliminated for financial reporting purposes in accordance with consolidation accounting, but generated a tax expense for the year ended December 31, 2014 totaling approximately $0.1 million.

In 2015, SPLIC paid a dividend to CICA in the amount of $1.8 million.

Note 13: Quarterly Financial Information (Unaudited)

The following table contains selected unaudited financial data for each quarter.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share amounts)			
2015				
Revenues	$62,205	58,124	60,079	55,860
Benefits and expenses	64,185	58,263	60,917	55,510
Federal income tax expense	213	(242)	1,076	(75)
Net income (loss)	(2,193)	103	(1,914)	425
Net income (loss) available to common shareholders	(2,193)	103	(1,914)	425
Basic earnings (losses) per share of Class A common stock	(0.04)	—	(0.04)	0.01
Basic earnings (losses) per share of Class B common stock	(0.02)	—	(0.02)	—
Diluted earnings (losses) per share of Class A common stock	(0.04)	—	(0.04)	0.01
Diluted earnings (losses) per share of Class B common stock	(0.02)	—	(0.02)	—

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(In thousands, except per share amounts)			
2014				
Revenues	$63,461	57,230	56,502	53,032
Benefits and expenses	72,716	53,954	54,994	51,341
Federal income tax expense	1,921	952	358	494

Net income	(11,176	) 2,324	1,150	1,197
Net income available to common shareholders	(11,176	) 2,324	1,150	1,197
Basic earnings per share of Class A common stock	(0.22	) 0.04	0.03	0.02
Basic earnings per share of Class B common stock	(0.12	) 0.03	0.01	0.01
Diluted earnings per share of Class A common stock	(0.22	) 0.04	0.03	0.02
Diluted earnings per share of Class B common stock	(0.12	) 0.03	0.01	0.01

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Note 14: Subsequent Events

We have evaluated for subsequent events as defined by the accounting guidance through the date of financial statement issuance. Other than the IRC compliance issue noted in Note 8. Commitment and Contingencies, no additional items have come to our attention.

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Condensed Financial Information of Registrant
CITIZENS, INC. (Parent Company)
Balance Sheets

	At December 31,	
	2015	2014
	(In thousands)	
Assets		
Investment in subsidiaries [1]	$166,535	184,236
Fixed maturities available-for-sale, at fair value	54,208	53,356
Fixed maturities held-to-maturity, at amortized cost	364	370
Equity securities available-for-sale, at fair value	979	1,077
Mortgage loans on real estate	341	347
Real estate and other long-term investments	6,021	6,145
Cash	15,756	14,816
Accrued investment income	791	778
Accounts receivable from subsidiaries [1]	2,958	2,178
Other assets	179	332
Total assets	$248,132	263,635
Liabilities and Stockholders' Equity		
Liabilities:		
Accrued expense and other liabilities	$5,615	5,276
Total liabilities	$5,615	5,276
Stockholders' equity:		
Common stock:		
Class A	$259,383	259,383
Class B	3,184	3,184
Accumulated retained deficit	(22,626)	(19,047)
Unrealized investment gains on securities held by parent and subsidiaries, net of tax	13,587	25,850
Treasury stock	(11,011)	(11,011)
Total stockholders' equity	242,517	258,359
Total liabilities and stockholders' equity	$248,132	263,635

[1] Eliminated in consolidation.

See accompanying report of independent registered public accounting firm.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
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Schedule II, Continued
Condensed Financial Information of Registrant
CITIZENS, INC. (Parent Company)
Statements of Operations

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues:			
Management service fees [1]	$31,328	27,497	27,711
Investment income	1,499	1,361	1,268
Other	58	1	2
Realized investment gains (losses), net	—	46	(10)
Total revenues	32,885	28,905	28,971
Expenses:			
General	29,465	25,572	25,900
Taxes, licenses and fees	918	902	942
Federal income tax expense	523	558	498
Total expenses	30,906	27,032	27,340
Income before equity in income of consolidated subsidiaries	1,979	1,873	1,631
Equity in income (loss) of consolidated subsidiaries	(5,558)	(8,378)	3,162
Net income (loss)	$(3,579)	(6,505)	4,793

[1] Eliminated in consolidation.

See accompanying report of independent registered public accounting firm.

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Schedule II, Continued
Condensed Financial Information of Registrant
CITIZENS, INC. (Parent Company)
Statements of Cash Flows

	Years Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	$(3,579)	(6,505)	4,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment losses (gains), net	—	(46)	10
Equity in loss (income) of consolidated subsidiaries	5,558	8,378	(3,162)
Accrued expenses and other liabilities	339	(29)	(383)
Amortization of premiums and discounts on investments	984	789	696
Depreciation	155	169	229
Accrued investment income	(14)	(148)	(32)
Decrease (increase) in receivable from subsidiaries and other assets	(627)	69	159
Other, net	110	(471)	418
Net cash provided by operating activities	2,926	2,206	2,728
Cash flows from investing activities:			
Purchase of fixed maturities, held-to-maturity	—	—	(232)
Purchase of fixed maturities, available-for-sale	(4,559)	(11,949)	(2,630)
Maturities of fixed maturities, available-for-sale	2,645	2,271	1,000
Sale of real estate and other long-term investments	16	—	128
Purchase of other long-term investments and property and equipment	(88)	—	(5)
Net cash used by investment activities	(1,986)	(9,678)	(1,739)
Cash flows from financing activities:			
Dividend from subsidiary	—	5,250	—
Purchase of the Company's stock from affiliates	—	—	(440)
Net cash provided by (used in) financing activities	—	5,250	(440)
Net increase (decrease) in cash	940	(2,222)	549
Cash at beginning of year	14,816	17,038	16,489
Cash at end of year	$15,756	14,816	17,038

See accompanying report of independent registered public accounting firm.

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Schedule III
Supplementary Insurance Information

	At December 31,	
	2015	2014
	(In thousands)	
Deferred policy acquisition cost:		
Life Insurance	$132,059	126,756
Home Service Insurance	33,303	30,712
Other Non-Insurance Enterprises	—	—
Total consolidated deferred policy acquisition costs	$165,362	157,468
Future policy benefit reserves and policy claims payable:		
Life Insurance	$806,973	730,318
Home Service Insurance	264,703	260,334
Other Non-Insurance Enterprises	—	—
Total consolidated future policy benefit reserves and policy claims payable	$1,071,676	990,652
Unearned premiums:		
Life Insurance	$959	2,195
Home Service Insurance	247	247
Other Non-Insurance Enterprises	—	—
Total consolidated unearned premiums	$1,206	2,442
Other policy claims and benefits payable:		
Life Insurance	$66,222	58,823
Home Service Insurance	1,775	1,972
Other Non-Insurance Enterprises	—	—
Total consolidated other policy claims and benefits payable	$67,997	60,795

See accompanying report of independent registered public accounting firm.

For the Company's short duration premiums (property), written premium is not materially different from earned premium, therefore only earned premiums are detailed in Schedule IV.

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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Financial Schedules

For the Company's short duration premiums (property), written premium is not materially different from earned premium, therefore only earned premiums are detailed in Schedule IV.

Schedule IV
Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amount	% of Amount Assumed to Net	
	(In thousands)					
Year ended December 31, 2015						
Life insurance in force	$4,958,369	516,933	36,766	4,478,202	0.8	%
Premiums:						
Life insurance	189,644	2,311	353	187,686		
Accident and health insurance	1,625	26		1,599		
Property insurance	6,068	873		5,195		
Total premiums	$197,337	3,210	353	194,480	0.2	%
Year ended December 31, 2014						
Life insurance in force	$4,910,662	516,643	268,641	4,662,660	5.8	%
Premiums:						
Life insurance	183,764	2,328	421	181,857		
Accident and health insurance	1,589	32	—	1,557		
Property insurance	6,085	967	—	5,118		
Total premiums	$191,438	3,327	421	188,532	0.2	%
Year ended December 31, 2013						
Life insurance in force	$4,731,606	467,491	352,013	4,616,128	7.6	%
Premiums:						
Life insurance	171,752	2,257	188	169,683		
Accident and health insurance	1,581	52	—	1,529		
Property insurance	6,053	1,107	—	4,946		
Total premiums	$179,386	3,416	188	176,158	0.1	%

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

CITIZENS, INC.

Date: March 24, 2016	By:	/s/ Rick D. Riley Rick D. Riley, Chairman and Chief Executive Officer
	By:	/s/ David S. Jorgensen David S. Jorgensen, Vice President, Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Geoffrey M. Kolander, as his or her attorney-in-fact and agent, with full power of substitution, for him or her in any and all capacities, hereby giving and granting to said attorney-in-fact and agent full power and authority to do and perform all and every act and thing whatsoever requisite and necessary to be done in and about the premises as fully, to all intents and purposes, as he might or could do if personally present at the doing thereof, hereby ratifying and confirming all that said attorney-in-fact and agent may or shall lawfully do, or cause to be done, in connection with the proposed filing by Citizens, Inc., with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, as amended, of an annual report on Form 10-K for the fiscal year ended December 31, 2015, including but not limited to, such full power and authority to do the following: (i) execute and file such annual report; (ii) execute and file any amendment or amendments thereto; (iii) receive and respond to comments from the Securities and Exchange Commission related in any way to such annual report or any amendment or amendments thereto; and (iv) execute and deliver any and all certificates, instruments or other documents related to the matters enumerated above, as the attorney-in-fact in his sole discretion deems appropriate.

Dated: March 24, 2016

/s/ Harold E. Riley Harold E. Riley, Chairman Emeritus	/s/ Rick D. Riley Rick D. Riley, Chairman, Chief Executive Officer
/s/ E. Dean Gage Dr. E. Dean Gage, Director	/s/ Robert B. Sloan, Jr. Dr. Robert B. Sloan, Jr., Director
/s/ Terry S. Maness Dr. Terry S. Maness, Director	/s/ Grant G. Teaff Grant G. Teaff, Director
/s/ Dottie S. Riley Dottie S. Riley, Director	/s/ Timothy T. Timmerman Timothy T. Timmerman, Director

/s/ Steven F. Shelton
Steven F. Shelton, Director

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EXHIBITS

Exhibit No.	The following exhibits are filed herewith:
3.1	Restated and Amended Articles of Incorporation (a)
3.2	Amended and Restated Bylaws dated March 1, 2013 (b)
4.1	Amendment to State Series A-1 and A-2 Senior Convertible Preferred Stock (c)
11	Statement re: Computation of per share earnings (see financial statements)
21	Subsidiaries of the Registrant*
23	Consent of Independent Registered Public Accounting Firm - Ernst & Young LLP*
24	Power of Attorney (d)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

(a) Filed on March 15, 2004 with the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 2003 as Exhibit 3.1, and incorporated herein by reference.

(b) Filed on March 12, 3013 with the Registrants' Annual Report on Form 10-K for the Year Ended December 31, 2012 as Exhibit 3.2 and incorporated herein by reference.

(c) Filed on July 15, 2004, with the Registrant's Current Report on Form 8-K as Exhibit 4.1, and incorporated herein by reference.

(d) The Power of Attorney is incorporated in the signature page enclosed herein.