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 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

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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

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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.

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- 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.

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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

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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.

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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			2014			2013		
	(In thousands)								
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		2014		2013	
	(In thousands, except for %)					
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.

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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	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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CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

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	%

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

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.

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES

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