CITIZENS INC
Form 10-Q
August 07, 2014

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

---

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2014
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number: 000-16509
CITIZENS, INC.
(Exact name of registrant as specified in its charter)

Colorado	84-0755371
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 East Anderson Lane, Austin, TX	78752
(Address of principal executive offices)	(Zip Code)

(512) 837-7100
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

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

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

As of August 1, 2014, the Registrant had 49,080,114 shares of Class A common stock, no par value, outstanding and 1,001,714 shares of Class B common stock outstanding.

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands)

Assets	June 30, 2014 (Unaudited)	December 31, 2013
Investments:		
Fixed maturities available-for-sale, at fair value (cost: $628,591 and $595,944 in 2014 and 2013, respectively)	$663,501	605,256
Fixed maturities held-to-maturity, at amortized cost (fair value: $234,415 and $223,533 in 2014 and 2013, respectively)	228,948	227,696
Equity securities available-for-sale, at fair value (cost: $54,075 and $45,883 in 2014 and 2013, respectively)	56,637	47,259
Mortgage loans on real estate	650	671
Policy loans	52,001	48,868
Real estate held for investment (less $1,502 and $1,429 accumulated depreciation in 2014 and 2013, respectively)	8,218	8,440
Other long-term investments	44	45
Total investments	1,009,999	938,235
Cash and cash equivalents	57,437	54,593
Accrued investment income	12,877	12,251
Reinsurance recoverable	4,730	4,394
Deferred policy acquisition costs	150,891	146,691
Cost of customer relationships acquired	24,624	23,374
Goodwill	17,306	17,160
Other intangible assets	976	851
Property and equipment, net	6,513	6,662
Due premiums, net (less $1,312 and $1,429 allowance for doubtful accounts in 2014 and 2013, respectively)	10,080	11,209
Prepaid expenses	1,995	95
Other assets	1,038	765
Total assets	$1,298,466	1,216,280

(Continued)

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Financial Position
(In thousands, except share amounts)

	June 30, 2014 (Unaudited)	December 31, 2013
Liabilities and Stockholders' Equity		
Liabilities:		
Policy liabilities:		
Future policy benefit reserves:		
Life insurance	$876,228	834,269
Annuities	56,489	55,485
Accident and health	1,217	1,250
Dividend accumulations	14,677	13,662
Premiums paid in advance	34,700	32,560
Policy claims payable	10,733	9,488
Other policyholders' funds	7,099	7,982
Total policy liabilities	1,001,143	954,696
Commissions payable	2,377	2,562
Federal income tax payable	645	590
Deferred federal income tax	10,501	1,704
Payable for securities in process of settlement	6,103	—
Other liabilities	12,338	10,919
Total liabilities	1,033,107	970,471
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Class A, no par value, 100,000,000 shares authorized, 52,215,852 shares issued and outstanding in 2014 and 2013, including shares in treasury of 3,135,738 in 2014 and 2013	259,383	259,383
Class B, no par value, 2,000,000 shares authorized, 1,001,714 shares issued and outstanding in 2014 and 2013	3,184	3,184
Accumulated deficit	(10,195)	(12,542)
Accumulated other comprehensive income:		
Unrealized gains on securities, net of tax	23,998	6,795
Treasury stock, at cost	(11,011)	(11,011)
Total stockholders' equity	265,359	245,809
Total liabilities and stockholders' equity	$1,298,466	1,216,280

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three Months Ended June 30,
(In thousands, except per share amounts)
(Unaudited)

	2014	2013
Revenues:		
Premiums:		
Life insurance	$44,667	42,223
Accident and health insurance	390	406
Property insurance	1,272	1,205
Net investment income	10,083	9,265
Realized investment gains (losses), net	(73)	82
Other income	163	427
Total revenues	56,502	53,608
Benefits and expenses:		
Insurance benefits paid or provided:		
Claims and surrenders	16,668	16,660
Increase in future policy benefit reserves	19,979	17,896
Policyholders' dividends	2,412	2,235
Total insurance benefits paid or provided	39,059	36,791
Commissions	10,403	10,429
Other general expenses	7,448	7,342
Capitalization of deferred policy acquisition costs	(7,423)	(7,672)
Amortization of deferred policy acquisition costs	4,893	4,363
Amortization of cost of customer relationships acquired	614	560
Total benefits and expenses	54,994	51,813
Income before federal income tax	1,508	1,795
Federal income tax expense	358	488
Net income	1,150	1,307
Per Share Amounts:		
Basic earnings per share of Class A common stock	$0.03	$0.03
Basic earnings per share of Class B common stock	0.01	0.01
Diluted earnings per share of Class A common stock	0.03	0.03
Diluted earnings per share of Class B common stock	0.01	0.01
Other comprehensive income (loss):		
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) arising during period	12,296	(25,544)
Reclassification adjustment for (gains) losses included in net income	73	(73)
Unrealized gains (losses) on available-for-sale securities, net	12,369	(25,617)
Income tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	4,340	(8,953)
Other comprehensive income (loss)	8,029	(16,664)
Comprehensive income (loss)	$9,179	(15,357)

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Six Months Ended June 30,
(In thousands, except per share amounts)
(Unaudited)

	2014			2013		
Revenues:						
Premiums:						
Life insurance		$86,064			81,637	
Accident and health insurance		741			755	
Property insurance		2,537			2,382	
Net investment income		19,989			17,654	
Realized investment gains (losses), net		(129	)		113	
Other income		332			613	
Total revenues		109,534			103,154	
Benefits and expenses:						
Insurance benefits paid or provided:						
Claims and surrenders		33,125			31,466	
Increase in future policy benefit reserves		37,677			34,855	
Policyholders' dividends		4,514			4,309	
Total insurance benefits paid or provided		75,316			70,630	
Commissions		20,313			19,487	
Other general expenses		13,950			14,041	
Capitalization of deferred policy acquisition costs		(14,491	)		(14,034	)
Amortization of deferred policy acquisition costs		10,102			8,989	
Amortization of cost of customer relationships acquired		1,145			1,138	
Total benefits and expenses		106,335			100,251	
Income before federal income tax		3,199			2,903	
Federal income tax expense		852			740	
Net income		2,347			2,163	
Per Share Amounts:						
Basic earnings per share of Class A common stock	$0.05			$0.05		
Basic earnings per share of Class B common stock	0.02			0.02		
Diluted earnings per share of Class A common stock	0.05			0.05		
Diluted earnings per share of Class B common stock	0.02			0.02		
Other comprehensive income (loss):						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during period		26,392			(25,448	)
Reclassification adjustment for (gains) losses included in net income		105			(104	)
Unrealized gains (losses) on available-for-sale securities, net		26,497			(25,552	)
Income tax expense (benefit) on unrealized gains (losses) on available-for-sale securities		9,294			(8,926	)
Other comprehensive income (loss)		17,203			(16,626	)
Comprehensive income (loss)		$19,550			(14,463	)

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows
Six Months Ended June 30,
(In thousands)
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net income	$2,347	2,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized (gains) losses on sale of investments and other assets	129	(113)
Net deferred policy acquisition costs	(4,389)	(5,045)
Amortization of cost of customer relationships acquired	1,145	1,138
Depreciation	745	637
Amortization of premiums and discounts on investments	4,505	4,256
Deferred federal income tax benefit	(1,438)	(1,579)
Change in:		
Accrued investment income	(530)	(1,074)
Reinsurance recoverable	(336)	2,978
Due premiums	1,129	84
Future policy benefit reserves	37,657	32,049
Other policyholders' liabilities	3,252	(421)
Federal income tax receivable	33	46
Commissions payable and other liabilities	1,229	(1,097)
Other, net	(2,055)	(1,008)
Net cash provided by operating activities	43,423	33,014
Cash flows from investing activities:		
Sale of fixed maturities, available-for-sale	580	58
Maturities and calls of fixed maturities, available-for-sale	23,530	33,943
Maturities and calls of fixed maturities, held-to-maturity	8,374	26,465
Purchase of fixed maturities, available-for-sale	(47,239)	(109,596)
Purchase of fixed maturities, held-to-maturity	(11,586)	—
Sale of equity securities, available-for-sale	11,105	—
Calls of equity securities, available-for-sale	200	400
Purchase of equity securities, available-for-sale	(17,283)	—
Principal payments on mortgage loans	21	822
Increase in policy loans, net	(3,133)	(2,831)
Sale of other long-term investments	1	1
Purchase of other long-term investments	(4)	(83)
Purchase of property and equipment	(340)	(321)
Maturity of short-term investments	—	2,841
Purchase of short-term investments	—	(531)
Net cash used in acquisition	(4,810)	—
Net cash provided by (used in) investing activities	(40,584)	(48,832)

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
Six Months Ended June 30,
(In thousands)
(Unaudited)

	2014	2013
Cash flows from financing activities:		
Annuity deposits	2,587	2,815
Annuity withdrawals	(2,582)	(2,283)
Net cash provided by financing activities	5	532
Net increase (decrease) in cash and cash equivalents	2,844	(15,286)
Cash and cash equivalents at beginning of year	54,593	56,299
Cash and cash equivalents at end of period	$57,437	41,013
Supplemental disclosures of operating activities:		
Cash paid during the period for income taxes, net	$2,213	2,273

Supplemental Disclosures of Non-Cash Investing Activities:
None.

See accompanying notes to consolidated financial statements.

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2014
(Unaudited)

(1) Financial Statements

Basis of Presentation and Consolidation

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

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

The consolidated statements of financial position for June 30, 2014, and the consolidated statements of comprehensive income for the three and six months ended June 30, 2014 and 2013 and cash flows for the six-month periods ended June 30, 2014 and 2013, have been prepared by the Company without audit. In the opinion of management, all adjustments to present fairly the financial position, results of operations, and changes in cash flows at June 30, 2014 and for comparative periods have been made. The consolidated financial statements have been prepared in accordance with U.S. GAAP accounting principles for interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and footnotes required for complete financial statements and should be read in conjunction with the Company’s consolidated financial statements, and notes thereto, for the year ended December 31, 2013. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

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

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

In accordance with our purchase agreement dated October 7, 2013, we finalized the MGLIC stock acquisition on March 7, 2014 for approximately $5.2 million in cash consideration. The assets recorded as of June 30, 2014 were $12.7 million, liabilities of $7.1 million and stockholders equity of $5.6 million. We recorded goodwill of $0.1 million related to this purchase. This entity is reported as part of our home service segment business and is a wholly owned subsidiary of SPLIC. We are in the process of converting the policy inforce data to our policy administration system and anticipate the completion date to be prior to the third quarter reporting.

Use of Estimates

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

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

Reclassification

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

Significant Accounting Policies

For a description of significant accounting policies, see Note 1 of the Notes to Consolidated Financial Statements included in our 2013 Form 10-K Annual Report, which should be read in conjunction with these accompanying Consolidated Financial Statements.

(2) Accounting Pronouncements

Accounting Standards Recently Adopted

On January 1, 2014, we adopted Accounting Standards Update (ASU) ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” to eliminate diversity in practice. This ASU requires that companies net their unrecognized tax benefits against all same-jurisdiction net operating losses or tax credit carryforwards that would be used to settle the position with a tax authority. The adoption of this ASU did not have an effect on our consolidated financial statements.

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

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

(3) Segment Information

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

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

	Three Months Ended June 30, 2014			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$34,569	11,760	—	46,329
Net investment income	6,466	3,282	335	10,083
Realized investment gains (losses), net	(48)	(26)	1	(73)
Other income	133	3	27	163
Total revenue	41,120	15,019	363	56,502
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	11,163	5,505	—	16,668
Increase in future policy benefit reserves	18,849	1,130	—	19,979
Policyholders' dividends	2,397	15	—	2,412
Total insurance benefits paid or provided	32,409	6,650	—	39,059
Commissions	6,484	3,919	—	10,403
Other general expenses	2,965	3,499	984	7,448
Capitalization of deferred policy acquisition costs	(5,848)	(1,575)	—	(7,423)
Amortization of deferred policy acquisition costs	4,205	688	—	4,893
Amortization of cost of customer relationships acquired	120	494	—	614
Total benefits and expenses	40,335	13,675	984	54,994
Income (loss) before income tax expense	$785	1,344	(621)	1,508

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

	Six Months Ended June 30, 2014			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$66,380	22,962	—	89,342
Net investment income	12,749	6,569	671	19,989
Realized investment gains (losses), net	(112)	(18)	1	(129)
Other income	276	4	52	332
Total revenue	79,293	29,517	724	109,534
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	21,978	11,147	—	33,125
Increase in future policy benefit reserves	35,825	1,852	—	37,677
Policyholders' dividends	4,483	31	—	4,514
Total insurance benefits paid or provided	62,286	13,030	—	75,316
Commissions	12,722	7,591	—	20,313
Other general expenses	5,805	6,668	1,477	13,950
Capitalization of deferred policy acquisition costs	(11,507)	(2,984)	—	(14,491)
Amortization of deferred policy acquisition costs	8,612	1,490	—	10,102
Amortization of cost of customer relationships acquired	291	854	—	1,145
Total benefits and expenses	78,209	26,649	1,477	106,335
Income (loss) before income tax expense	$1,084	2,868	(753)	3,199

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

	Three Months Ended June 30, 2013			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$32,850	10,984	—	43,834
Net investment income	5,584	3,341	340	9,265
Realized investment gains, net	81	1	—	82
Other income	351	46	30	427
Total revenue	38,866	14,372	370	53,608
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	11,429	5,231	—	16,660
Increase in future policy benefit reserves	17,047	849	—	17,896
Policyholders' dividends	2,216	19	—	2,235
Total insurance benefits paid or provided	30,692	6,099	—	36,791
Commissions	6,697	3,732	—	10,429
Other general expenses	2,928	3,225	1,189	7,342
Capitalization of deferred policy acquisition costs	(6,170)	(1,502)	—	(7,672)
Amortization of deferred policy acquisition costs	3,870	493	—	4,363
Amortization of cost of customer relationships acquired	154	406	—	560
Total benefits and expenses	38,171	12,453	1,189	51,813
Income (loss) before income tax expense	$695	1,919	(819)	1,795

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

	Six Months Ended June 30, 2013			
	Life Insurance	Home Service Insurance	Other Non-Insurance Enterprises	Consolidated
	(In thousands)			
Revenues:				
Premiums	$62,967	21,807	—	84,774
Net investment income	10,488	6,521	645	17,654
Realized investment gains, net	81	31	1	113
Other income	414	136	63	613
Total revenue	73,950	28,495	709	103,154
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	20,767	10,699	—	31,466
Increase in future policy benefit reserves	33,089	1,766	—	34,855
Policyholders' dividends	4,275	34	—	4,309
Total insurance benefits paid or provided	58,131	12,499	—	70,630
Commissions	12,276	7,211	—	19,487
Other general expenses	5,780	6,491	1,770	14,041
Capitalization of deferred policy acquisition costs	(11,256)	(2,778)	—	(14,034)
Amortization of deferred policy acquisition costs	7,855	1,134	—	8,989
Amortization of cost of customer relationships acquired	321	817	—	1,138
Total benefits and expenses	73,107	25,374	1,770	100,251
Income (loss) before income tax expense	$843	3,121	(1,061)	2,903

Table of Contents

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

(4) Earnings Per Share

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

	Three Months Ended	
	June 30, 2014	June 30, 2013
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income	$1,150	1,307
Net income allocated to Class A common stock	$1,138	1,293
Net income allocated to Class B common stock	12	14
Net income	$1,150	1,307
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic earnings per share of Class A common stock	$0.03	0.03
Basic earnings per share of Class B common stock	0.01	0.01
Diluted earnings per share of Class A common stock	0.03	0.03
Diluted earnings per share of Class B common stock	0.01	0.01

	Six Months Ended	
	June 30, 2014	June 30, 2013
	(In thousands, except per share amounts)	
Basic and diluted earnings per share:		
Numerator:		
Net income	$2,347	2,163
Net income allocated to Class A common stock	$2,323	2,141
Net income allocated to Class B common stock	24	22
Net income	$2,347	2,163
Denominator:		
Weighted average shares of Class A outstanding - basic	49,080	49,080
Weighted average shares of Class A outstanding - diluted	49,080	49,080
Weighted average shares of Class B outstanding - basic and diluted	1,002	1,002
Basic earnings per share of Class A common stock	$0.05	0.05
Basic earnings per share of Class B common stock	0.02	0.02
Diluted earnings per share of Class A common stock	0.05	0.05
Diluted earnings per share of Class B common stock	0.02	0.02

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

(5) Investments

The Company invests primarily in fixed maturity securities, which totaled 83.6% of total investments and cash and cash equivalents at June 30, 2014.

	June 30, 2014			December 31, 2013		
	Carrying Value	% of Total Carrying Value		Carrying Value	% of Total Carrying Value	
	(In thousands)			(In thousands)		
Fixed maturity securities	$892,449	83.6	%	$832,952	83.9	%
Equity securities	56,637	5.3	%	47,259	4.8	%
Mortgage loans	650	0.1	%	671	0.1	%
Policy loans	52,001	4.9	%	48,868	4.8	%
Real estate and other long-term investments	8,262	0.8	%	8,485	0.9	%
Cash and cash equivalents	57,437	5.3	%	54,593	5.5	%
Total cash, cash equivalents and investments	$1,067,436	100.0	%	$992,828	100.0	%

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

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

	June 30, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale:				
U.S. Treasury securities	$10,086	2,712	—	12,798
U.S. Government-sponsored enterprises	38,765	1,919	1	40,683
States and political subdivisions	363,443	14,413	2,490	375,366
Foreign governments	104	29	—	133
Corporate	212,432	18,168	116	230,484
Commercial mortgage-backed	262	9	—	271
Residential mortgage-backed	3,499	271	4	3,766
Total available-for-sale securities	628,591	37,521	2,611	663,501
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	5,815	246	—	6,061
States and political subdivisions	186,512	5,895	1,626	190,781
Corporate	36,621	1,031	79	37,573
Total held-to-maturity securities	228,948	7,172	1,705	234,415
Total fixed maturities	$857,539	44,693	4,316	897,916
Equity securities:				
Stock mutual funds	$15,738	2,137	—	17,875
Bond mutual funds	35,869	250	88	36,031
Common stock	727	37	7	757
Preferred stock	1,741	233	—	1,974
Total equity securities	$54,075	2,657	95	56,637

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

	December 31, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Fixed maturities:				
Available-for-sale securities:				
U.S. Treasury securities	$10,115	2,348	—	12,463
U.S. Government-sponsored enterprises	53,587	1,209	228	54,568
States and political subdivisions	341,673	6,242	11,449	336,466
Foreign governments	104	23	—	127
Corporate	186,671	12,289	1,399	197,561
Commercial mortgage-backed	300	9	—	309
Residential mortgage-backed	3,494	270	2	3,762
Total available-for-sale securities	595,944	22,390	13,078	605,256
Held-to-maturity securities:				
U.S. Government-sponsored enterprises	8,877	197	3	9,071
States and political subdivisions	181,246	1,633	6,412	176,467
Corporate	37,573	771	349	37,995
Total held-to-maturity securities	227,696	2,601	6,764	223,533
Total fixed maturity securities	$823,640	24,991	19,842	828,789
Equity securities:				
Stock mutual funds	$10,463	1,506	—	11,969
Bond mutual funds	35,080	—	417	34,663
Common stock	17	—	5	12
Preferred stock	323	292	—	615
Total equity securities	$45,883	1,798	422	47,259

At June 30, 2014, the Company had $3.8 million of mortgage-backed security holdings based on amortized cost, of which $3.5 million, or 92.1%, were residential U.S. Government-sponsored issues. Mortgage-backed securities are also referred to as securities not due at a single maturity date throughout this report. The majority of the Company's equity securities are diversified stock and bond mutual funds.

Valuation of Investments in Fixed Maturity and Equity Securities

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

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

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is more likely than not that the Company will not be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into the following: (a) the amount representing the credit loss; and (b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

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

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

The Company did not recognize any other-than-temporary impairments ("OTTI") during the six months ended June 30, 2014 and 2013.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

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

	June 30, 2014								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
U.S. Government-sponsored enterprises	$160	1	1	—	—	—	160	1	1
States and political subdivisions	9,760	124	14	81,215	2,366	72	90,975	2,490	86
Corporate	10,634	73	8	6,081	43	4	16,715	116	12
Residential mortgage-backed	222	2	8	37	2	1	259	4	9
Total available-for-sale securities	20,776	200	31	87,333	2,411	77	108,109	2,611	108
Held-to-maturity securities:									
States and political subdivisions	3,975	95	8	55,841	1,531	60	59,816	1,626	68
Corporate	2,490	57	2	3,001	22	2	5,491	79	4
Total held-to-maturity securities	6,465	152	10	58,842	1,553	62	65,307	1,705	72
Total fixed maturities	$27,241	352	41	146,175	3,964	139	173,416	4,316	180
Equity securities:									
Bond mutual funds	$17,912	88	2	—	—	—	17,912	88	2
Common stocks	—	—	—	10	7	1	10	7	1
Preferred stocks	—	—	—	—	—	—	—	—	—
Total equities	$17,912	88	2	10	7	1	17,922	95	3

As of June 30, 2014, the Company had 77 available-for-sale securities and 62 held-to-maturity securities that were in an unrealized loss position for greater than 12 months. We reported 1 common stock holding in an unrealized loss position for greater than 12 months as of June 30, 2014.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

	December 31, 2013								
	Less than 12 months			Greater than 12 months			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
	(In thousands, except for # of securities)								
Fixed maturities:									
Available-for-sale securities:									
U.S. Government-sponsored enterprises	$14,032	228	12	—	—	—	14,032	228	12
States and political subdivisions	183,280	9,872	203	15,673	1,577	16	198,953	11,449	219
Corporate	35,789	1,048	25	2,426	351	2	38,215	1,399	27
Residential mortgage-backed	57	1	3	42	1	1	99	2	4
Total available-for-sale securities	233,158	11,149	243	18,141	1,929	19	251,299	13,078	262
Held-to-maturity securities:									
U.S. Government-sponsored enterprises	2,997	3	1	—	—	—	2,997	3	1
States and political subdivisions	100,153	5,236	118	14,797	1,176	17	114,950	6,412	135
Corporate	5,225	349	4	—	—	—	5,225	349	4
Total held-to-maturity securities	108,375	5,588	123	14,797	1,176	17	123,172	6,764	140
Total fixed maturities	$341,533	16,737	366	32,938	3,105	36	374,471	19,842	402
Equity securities:									
Bond mutual funds	$34,663	417	7	—	—	—	34,663	417	7
Common stock	12	5	1	—	—	—	12	5	1
Total equities	$34,675	422	8	—	—	—	34,675	422	8

We have reviewed these securities for the periods ended June 30, 2014 and December 31, 2013 and determined that no other-than-temporary impairment exists based on our evaluation of the credit worthiness of the issuers and the fact that we do not intend to sell the investments nor is it likely that we will be required to sell the securities before recovery of their amortized cost bases which may be maturity. We continue to monitor all securities on an on-going basis, and future information may become available which could result in impairments being recorded.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

The amortized cost and fair value of fixed maturity securities at June 30, 2014 by contractual maturity are shown in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date have been reflected based upon final stated maturity.

	June 30, 2014	
	Amortized Cost	Fair Value
	(In thousands)	
Available-for-sale securities:		
Due in one year or less	$23,996	24,352
Due after one year through five years	113,391	121,225
Due after five years through ten years	100,341	106,079
Due after ten years	390,863	411,845
Total available-for-sale securities	628,591	663,501
Held-to-maturity securities:		
Due in one year or less	13,446	13,520
Due after one year through five years	28,682	29,438
Due after five years through ten years	47,381	49,863
Due after ten years	139,439	141,594
Total held-to-maturity securities	228,948	234,415
Total fixed maturities	$857,539	897,916

The Company uses the specific identification method of the individual security to determine the cost basis used in the calculation of realized gains and losses related to security sales. Proceeds and gross realized gains from sales of securities for the three and six months ended June 30, 2014 and 2013 are summarized as follows.

	Fixed Maturities Available-for-Sale				Equity Securities			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
	(In thousands)							
Proceeds	$580	—	580	58	11,105	—	11,105	—
Gross realized gains	$21	—	21	1	63	—	63	—
Gross realized losses	$—	—	—	—	169	—	169	—

There was 1 equity bond mutual fund sold at a loss during the three and six month periods ended June 30, 2014 as higher yielding bond mutual fund alternatives became more attractive than these U.S. Government backed funds as circumstances changed in the current environment. There were no sales for the three and six month periods in 2013. There were no securities sold from the held-to-maturity portfolio for the three and six months ended June 30, 2014 or 2013.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

(6) Fair Value Measurements

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

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

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs or whose significant value drivers are observable.
- Level 3 - Instruments whose significant value drivers are unobservable.

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

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

Level 3 is comprised of financial instruments whose fair value is estimated based on non-binding broker prices utilizing significant inputs not based on or corroborated by readily available market information. This category consists of two private placement mortgage-backed securities.

The following tables set forth our assets and liabilities that are measured at fair value on a recurring basis as of the dates indicated.

	June 30, 2014			
Available-for-sale investments	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$12,798	40,683	—	53,481
States and political subdivisions	—	375,366	—	375,366
Corporate	—	230,484	—	230,484
Commercial mortgage-backed	—	—	271	271
Residential mortgage-backed	—	3,766	—	3,766
Foreign governments	—	133	—	133
Total fixed maturities	12,798	650,432	271	663,501
Equity securities:				
Stock mutual funds	17,875	—	—	17,875
Bond mutual funds	36,031	—	—	36,031
Common stock	757	—	—	757
Preferred stock	1,974	—	—	1,974
Total equity securities	56,637	—	—	56,637
Total financial assets	$69,435	650,432	271	720,138

	December 31, 2013			
Available-for-sale investments	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$12,463	54,568	—	67,031
States and political subdivisions	—	336,466	—	336,466
Corporate	—	197,561	—	197,561
Commercial mortgage-backed	—	—	309	309
Residential mortgage-backed	—	3,762	—	3,762
Foreign governments	—	127	—	127
Total fixed maturities	12,463	592,484	309	605,256
Equity securities:				
Stock mutual funds	11,969	—	—	11,969
Bond mutual funds	34,663	—	—	34,663
Common stock	12	—	—	12
Preferred stock	615	—	—	615
Total equity securities	47,259	—	—	47,259
Total financial assets	$59,722	592,484	309	652,515

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

Financial Instruments Valuation

Fixed maturity securities, available-for-sale. At June 30, 2014, our fixed maturity securities, valued using a third-party pricing source, totaled $650.4 million for Level 2 assets and comprised 90.3% of total reported fair value of our financial assets. The Level 1 and Level 2 valuations are reviewed and updated quarterly through random testing by comparisons to separate pricing models, other third-party pricing services, and back tested to recent trades. In addition, we obtain information relative to the third-party pricing models and review model parameters for reasonableness. Fair values for Level 3 assets are based upon unadjusted broker quotes that are non-binding, and consist of two private placement mortgage-backed securities with a total value of $0.3 million. Our Level 3 assets are current relative to principal and interest payments and are considered immaterial to our financial statements. For the six months ended June 30, 2014, there were no material changes to the valuation methods or assumptions used to determine fair values, and no broker or third party prices were changed from the values received.

Equity securities, available-for-sale. Our available-for-sale equity securities are classified as Level 1 assets as their fair values are based upon quoted market prices.

The following table presents additional information about fixed maturity securities measured at fair value on a recurring basis that are classified as Level 3 assets and for which we have utilized significant unobservable inputs to determine fair value.

	June 30, 2014	December 31, 2013
	(In thousands)	
Balance at beginning of period	$309	387
Total realized and unrealized gains (losses)		
Included in net income	—	—
Included in other comprehensive income	—	(7)
Principal paydowns	(38)	(71)
Transfer in and (out) of Level 3	—	—
Balance at end of period	$271	309

We review the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. There were no transfers in or out of Level 1 or 2.

Financial Instruments not Carried at Fair Value

Estimates of fair values are made at a specific point in time, based on relevant market prices and information about the financial instruments. The estimated fair values of financial instruments presented below are not necessarily indicative of the amounts the Company might realize in actual market transactions.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
Notes to Consolidated Financial Statements, Continued
June 30, 2014
(Unaudited)

The carrying amount and fair value for the financial assets and liabilities on the consolidated balance sheets not otherwise disclosed for the periods indicated are as follows:

	June 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Financial assets:				
Fixed maturities, held-to-maturity	$228,948	234,415	227,696	223,533
Mortgage loans	650	672	671	695
Policy loans	52,001	52,001	48,868	48,868
Cash and cash equivalents	57,437	57,437	54,593	54,593
Financial liabilities:				
Annuity - investment contracts	40,112	42,688	39,469	44,960

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

Mortgage loans are secured principally by residential and commercial properties. Weighted average interest rates for these loans were approximately 6.4% as of June 30, 2014 and December 31, 2013, with maturities ranging from 1 to 30 years. Management estimated the fair value using an annual interest rate of 6.25% at June 30, 2014. Our mortgage loans are considered Level 3 assets in the fair value hierarchy.

Policy loans had a weighted average annual interest rate of 7.7% as of June 30, 2014 and December 31, 2013, and no specified maturity dates. The aggregate fair value of policy loans approximates the carrying value reflected on the consolidated balance sheets. These loans typically carry an interest rate that is tied to the crediting rate applied to the related policy and contract reserves. Policy loans are an integral part of the life insurance policies we have in force, cannot be valued separately and are not marketable. Therefore, the fair value of policy loans approximates the carrying value and policy loans are considered Level 3 assets in the fair value hierarchy.

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

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

The fair value of the Company's liabilities under annuity contract policies, which are considered Level 3 assets, was estimated at June 30, 2014 using discounted cash flows based upon a swap rate curve with interest rates ranging from 0.24% to 4.03% based upon swap rates adjusted for various risk adjustments. The fair value of liabilities under all insurance contracts are taken into consideration in the overall management of interest rate risk, which seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

(7) Commitments and Contingencies

The Company is currently performing an internal audit related to unclaimed property for all legal reporting entities. Based upon internal findings to date our exposure appears to be primarily in the state of Louisiana, related to conversion processes surrounding the SPLIC acquisition. The Company had been informed by the Louisiana Department of Treasury, Arkansas Auditor of State

Table of Contents

and the Texas State Comptroller, that they authorized an audit of Citizens, Inc. and its affiliates for compliance with unclaimed property laws. This audit is being conducted by Verus Financial LLC on behalf of the states.

These internal and external 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. At this time, the Company is not able to estimate any of these possible amounts, but such costs could be substantial for a company our size.

We defend all 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. If we suffer an adverse judgment as a result of litigation claims, it could have a material adverse effect on our business, results of operations and financial condition.

(8) Income Taxes

The effective tax rate was 23.7% and 27.2% for the three months and 26.6% and 25.5% for the six months of 2014 and 2013, respectively. In periods where our effective tax rate is lower than the statutory tax rate of 35%, the difference is primarily due to tax-exempt state and local bonds. The effective tax rate is higher in the current year compared to 2013 primarily due to higher book income in the current period compared to the prior period but approximately the same amount of tax-exempt income in both periods.

(9) Related Party Transactions

The Company has various routine related party transactions in conjunction with our holding company structure, such as a management service agreement related to costs incurred, a tax sharing agreement between entities, and inter-company dividends and capital contributions. There were no changes related to these relationships during the six months ended June 30, 2014. See our Annual Report on Form 10-K as of December 31, 2013 for a comprehensive discussion of related party transactions.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q 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 foreign and U.S. general economic, market, and political conditions, including the performance of financial markets and interest rates;
- Changes in consumer behavior, 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 and actuarial valuation of 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. GAAP accounting principles, policies or practices; and
- Our success at managing risks involved in the foregoing; and
- The risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 under the heading "Part II. - Item 1A - Risk Factors."

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 Quarterly Report on Form 10-Q.

Overview

Citizens is an insurance holding company 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. As of June 30, 2014, we had approximately $1.3 billion of total assets and approximately $5.0 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 to high net worth, high income residents of foreign countries, 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 and southern United States through independent marketing consultants; and
- final expense and limited liability property policies to middle and lower income households in Louisiana, Arkansas and Mississippi through employee and independent agents in our home service distribution channel.

We were formed in 1969 by our Chairman, Harold E. Riley. Prior to our formation, Mr. Riley had many years of experience in the international and domestic life insurance business. Our Company has experienced significant growth through acquisitions in the domestic market and through market expansion in the international market. We seek to capitalize on the experience of our management team in marketing and operations as we strive to generate bottom line return using knowledge of our niche markets and our well-established distribution channels. We believe our underwriting processes, policy terms, pricing practices and proprietary administrative systems enable us to be competitive in our current markets, while protecting our shareholders and servicing our policyholders.

Current Financial Highlights

Financial highlights for the three and six month periods ended June 30, 2014, compared to the same periods in 2013 were:

- Insurance premiums rose for the three and six month periods ended June 30, 2014 to $46.3 million and $89.3 million in 2014 from $43.8 million and $84.8 million for the corresponding period in 2013, an increase of 5.7% and 5.4% driven primarily from first year and renewal premiums in our life insurance segment.
- Net investment income increased 8.8% and 13.2% for the three and six month periods ended June 30, 2014 compared to the corresponding periods in 2013. The average yield on the consolidated portfolio as of the six months ended June 30, 2014 increased to an annualized rate of 4.21% up from 4.03% for the same period in 2013.
- Claims and surrenders expense remained flat for the three months ended and increased 5.3% for the six months ended in 2014 compared to 2013 as claims reported in both insurance segments increased for the six month period in addition to higher surrenders reported in the life segment in the current year compared to 2013 levels.
- Changes in reserves resulted in liability increases due to the increased sales of endowment products that build up reserves at a faster pace than whole life longer-term mortality based products.
- We completed the acquisition of MGLIC in the first quarter and the related results have been included in our financial results for June 30, 2014. MGLIC is now a wholly owned subsidiary of SPLIC and is reported with the home service

segment.

Table of Contents

Our Operating Segments

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 operations generate the majority of our income. See the discussion under Segment Operations for detailed analysis. The amount of insurance, number of policies, and average face amounts of ordinary life policies issued during the periods indicated are shown below.

	Six Months Ended June 30,					
	2014			2013		
	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued	Amount of Insurance Issued	Number of Policies Issued	Average Policy Face Amount Issued
Life	$164,016,395	2,717	$60,367	$171,646,782	2,840	$60,439
Home Service	98,660,597	14,716	6,704	98,310,532	14,330	6,873

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

Note: All discussions below compare or state results for the three and six-month periods ended June 30, 2014 compared to the three and six-month periods ended June 30, 2013.

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

Revenues are generated primarily by insurance premiums and investment income on invested assets.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Revenues:				
Premiums:				
Life insurance	$44,667	42,223	$86,064	81,637
Accident and health insurance	390	406	741	755
Property insurance	1,272	1,205	2,537	2,382
Net investment income	10,083	9,265	19,989	17,654
Realized investment gains (losses), net	(73)	82	(129)	113
Other income	163	427	332	613
Total revenues	$56,502	53,608	$109,534	103,154

Premium Income. Premium income derived from life, accident and health, and property insurance sales increased 5.7% and 5.4% for the three and six month periods ending June 30, 2014 compared to the same periods ending June 30, 2013. The increase is generated primarily from an increase in the life segment first year and renewal business and premium income of $0.9 million recorded due to the acquisition of MGLIC.

Net investment income performance is summarized as follows.

	June 30, 2014	December 31, 2013	June 30, 2013
	(In thousands, except for %)		
Net investment income, annualized	$39,978	36,597	35,309
Average invested assets, at amortized cost	950,036	891,215	875,868
Annualized yield on average invested assets	4.21%	4.11%	4.03%

Yields have been slowly rising as we reinvest calls and new premium money into higher yielding bonds compared to the historically low rates experienced over the past several years.

Investment income from debt securities accounted for approximately 85.5% of total investment income for the six months ended June 30, 2014.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Gross investment income:				
Fixed maturity securities	$9,217	8,240	$18,128	15,696
Equity securities	452	481	846	925
Mortgage loans	11	28	22	48
Policy loans	1,029	882	2,031	1,704
Long-term investments	71	53	145	110
Other investment income	9	19	24	38
Total investment income	10,789	9,703	21,196	18,521
Investment expenses	(706)	(438)	(1,207)	(867)
Net investment income	$10,083	9,265	$19,989	17,654

The average consolidated invested asset portfolio has increased approximately 6.6% from year end 2013 to June 30, 2014 with, primarily, investments in the fixed maturity securities portfolio accounting for the most significant increase in the investment income. Bond mutual funds are the primary source of dividend income in the equity securities holdings. In addition, the increase in policy loans, which represents policyholders utilizing their accumulated policy cash value, contributed to the increase to investment income.

Realized Investment Gains (Losses), Net. Losses recorded in the current period are related to sales of two bond mutual fund issues totaling $11.1 million that resulted in a net loss of $0.1 million for the three months ended June 30, 2014. In addition, the six month results in 2014 also include sinking par calls on bonds purchased at a premium which resulted in a loss. The losses are offset by issuer calls and redemptions that result in gains.

Benefits and Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	$16,668	16,660	$33,125	31,466
Increase in future policy benefit reserves	19,979	17,896	37,677	34,855
Policyholders' dividends	2,412	2,235	4,514	4,309
Total insurance benefits paid or provided	39,059	36,791	75,316	70,630
Commissions	10,403	10,429	20,313	19,487
Other general expenses	7,448	7,342	13,950	14,041
Capitalization of deferred policy acquisition costs	(7,423)	(7,672)	(14,491)	(14,034)
Amortization of deferred policy acquisition costs	4,893	4,363	10,102	8,989
Amortization of cost of customer relationships acquired	614	560	1,145	1,138
Total benefits and expenses	$54,994	51,813	$106,335	100,251

31

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

Claims and Surrenders. A detail of claims and surrender benefits is provided below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Death claims	$6,010	5,390	$ 11,542	10,924
Surrender benefits	5,220	5,941	11,050	10,497
Endowments	4,282	3,999	8,087	7,588
Property claims	343	418	714	969
Accident and health benefits	137	119	275	167
Other policy benefits	676	793	1,457	1,321
Total claims and surrenders	$16,668	16,660	$ 33,125	31,466

- Death claims increased 11.5% and 5.7% for the three and six months ended June 30, 2014 as we experienced higher reported claims in both the life and home service segments. Mortality experience is closely monitored by the Company and the activity is within expected levels.
- Surrenders decreased by 12.1% and increased by 5.3% in the three and six periods primarily due to activity in the life segment as discussed below.

Increase in Future Policy Benefit Reserves. The increase in future policy benefit reserves for the three and six months ended June 30, 2014, is due to continued growth in new sales of endowment products, which require higher initial reserve levels than whole life products. Endowments have been our top selling products for the last several years as policyholders favor the guaranteed values of this product.

Policyholder Dividends. The majority of our international policies are participating, and the dividends are factored into the premium rates charged. As policy provisioned dividend rates generally increase each year that a policy is in force, dividend expense is expected to increase as this block of insurance becomes more seasoned.

Commissions. Commission expense is directly related to new and renewal insurance premium fluctuations and production levels by agents and associates. Commission expense for the three and six months ended June 30, 2014 fluctuated directly in relation to the decrease and increase of first year and renewal premiums in the life segment compared to premium levels for the three and six months ended June 30, 2013.

Capitalized and Amortized Deferred Policy Acquisition Costs. Costs capitalized under current accounting guidance include certain commissions, policy issuance costs, and underwriting and agency expenses that relate to successful sales efforts for insurance contracts. The decrease for the three months ended June 30, 2014, compared to the same period in 2013 was the result of a decrease in first year premium production in the current period, which decreased capitalized amounts. The six month results reflect an increase in capitalized costs as first year premiums increased as noted above. Though premium revenue increased for the three months ended in 2014, it was primarily related to an increase in renewal premiums compared to the prior year. Commissions paid on renewal premiums are significantly lower than that paid on first year business.

Amortization for the three and six months ended June 30, 2014, increased compared to the same period in 2013. Amortization of deferred policy acquisition costs is impacted by persistency and may fluctuate from year to year.

Federal Income Tax.The effective tax rate was 23.7% and 27.2% for the three months and 26.6% and 25.5% for the six months of 2014 and 2013, respectively. 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. See Note 8 - Income Taxes in the consolidated financial statements for further discussion.

32

Segment Operations

The Company has three reportable segments: Life Insurance, Home Service Insurance and Other Non-Insurance Enterprises. These segments are reported in accordance with U.S. GAAP. The Company evaluates profit and loss performance of its segments based on net income or loss before income taxes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Life Insurance	$785	695	$1,084	843
Home Service Insurance	1,344	1,919	2,868	3,121
Other Non-Insurance Enterprises	(621)	(819)	(753)	(1,061)
Total	$1,508	1,795	$3,199	2,903

Life Insurance

Our Life Insurance segment issues ordinary whole life insurance domestically and U.S. Dollar-denominated ordinary whole-life policies to foreign residents. These contracts are designed to provide a fixed amount of insurance coverage over the life of the insured. Additionally, the Company issues endowment contracts, which are principally accumulation contracts that incorporate an element of life insurance protection. For the majority of our business, we retain only the first $100,000 of risk on any one life. We operate this segment through CICA and CNLIC insurance subsidiaries.

International Sales

We focus our sales of U.S. Dollar-denominated ordinary whole life insurance and endowment policies to high net worth, high income residents in Latin America and the Pacific Rim. We have successfully participated in the foreign marketplace since 1975, and we continue to seek opportunities for expansion of our foreign operations. 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 reduces our administrative expenses, accelerates cash flow and results in lower policy lapse rates than premiums with more frequently scheduled payments; and
- comparable persistency levels and mortality rates as experienced with U.S. policies.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

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 the United States' more secure economic environment; 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 most are 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, we immediately pay the owner 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 our stock investment plan, registered under the Securities Act of 1933 (the "Securities Act") and administered in the United States by our unaffiliated transfer agent.

The following table sets forth, by country, our direct premiums from our international life insurance business for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Country				
Venezuela	$7,862	7,374	$14,539	13,773
Colombia	6,487	5,634	12,797	11,617
Taiwan	3,923	3,715	8,068	7,589
Ecuador	4,238	3,823	7,518	7,205
Argentina	2,267	2,359	4,044	4,190
Other Non-U.S.	8,756	8,179	16,687	15,483
Total	$33,533	31,084	$63,653	59,857

We continue to report increased sales from our top producing countries as noted above. 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.

Domestic Sales

In the Midwest and the southern United States, we seek to serve middle income households through the sale of cash accumulation ordinary whole life insurance products. The majority of our inforce business results from blocks of business of insurance companies we have acquired over the past fifteen years.

Domestic Products

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

- cash accumulation/living benefits;
- tax-deferred annuity interest earnings;
- guaranteed lifetime income or monthly income options for the policyowner or 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 extraordinary health care needs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
State				
Texas	$623	694	$ 1,182	1,338
Indiana	316	332	687	698
Kentucky	97	242	230	242
Florida	135	256	263	256
Missouri	126	143	250	285
Other States	485	1,213	970	1,400
Total	$1,782	2,880	$ 3,582	4,219

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 Puritan Life Insurance Company ("Puritan"), an unaffiliated insurance company under a coinsurance agreement.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

The results of operations for the life insurance segment for the periods indicated are as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Revenue:				
Premiums	$34,569	32,850	$ 66,380	62,967
Net investment income	6,466	5,584	12,749	10,488
Realized investment gains (losses), net	(48)	81	(112)	81
Other income	133	351	276	414
Total revenue	41,120	38,866	79,293	73,950
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	11,163	11,429	21,978	20,767
Increase in future policy benefit reserves	18,849	17,047	35,825	33,089
Policyholders' dividends	2,397	2,216	4,483	4,275
Total insurance benefits paid or provided	32,409	30,692	62,286	58,131
Commissions	6,484	6,697	12,722	12,276
Other general expenses	2,965	2,928	5,805	5,780
Capitalization of deferred policy acquisition costs	(5,848)	(6,170)	(11,507)	(11,256)
Amortization of deferred policy acquisition costs	4,205	3,870	8,612	7,855
Amortization of cost of customer relationships acquired	120	154	291	321
Total benefits and expenses	40,335	38,171	78,209	73,107
Income before income tax expense	$785	695	$ 1,084	843

Premiums. Premium revenues increased for the three and six month periods ended June 30, 2014, compared to the same periods in 2013 due primarily to international renewal business, which experienced strong persistency as this block of insurance ages. First year premium revenues for the quarter ended June 30, 2014, reflected sales internationally with endowment to age sixty-five and the twenty-year endowment products continuing as the top performers in the current year.

Life insurance premium breakout is detailed below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Premiums:				
First year	$4,716	5,095	$ 9,275	9,033
Renewal	29,853	27,755	57,105	53,934
Total premiums	$34,569	32,850	$ 66,380	62,967

Net Investment Income. Net investment income increased as the impact of the sustained low interest rate environment has leveled and yields are beginning to rise modestly.

	Six Months Ended June 30, 2014	Year Ended December 31, 2013	Six Months Ended June 30, 2013
	(In thousands, except for %)		
Net investment income, annualized	$25,499	22,237	20,976
Average invested assets, at amortized cost	$601,258	549,578	530,678
Annualized yield on average invested assets	4.24 %	4.05 %	3.95 %

Realized Investment Gains (Losses), Net. Losses recorded in the current three month period related to sales of two bond mutual funds totaling $9.1 million and resulting in a net loss of approximately $70,000. The six months ended June 30, 2014 include sinking par calls on bonds purchased at a premium which resulted in a loss offset by gains from issuer calls and redemptions.

Claims and Surrenders. These amounts fluctuate from period to period but were within anticipated ranges based upon management's expectations.

	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
	(In thousands)			
Death claims	$1,676	1,485	$ 2,975	2,714
Surrender benefits	4,562	5,217	9,542	9,267
Endowment benefits	4,278	3,994	8,080	7,579
Accident and health benefits	69	64	119	110
Other policy benefits	578	669	1,262	1,097
Total claims and surrenders	$11,163	11,429	$ 21,978	20,767

- Death claims expense was higher for the three and six months ended June 30, 2014 based upon reported claims. Mortality experience is closely monitored by the Company as a key performance indicator and these amounts were within expected levels.
- Surrenders decreased in the current three month period by 12.6% and increased for the six month period by 3.0%. The majority of policy surrender benefits paid is attributable to our international business and was related to policies that have been in force nearly twenty years, where surrender charges are no longer applicable.
- Endowment benefit expense primarily results from the election by policyholders of a product feature providing an annual guaranteed benefit. This is a fixed benefit over the life of the contract, thus 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 increased for the three and six months ended June 30, 2014 compared to the same period in 2013, primarily from growth in new sales of endowment products, which require higher initial reserve levels than whole life products. Endowment sales have become more popular with our international clients in the past few years, representing approximately 82% and 77% of total new first year premium in the six months ended June 30, 2014 and 2013, respectively.

Commissions. Commission expense decreased for the three months ended June 30, 2014, compared to the same period in 2013 and increased for the six month period in the current year. This expense fluctuates directly with new premium revenues, which decreased 7.4% for the three months but were higher for the six month period in 2014 by 2.7% compared to 2013. Commission rates paid are higher on first year premium sales, which were $4.7 million and $9.3 million for the three and six months ended June 30, 2014, compared to $5.1 million and $9.0 million for the same periods in 2013. Renewal premiums for the three and six months, for which we pay commissions at lower rates, were up $2.1 million and $3.2 million, or 7.6% and 5.9%, from the prior year.

Other General Expenses. The expenses are allocated by segment, based upon an annual expense study performed by the Company, and were relatively flat for the three and six months ended June 30, 2014, compared to the same periods in 2013.

Capitalization of Deferred Policy Acquisition Costs ("DAC"). Capitalized costs fluctuate in direct relation to premiums decreasing for the three months and increasing for the six months ended June 30, 2014, based upon first year and renewal premiums and commissions paid compared to 2013.

Amortization of Deferred Policy Acquisition Costs. Amortization for the three and six months in 2014 increased and was impacted by overall lower persistency related to this segment. As previously noted, persistency is monitored closely by the Company and was within expectations.

Home Service Insurance

We operate in the Home Service insurance market through our subsidiaries Security Plan Life Insurance Company ("SPLIC") and Security Plan Fire Insurance Company ("SPFIC"), and focus 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 employee-agents who work full time on a route system and through funeral homes that sell policies, collect premiums and service policyholders.

In March of the current year we completed the acquisition of Magnolia Guaranty Life Insurance Company ("MGLIC") which is now a wholly owned subsidiary of SPLIC. MGLIC is licensed in Mississippi and customarily sells policies through independent funeral homes while SPLIC customarily sells through the route system. Together, we anticipate Mississippi clients will experience enhanced support from the affiliated companies.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
State				
Louisiana	$10,549	10,482	$ 21,055	20,856
Arkansas	423	425	829	861
Mississippi	819	122	1,160	240
Other States	215	229	420	437
Total	$12,006	11,258	$ 23,464	22,394

We recorded approximately $0.7 million of additional premium in Mississippi for the three months ended June 30, 2014 due to the purchase of MGLIC.

Home Service Insurance Products

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. To a much lesser extent, our home service insurance segment sells limited-liability, named-peril property policies covering dwellings and contents. We provide $30,000 maximum coverage on any one dwelling and contents, while content only coverage and dwelling only coverage is limited to $20,000, respectively.

We provide final expense ordinary life insurance and annuity products primarily to middle and lower income individuals in Louisiana, Mississippi and Arkansas.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

The results of operations for the home service insurance segment for the periods indicated are as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Revenue:				
Premiums	$11,760	10,984	$ 22,962	21,807
Net investment income	3,282	3,341	6,569	6,521
Realized investment gains (losses), net	(26)	1	(18)	31
Other income	3	46	4	136
Total revenue	15,019	14,372	29,517	28,495
Benefits and expenses:				
Insurance benefits paid or provided:				
Claims and surrenders	5,505	5,231	11,147	10,699
Increase in future policy benefit reserves	1,130	849	1,852	1,766
Policyholders' dividends	15	19	31	34
Total insurance benefits paid or provided	6,650	6,099	13,030	12,499
Commissions	3,919	3,732	7,591	7,211
Other general expenses	3,499	3,225	6,668	6,491
Capitalization of deferred policy acquisition costs	(1,575)	(1,502)	(2,984)	(2,778)
Amortization of deferred policy acquisition costs	688	493	1,490	1,134
Amortization of cost of customer relationships acquired	494	406	854	817
Total benefits and expenses	13,675	12,453	26,649	25,374
Income before income tax expense	$1,344	1,919	$ 2,868	3,121

Premiums. Premiums increased 7.1% and 5.3% for the three and six month periods ended June 30, 2014, compared to 2013. In addition we recorded $0.7 million and $0.9 million of premiums in the current three and six month periods as part of the MGLIC acquisition.

Net Investment Income. Net investment income for our home service insurance segment was as follows.

	Six Months Ended June 30, 2014	Year Ended December 31, 2013	Six Months Ended June 30, 2013
	(In thousands, except for %)		
Net investment income, annualized	$13,218	13,075	13,042
Average invested assets, at amortized cost	296,546	290,340	294,073
Annualized yield on average invested assets	4.46 %	4.50 %	4.43 %

Realized Investment Gains (Losses), Net. Net realized losses for the three and six months ended June 30, 2014 resulted from the sale of one bond mutual fund totaling $2.0 million with a realized loss of $37,000 to move into more attractive funds in the current environment. This loss is offset by gains from issuer calls of debt securities which we experienced in 2014 and 2013.

40

Claims and Surrenders. Claims and surrenders increased for the three and six months ended June 30, 2014, compared to the same periods in 2013, as reported claims increased compared to the prior year, but were within expected ranges.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(In thousands)			
Death claims	$4,334	3,905	$ 8,567	8,210
Surrender benefits	658	724	1,508	1,230
Endowment benefits	4	5	7	9
Property claims	343	418	714	969
Accident and health benefits	68	55	156	57
Other policy benefits	98	124	195	224
Total claims and surrenders	$5,505	5,231	$ 11,147	10,699

- Death claims expense increased for the three and six months in 2014, due to higher reported claims compared to the same periods in 2013. Mortality experience is closely monitored by the Company as a key performance indicator and amounts were within expected levels.
- Surrender benefits decreased 9.1% and increased 22.6% for the three and six months ended in 2014 compared to the same periods in 2013 as decisions are made by policyholders electing to cash in their policy values.
- Property claims decreased 17.9% and 26.3% for the three and six months ended June 30, 2014 as we had experienced more weather related claims in 2013.

Increase in Future Policy Benefit Reserves. The Company recorded an increase in future policy benefit reserves for the three and six months ended June 30, 2014, compared to the corresponding periods in 2013 with the addition of MGLIC policies in the current year.

Commissions. Commission expense fluctuated for the three and six months ended June 30, 2014, compared to the same period in 2013 as premium collections varied. Commission expense related to MGLIC totaled $142,000 and $195,000 for the three and six months ended June 30, 2014.

Other General Expenses. Expenses are allocated by segment based upon an annual expense study performed by the Company and increased between 2014 and 2013.

Capitalization of Deferred Policy Acquisition Costs ("DAC"). Capitalized costs increased slightly for the three and six months ended June 30, 2014, as commission expense also increased during the period. DAC capitalization is directly correlated to fluctuations in new business and commissions.

Amortization of Deferred Policy Acquisition Costs. Amortization for the three and six months ended June 30, 2014 increased compared to the corresponding period in 2013 as this segment experienced lower persistency compared to the prior year, which results in higher amortization.

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. The segment loss reported for the first six months of 2014 and 2013 is typical since the elimination of intercompany revenue is it's primary source of revenue.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

Investments

The administration of our investment portfolios is handled by our management, pursuant to board-approved investment guidelines, with all trading activity approved by a committee of each entity's respective boards of directors. The guidelines used require that fixed maturities, both government and corporate, are investment grade and comprise a majority of the investment portfolio. 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 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 cash, cash equivalents and investments.

	June 30, 2014		December 31, 2013	
	Carrying Value (In thousands)	% of Total Carrying Value	Carrying Value (In thousands)	% of Total Carrying Value
Marketable securities:				
U.S. Treasury and U.S. Government-sponsored enterprises	$59,296	5.6	$75,908	7.7
States and political subdivisions	561,878	52.6	517,712	52.1
Corporate	267,105	25.0	235,134	23.7
Mortgage-backed [(1)]	4,037	0.4	4,071	0.4
Foreign governments	133	—	127	—
Total marketable securities	892,449	83.6	832,952	83.9
Cash and cash equivalents	57,437	5.4	54,593	5.5
Other investments:				
Policy loans	52,001	4.9	48,868	4.8
Equity securities	56,637	5.3	47,259	4.8
Mortgage loans	650	0.1	671	0.1
Real estate	8,218	0.7	8,440	0.9
Other long-term investments	44	—	45	—
Total cash, cash equivalents and investments	$1,067,436	100.0	$992,828	100.0

[(1)] Includes $3.2 million and $3.8 million of U.S. Government-sponsored enterprises at June 30, 2014, and December 31, 2013, respectively.

Cash and cash equivalents increased as of June 30, 2014 due to timing of cash inflows and investment into marketable securities.

The held-to-maturity portfolio as of June 30, 2014 represented 25.7% of the total fixed maturity securities owned based upon carrying values, with the remaining 74.3% classified as available-for-sale. Held-to-maturity securities are reported in the financial statements at amortized cost and available-for-sale securities are reported at fair value.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

The following table sets forth the distribution of the credit ratings of our portfolio of fixed maturity securities by carrying value as of June 30, 2014 and December 31, 2013.

	June 30, 2014		December 31, 2013	
	Carrying Value (In thousands)	% of Total Carrying Value	Carrying Value (In thousands)	% of Total Carrying Value
AAA	$52,539	5.9	$55,093	6.6
AA	407,176	45.6	391,054	46.9
A	249,006	27.9	231,004	27.7
BBB	146,859	16.5	125,597	15.1
BB and other	36,869	4.1	30,204	3.7
Totals	$892,449	100.0	$832,952	100.0

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 or Fitch Ratings. A credit rating assigned by an 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 an NRSRO are included in the "other" category.

The Company has no direct sovereign European debt exposure as of June 30, 2014. We do have indirect exposure in one bond mutual fund holding, but the amount is deemed immaterial to the current investment holdings and consolidated financials.

As of June 30, 2014, 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.

Municipals shown including third party guarantees

	June 30, 2014								
	General Obligation		Special Revenue		Other		Total		% Based on
	Fair Value (In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Amortized Cost
AAA	$35,460	33,529	14,950	14,294	—	—	50,410	47,823	8.7
AA	117,040	113,513	190,647	183,119	14,785	14,087	322,472	310,719	56.2
A	41,802	41,968	113,660	111,798	6,722	6,792	162,184	160,558	29.0
BBB	2,754	2,808	18,443	17,925	3,078	2,571	24,275	23,304	4.2
BB and other	548	495	8,865	9,112	1,038	1,070	10,451	10,677	1.9
Total	$197,604	192,313	346,565	336,248	25,623	24,520	569,792	553,081	100.0

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

Municipals shown excluding third party guarantees

	June 30, 2014								
	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)								
AAA	$10,109	9,938	3,829	3,731	—	—	13,938	13,669	2.5
AA	98,268	95,090	134,784	129,002	11,738	11,035	244,790	235,127	42.5
A	41,171	39,971	138,810	135,168	8,314	8,391	188,295	183,530	33.2
BBB	7,314	7,740	24,989	24,185	—	—	32,303	31,925	5.8
BB and other	40,742	39,574	44,153	44,162	5,571	5,094	90,466	88,830	16.0
Total	$197,604	192,313	346,565	336,248	25,623	24,520	569,792	553,081	100.0

The Company held investments in special revenue bonds that had a greater than 10% exposure based upon activity as noted in the table below.

	Fair Value	Amortized Cost	% of Total Fair Value
	(In thousands)		
Utilities	$189,999	195,517	34.3

CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

The tables below represent the Company's exposure of municipal holdings in Louisiana and Texas, which exceed 10% of the total municipal portfolio as of June 30, 2014.

	June 30, 2014							
	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	$451	453	29,596	28,433	—	—	30,047	28,886
A	6,651	6,374	10,475	10,225	1,013	1,011	18,139	17,610
BBB	6,307	6,198	—	—	—	—	6,307	6,198
BB and other	1,701	1,716	4,414	4,718	—	—	6,115	6,434
Total	$15,110	14,741	44,485	43,376	1,013	1,011	60,608	59,128
Louisiana securities excluding third party guarantees								
AA	$451	453	22,688	21,812	—	—	23,139	22,265
A	6,651	6,374	11,170	10,785	1,013	1,011	18,834	18,170
BBB	6,307	6,198	6,213	6,060	—	—	12,520	12,258
BB and other	1,701	1,716	4,414	4,719	—	—	6,115	6,435
Total	$15,110	14,741	44,485	43,376	1,013	1,011	60,608	59,128
Texas securities including third party guarantees								
AAA	$34,350	32,476	8,717	8,328	—	—	43,067	40,804
AA	31,624	31,242	18,850	18,251	—	—	50,474	49,493
A	3,439	3,478	18,951	18,331	—	—	22,390	21,809
BBB	—	—	10,340	9,923	—	—	10,340	9,923
BB and other	—	—	—	—	—	—	—	—
Total	$69,413	67,196	56,858	54,833	—	—	126,271	122,029
Texas securities excluding third party guarantees								
AAA	$10,109	9,938	2,251	2,228	—	—	12,360	12,166
AA	42,159	40,263	20,200	19,305	—	—	62,359	59,568
A	9,043	8,984	21,219	20,565	—	—	30,262	29,549
BBB	—	—	7,489	7,103	—	—	7,489	7,103
BB and other	8,102	8,011	5,699	5,632	—	—	13,801	13,643
Total	$69,413	67,196	56,858	54,833	—	—	126,271	122,029

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 June 30, 2014, total holdings of municipal securities in Louisiana represented 10.6% of all municipal holdings based upon fair value. The Company also holds 22.2% of its municipal holdings in

Texas issuers. There were no other states or individual issuer holdings that represented or exceeded 10% of the total municipal portfolio as of June 30, 2014.

Valuation of Investments

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

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's cost and its fair value at the balance sheet date. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, the other-than-temporary impairment is separated into the following: a) the amount representing the credit loss; and b) the amount related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary impairment recognized in earnings becomes the new amortized cost basis of the investment. The new amortized cost basis is not adjusted for subsequent recoveries in fair value.

The Company did not recognize any other-than-temporary impairments for the three and six months ended June 30, 2014 or 2013.

Liquidity and Capital Resources

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

Liquidity requirements of the Company are met primarily by funds provided from operations. Premium deposits and revenues, investment income and investment maturities are the primary sources of funds, while investment purchases, policy benefits, and operating expenses are the primary uses of funds. We historically have not had to liquidate investments relative to our insurance operations to provide cash flow and did not do so during the first six months of 2014. Our investments as of June 30, 2014, consist of 65.7% of marketable debt securities classified as available-for-sale that could be readily converted to cash for liquidity needs.

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

Cash flows from our insurance operations have been sufficient to meet current needs. Cash flows from operating activities were $43.4 million and $33.0 million for the six months ended June 30, 2014 and 2013, respectively. We have traditionally also had significant cash flows from both scheduled and unscheduled investment security maturities, redemptions, and prepayments. These cash flows, for the most part, are reinvested in fixed income securities. Net cash outflows from investing activities totaled $40.6 million and $48.8 million for the six months ended June 30, 2014 and 2013, respectively. The investing activities fluctuate from period to period due to timing of securities activities such as calls and maturities and reinvestment of those funds.

The NAIC has established minimum capital requirements in the form of Risk-Based Capital ("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 RBC fall below 200%, a series of remedial actions by the affected company would be required.

All insurance subsidiaries were above the RBC minimums at December 31, 2013. The ratios of adjusted statutory capital to control level RBC are shown below.

	December 31, 2013	
CICA	635	%
CNLIC	2,363	%
SPFIC	421	%
SPLIC	1,306	%
MGLIC	1,210	%

Contractual Obligations and Off-balance Sheet Arrangements

There have been no material changes in contractual obligations from those reported in the Company's Form 10-K for the year ended December 31, 2013. The Company does not have off-balance sheet arrangements at June 30, 2014, and does not expect any future effects on the Company's financial condition related to any such arrangements. We do not utilize special purpose entities as investment vehicles, nor are there any such entities in which we have an investment that engage in speculative activities of any nature, and we do not use such investments to hedge our investment positions.

Parent Company Liquidity and Capital Resources

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

Critical Accounting Policies

We have prepared a current assessment of our critical accounting policies and estimates in connection with preparing our interim unaudited consolidated financial statements as of and for the three and six months ended June 30, 2014 and 2013. We believe that the accounting policies set forth in the Notes to our Consolidated Financial Statements and

"Critical Accounting Policies and Estimates" in the Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013 continue to describe the significant judgments and estimates used in the preparation of our consolidated financial statements.

Table of Contents
CITIZENS, INC. AND CONSOLIDATED SUBSIDIARIES
June 30, 2014

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

The nature of our business exposes us to market risk relative to our invested assets and policy liabilities. Market risk is the risk of loss that may occur when changes in interest rates and public equity prices adversely affect the value of our invested assets. Interest rate risk is our primary market risk exposure. Substantial and sustained increases and decreases in market interest rates can affect the fair value of our investments. The fair value of our fixed maturity portfolio generally increases when interest rates decrease and decreases when interest rates increase. For additional information regarding market risks to which we are subject, see "Item 1 Financial Statements - Note 5. Investments - Valuation of Investments in Fixed Maturity and Equity Securities" above.

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

	June 30, 2014			December 31, 2013		
	Amortized Cost	Fair Value	Net Unrealized Gains (Losses)	Amortized Cost	Fair Value	Net Unrealized Gains (Losses)
	(In thousands)					
Fixed maturities, available-for-sale	$628,591	663,501	34,910	595,944	605,256	9,312
Fixed maturities, held-to-maturity	228,948	234,415	5,467	227,696	223,533	(4,163)
Total fixed maturities	$857,539	897,916	40,377	823,640	828,789	5,149
Total equity securities	$54,075	56,637	2,562	45,883	47,259	1,376

Market Risk Related to Interest Rates

Our exposure to interest rate changes results from our significant holdings of fixed maturity investments, which comprised 88.4% of our investment portfolio based on carrying value as of June 30, 2014. These investments are mainly exposed to changes in U.S. Treasury rates. Our fixed maturity investments include U.S. Government-sponsored enterprises, U.S. Government bonds, securities issued by government agencies, municipal bonds and corporate bonds.

To manage interest rate risk, we perform periodic projections of asset and liability cash flows to evaluate the potential sensitivity of our investments and liabilities. We assess interest rate sensitivity annually with respect to our available-for-sale fixed maturities investments using hypothetical test scenarios that assume either upward or downward shifts in the prevailing interest rates. The changes in fair values of our debt and equity securities as of June 30, 2014 were within the expected range of this analysis.

Changes in interest rates typically have a sizable effect on the fair values of our debt and equity securities. The interest rate of the ten-year U.S. Treasury bond decreased to 2.5% during the quarter ended June 30, 2014, from 3.0% at December 31, 2013. Net unrealized gains on fixed maturity securities totaled $40.4 million at June 30, 2014, compared to $5.1 million at December 31, 2013.

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

There are no fixed maturities or other investments classified as trading instruments. Approximately 73.9% of fixed maturities were held in available-for-sale and 26.1% in held-to-maturity based upon fair value at June 30, 2014. At June 30, 2014 and

December 31, 2013, we had no investments in derivative instruments, nor did we have any subprime or collateralized debt obligation risk.

Market Risk Related to Equity Prices

Changes in the level or volatility of equity prices affect the value of equity securities we hold as investments. Our equity investments portfolio represented 5.6% of our total investments at June 30, 2014, with 95.2% invested in diversified equity and bond mutual funds. We believe that significant decreases in the equity markets would not have a material adverse impact on our total investment portfolio.

Item 4. CONTROLS AND PROCEDURES

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

Our Chief Executive Officer, Vice Chairman and Chief Financial Officer are responsible for establishing and maintaining our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon an evaluation at the end of the period covered by this report, the Chief Executive Officer, Vice Chairman and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

During the three months ended June 30, 2014, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting (as defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II. OTHER INFORMATION

Item 1. 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 the following Item 1A. Risk Factors.

Since August 6, 1999, the Company has been a defendant in a lawsuit filed in an Austin, Texas District Court, styled Delia Bolanos Andrade, et al., Plaintiffs, v. Citizens Insurance Company of America, et al., Defendants. In consideration of a Texas Supreme Court ruling on the case, the District Court ruled in December of 2009 the plaintiffs must proceed individually, and not as a class, if they intend to pursue their claims against us. There are 17 plaintiffs in the case. The plaintiffs’ underlying claims allege that certain life insurance policies CICA made available to non-U.S. residents were actually offers and sales of securities that occurred in Texas by unregistered dealers in violation of the Texas securities laws. The remedy sought is rescission and return of the insurance premium payments. The total net insurance premium for the 17 plaintiffs is approximately $150,000. Since the December 2009 trial court ruling, no individual cases have been pursued by the plaintiffs making the probability of the plaintiffs further pursuing their cases individually unlikely. For the reasons described above, the Company no longer believes this matter meets the definition of a material legal proceeding as such term is defined in Item 103 of Regulation S-K but has included the foregoing description solely due to the history and unresolved nature of the case. An estimate of any possible loss or range of losses cannot be made at this time in regard to individuals pursuing claims. However, should the plaintiffs further pursue their claims individually; we intend to vigorously defend any proceedings.

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 believed to be 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

A substantial amount of our revenue comes from residents of foreign countries and is subject to risks associated with foreign insurance laws, political instability and asset transfer restrictions.

A substantial part of our insurance policy sales are from foreign countries, primarily those in Latin America and the Pacific Rim. There is a risk that we may lose a significant portion of these sales should adverse events occur in these countries. For example, in the first quarter of 2014, Venezuela began experiencing increased civil unrest resulting in demonstrations against endemic crime, corruption and soaring inflation. Venezuela contributed 22.8% of our direct premiums for the six months ended June 30, 2014. We cannot confidently predict what impact we might see relative to the continued unrest in this country but it could significantly impact our business.

Traditionally, we have sought to address risks, like the risks associated with Venezuela, by, among other things, not accepting insurance applications outside of the U.S., maintaining all of our assets in the U.S. and requiring policy premiums be paid to us in U.S. Dollars drawn on U.S. financial institutions. Accordingly, 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 applicable laws in marketing our insurance products.

The Company's future sales and financial results are dependent upon avoiding significant regulatory interruptions in receiving insurance policy applications for residents outside of the United States. Currency control laws in foreign countries, if implemented, could materially adversely affect our revenues by imposing restrictions on asset transfers outside of a country where our insureds reside. There can be no assurance that such situations will not occur and that our revenues, results of operations and financial condition will not be materially, adversely affected if they do occur. The government of a foreign country could also determine its residents may not buy life insurance from us unless we became qualified to do business in that country or unless our policies purchased by its residents receive prior approval from its insurance regulators. Also, new laws or regulations could be implemented or new applications of existing laws or regulations could occur, which could result in the cessation of marketing activities by our independent marketing firms and consultants. From time to time we have become aware of new foreign laws, regulations or new interpretations of foreign laws or regulations that may have an adverse effect on the marketing efforts of our foreign independent marketing firms and consultants.

Although we believe foreign regulatory authorities have no jurisdiction over us and any actions, including fines, would be unenforceable against us, we cannot assure you 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. Further, there is no assurance we would be able to qualify to do business in any foreign country or that its insurance regulatory authorities would approve our policies if we decided to submit our insurance policies for approval. Any of the foregoing could reduce our revenues and materially adversely affect our results of operations and financial condition. Also, we do not determine whether our independent consultants are required to be licensed to sell insurance in the countries in which they market our policies. If our independent consultants were not in compliance with applicable laws, including licensing laws, they could be required to cease operations, which would reduce our revenues. We are unable to quantify the effect of foreign regulation on our business if regulation were to be imposed on us, but we believe we could expend substantial amounts of time and incur substantial expense in complying with any foreign regulation, and we may decide to remove ourselves from or avoid a market if foreign regulation were imposed.

The majority of our foreign policyholders choose to invest their policy dividends or other cash benefits in our Class A common stock through the Citizens, Inc. Stock Investment Plan (the "Plan"), a stock investment plan registered with the United States Securities and Exchange Commission ("SEC"). If a foreign securities regulatory authority were to deem the Plan's operation contrary to foreign securities laws, we risk a reduction in the amount of Class A common stock purchased on the open market through the Plan and the possibility of securities law claims in the United States.

On or about April 2001, the Company adopted the Plan, as amended and restated from time to time. The Plan is registered with the SEC pursuant to a Registration Statement on Form S-3 of the Securities Exchange Act of 1933. For further information on the filing history of the Plan's Registration Statement, please see the risk factor directly below titled "The previous Registration Statement covering the Plan was not declared effective under the Securities Act of 1933."

The general purpose of the Plan is to provide a convenient and economical means for new investors to make an initial investment in our Class A common stock and for existing investors to purchase additional shares of our Class A common stock. Specifically, the Plan offers employees, agents, policyholders, independent consultants and potential investors stock purchase opportunities of the Company’s Class A common stock, no par value per share (“Common Stock”). It also offers security holders the ability to maintain registered ownership of their securities in a manner which facilitates efficient purchases and sales of Citizens Class A common stock in the open market. The Plan is administered by a Plan administrator (the “ Administrator”), which is deemed an independent agent of the Company. The Administrator satisfies applicable U.S. legal requirements (including, without limitation, the requirements of Regulation M under the Securities Exchange Act of 1934), and facilitates open market purchases and sales of Citizens Class A common stock under the Plan through registered brokers and dealers. Additional disclosures concerning the Plan’s impact on our Capital Stock can be found in our Item 1A. Risk Factors under the heading, “Risks Relating to Our Capital Stock.”

Any electing person who has met the requirements to participate in the Plan and has not revoked such election to participate in the Plan is considered a “Plan Participant.” More than 89% percent of the shares of Class A common stock that have been purchased under the Plan have been purchased by foreign holders of life insurance policies (or related brokers); the remaining shares of Class

A common stock that have been purchased under the Plan have been purchased by approximately 1,400 participants, mostly our employees, resident in the United States. International holders of life insurance policies underwritten by the Company may assign dividends and/or other policy values annually payable on their insurance policies to the Plan and employees participating in the Plan may allocate a portion of their compensation to the Plan and the Company remits these amounts to the Administrator. The Administrator uses these proceeds to purchase shares of Class A common stock in the open market from time to time through an independent broker selected by the Administrator. None of the shares of Class A common stock purchased by the Plan Participants is issued by the Company, and the Company does not receive any proceeds from these purchases. An international policyholder must first consent in writing to be contacted by Citizens regarding the Plan before they are given the option to assign dividends and premium benefits from their insurance policies to the Plan. At the point of introduction to the Plan, international policyholders receive a copy of the Plan prospectus explaining the risks associated with purchasing Citizens Class A common stock through the Plan.

Since the distribution of our Class A common stock is registered and publicly traded in the U.S. and because we believe that foreign regulatory authorities have no jurisdiction over us, the offer and sale of our Class A common stock through the Plan 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. While we would vigorously dispute the ability of such authority to assert jurisdiction over us, such a dispute may distract from our business and may have a material adverse impact on our financial position. Additionally, in such a situation participation in the Plan by our international policyholders in that foreign jurisdiction could decrease. This also could materially reduce the amount of our Class A common stock purchased and sold in the open market under the Plan, as historically a significant volume of shares have been purchased under the Plan through issuance of policy dividends and premium benefits assigned to the Plan. We could also be faced with private disputes relating to the Plan, including the possibility of securities law claims within the United States. In the absence of countervailing considerations, we would expect to vigorously defend any such claims. As a result, we could incur significant defense costs, including not only attorneys' fees and other direct litigation costs, but also the expenditure of substantial amounts of management time that otherwise would be devoted to our business. This could materially adversely affect our results of operations and financial condition.

In December 2012 it was discovered, the original Registration Statement on Form S-3 covering the Plan and filed with the SEC was not declared effective under the Securities Act of 1933, due to a technical error in the 2001 filing. As such, sales under the Plan may not have fully complied with an exemption from registration under that Act. This technical error could grant security holders who purchased shares of Class A common stock a right to rescind their purchases or other damages.

In 2001, we filed with the SEC a Registration Statement on Form S-3 under the Securities Act of 1933 ("Securities Act") covering the sale of shares of Class A common stock (“2001 Registration Statement”). On December 18, 2006, and again on December 18, 2009, the 2001 Registration Statement was amended (the “Amendments”).

The 2001 Registration Statement and the Amendments treated the Plan and its predecessors as a Dividend or Interest Reinvestment Plan (a “DRIP”) as defined in Rule 405 of the Securities Act and, accordingly, the 2001 Registration Statement and the Amendments checked the DRIP box on Form S-3 and we treated the Registration Statement and Amendments as effective immediately upon filing with the SEC. In connection with the preparation of a further amendment to the Registration Statement to be filed on December 18, 2012, and further analysis of the Plan, the Company came to believe that the characterization of the Plan solely as a DRIP may not be appropriate. As a result, the Company determined not to file a further amendment to the Registration Statement but instead to file a new registration statement covering a Rule 415 continuous offering under the Plan. On December 18, 2012, we suspended operation of the Plan with respect to the purchase of Class A common stock. On December 21, 2012, we filed with the SEC a new registration statement pursuant to Rule 415 on Form S-3 with respect to the Plan (the "New Registration Statement"), which was declared effective by the SEC on January 14, 2013.

If and to the extent participants purchased shares of Class A common stock in the open market that were not effectively registered under the Securities Act, or exempt from such registration, prior to the time the New Registration Statement was declared effective such participants could have certain remedies available to them, including claims for rescission and damages. In the 12 months prior to December 19, 2012, a total of approximately 1,544,250 shares of Class A common stock were purchased in the open market under the Plan for participants in the Plan for an aggregate of approximately $15,210,000, or an average of $9.85 per share. In addition, despite our full disclosure of this technical error in 2012 to the SEC, the SEC could commence an enforcement action against us seeking injunctive or other relief and civil damages. Should a significant number of these purchasers bring claims for rescission or damages, or should the SEC commence an enforcement action, it could have a material and adverse effect on our business and reputation and our results of operations and financial condition.

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 over the past three years, we experienced significant call activity on our fixed income portfolio which has decreased our investment yields compared to prior years. Also, we recorded other-than-temporary impairments ("OTTI") in the past several years due to credit related market declines. In addition, the significant increase in worldwide economic instability and unemployment rates could result in decreased persistency of our insurance policies in force, as well as reduced new insurance policy sales, which may materially adversely affect our results of operations and financial condition.

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. In the recent past, one rating agency downgraded the U.S.'s long-term debt credit rating from AAA. 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 a 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 expectation of future spreads is an important component in amortization of deferred acquisition costs and significantly lower spreads may result in increasing amortization, thereby reducing net income for the period.

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 June 30, 2014, fixed maturities represented $892.0 million or 88.4% of our total investments of $1,010.0 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. For mortgage-backed securities, credit risk exists if mortgagees default on the underlying mortgages. Although at June 30, 2014, approximately 95.9% of our fixed maturities were investment grade with 79.4% 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.

A portion of our investment portfolio is concentrated in U.S. Government sponsored corporations and agencies.

At June 30, 2014, we had investments with a carrying value of $65.9 million (7.9% of our total invested assets) in U.S. Government sponsored corporations and agencies, including the Federal Home Loan Mortgage Corporation ("Freddie") and the Federal National Mortgage Association ("Fannie"). Both Freddie and Fannie are currently in conservatorship, certain of their operations are being combined and the federal government is considering proposals to phase them out, or allow them to continue as private corporations, among other things. If they are wound down, it is not clear how investments sponsored by them might be affected; however, the direct and indirect impact on our investment portfolio could be material and could be adverse.

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 June 30, 2014 were $2.6 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 ("U.S. GAAP") 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.

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 June 30, 2014, we had $150.9 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 anticipated recognition of premiums.

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 June 30, 2014, we had $24.6 million of CCRA. We amortize the value of this intangible asset in a manner similar to the amortization of DAC.

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

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

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

Goodwill represents the excess of the amount paid by us to acquire various life insurance companies over the fair value of their net assets at the date of the acquisition. Under U.S. GAAP, we test the carrying value of goodwill for impairment at least annually at the "reporting unit" level, which is either an operating segment or a business that is one level below the operating segment. Goodwill is impaired if its carrying value exceeds its implied fair value. This may occur for various reasons, including changes in actual or expected earnings or cash flows of a reporting unit, generation of earnings by a reporting unit at a lower rate than similar businesses or declines in market prices for publicly traded businesses similar to our reporting units. If any portion of our goodwill becomes impaired, we would be required to recognize the amount of the impairment as a current-period expense, which could have a material adverse effect on our results of operations and financial condition. Goodwill in our consolidated financial statements was $17.3 million as of June 30, 2014.

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.

We may from time to time be subject to a variety of legal and regulatory actions relating to our business operations, including, but not limited to:

- disputes over insurance coverage or claims adjudication;
- regulatory compliance with state laws;
- regulatory compliance with insurance and securities laws;
- disputes with our marketing firms, 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. In highly publicized incidents, the practice by certain companies of using data available on the U.S. Social Security Administration's Death Master File or a similar data base in order to avoid paying periodic benefits under annuity contracts but not using the same data base to determine when death benefits were owed was disclosed. 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.

Despite the fact we have no history of the asymmetric conduct in question, we have received notices from three state departments of treasury (or equivalent state agencies) 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. At this time, the Company is not able to estimate any of these possible amounts, but such costs could be substantial for a company our size.

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 2013, we reinsured $467.5 million of face amount of our life insurance policies. Amounts reinsured in 2013 represented 9.9% 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.

We may not be able to continue our past strategy of acquiring other U.S. life insurance companies, and we may not realize improvements to our financial results as a result of our past or any future acquisitions.

We have acquired 17 U.S. life insurance companies since 1987. Our objective in this strategy has been to increase our assets, revenues and capital, improve our competitive position and increase our earnings, in part by realizing certain operating efficiencies associated with economies of scale.

We evaluate possible acquisitions of other insurance companies on an ongoing basis. While our business model is not dependent primarily upon acquisitions, the time frame for achieving or further improving our market positions can be shortened through acquisitions. There can be no assurance that suitable acquisitions presenting opportunities for continued growth and operating efficiencies will be available to us, or that we will realize the anticipated financial results from completed acquisitions. In addition, we face intense competition in seeking to make acquisitions, much of which is from companies with greater financial and operational resources than we have.

Even if we identify and complete insurance company acquisitions, we may be unable to integrate them on an economically favorable basis. Implementation of an acquisition strategy entails a number of risks, including, among others, inaccurate assessment of assets, liabilities or contingent liabilities and the failure to achieve anticipated operating efficiencies, revenues, earnings or cash flow. The occurrence of any of these events could have a material adverse effect on our results of operations and financial condition.

Our international and domestic operations face significant competition.

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

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

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

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

In the United States, we compete with more than 1,000 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 and more diversified lines of insurance coverage than we do. These companies also have larger sales forces than we have. 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 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 and 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 would likely hinder development of our operating and marketing programs and our strategy for expanding our business.

We rely on the participation of our Chairman of the Board and Chief Executive Officer, Harold E. Riley (age 86), and our Vice Chairman of the Board and President, Rick D. Riley (age 60), in connection with the development and execution of 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 operations. The loss of the services of either of these individuals could have a significant adverse effect on our business and prospects. We do not have an employment agreement with either of these persons nor do we carry a key-man insurance policy on either of their lives.

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

We are subject to extensive regulation and supervision in U.S. jurisdictions wherein we do business, as well as anti-money laundering regulations adopted under the USA Patriot Act. 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 powers under law with respect to such things as: 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 and administrative policies in several other areas can materially and adversely affect insurance companies, including our business. These areas include the USA Patriot Act, financial services regulation, 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 loss of customers, subject us to fines and penalties and adversely affect 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. If we do not comply with privacy regulations and protect confidential information, we could experience adverse consequences, including regulatory sanctions, loss of reputation and litigation, any of which could have a material adverse effect on our business, results of operations and financial condition.

The insurance industry in which we operate may be subject to periodic negative publicity, which may negatively impact our financial results.

We interface with and distribute our products to individual consumers. There may be a perception that certain U.S. purchasers may be unsophisticated and in need of consumer protection. Accordingly, from time to time, consumer advocate groups or the media may focus attention on our products, thereby subjecting the insurance industry to periodic negative publicity. We may also be negatively impacted if other insurance companies engage in practices resulting in increased public attention to our businesses. Negative publicity may result in lower sales of insurance, lower persistency of our insurance products, increased regulation and legislative scrutiny of industry practices as well as increased litigation, which may further increase our costs of doing business and impede our ability to market our products. As a result, our business, results of operations and financial condition could be materially adversely affected.

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

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

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

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

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

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

The capital and credit markets experienced extreme volatility over the past several years. In some cases, the markets exerted significant downward pressure on availability of debt and equity capital for certain issuers (including short term liquidity and credit capacity). We believe the availability of debt and equity capital has decreased significantly compared to prior years.

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.

Risks Relating to Our Capital Stock

The price of our Class A common stock may be adversely affected by decreased participation in the Citizens, Inc. Stock Investment Plan (the "Plan").

Most all of our international policyholders participate in the Plan and they invest their policy dividends and benefits in our Class A common stock pursuant to the Plan. Once a policyholder elects to participate in the Plan, his or her policy benefits are assigned to purchase Citizens Class A common stock under the Plan in the open market. 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 stock may decline from its present levels and the demand for our Class A common stock could be negatively impacted.

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, Chairman and CEO, is the beneficial owner of 100% of the Citizens Class B common stock, which is held in the name of the Harold E. Riley Trust ("Trust"), of which he serves as Trustee. Citizens' 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"). 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.

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 as of December 31, 2013. Our executive officers, directors and management owned approximately 3,340,597 shares of our Class A common stock as of December 31, 2013, representing approximately 7% 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 Class A common shareholders do not control us and have a limited ability to influence our business policies and corporate actions and are not by themselves able to elect any of our directors.

It is difficult for Class A common shareholders to elect any of our directors or otherwise exert any significant influence over our business. The sole holder of our outstanding Class B common stock is entitled to elect a simple majority of our board of directors and therefore controls us. All of our Class B common stock is currently owned by the Harold E. Riley Trust, of which Harold E. Riley, our founder, Chairman of the Board and Chief Executive Officer, is the sole trustee. Additionally, Harold E. Riley beneficially owns approximately 4% of the issued shares of our Class A common stock.

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

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

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

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

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

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

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

On August 7, 2014, the Company issued a news release (the "Release") reporting, among things, results of operations for its second quarter of 2014. A copy of the Release is furnished as Exhibit 99.1 to this Quarterly Report on Form 10-Q. Citizens also announced that it would hold a conference call to discuss its financial results at 9:00 a.m. Central Daylight Time on Friday, August 8, 2014.

Item 6. EXHIBITS

Exhibit Number	The following exhibits are filed herewith:
11	Statement re: Computation of per share earnings (see financial statements)
31.1	Certification of Chief Executive Officer and Vice Chairman pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification of Chief Executive Officer and Vice Chairman pursuant to Section 906 of the Sarbanes-Oxley Act*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
99.1	News Release reporting second quarter results issued on August 7, 2014 (furnished herewith)
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)

* Filed herewith.

63

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CITIZENS, INC.

By: /s/ Harold E. Riley
Harold E. Riley
Chairman and Chief Executive Officer

By: /s/ Rick D. Riley
Rick D. Riley
Vice Chairman and President

By: /s/ Kay E. Osbourn
Kay E. Osbourn
Executive Vice President, Chief Financial Officer and Treasurer

Date: August 7, 2014