CITIZENS FINANCIAL CORP /KY/
Form 10-K
April 07, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 2002
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 0-20148

CITIZENS FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Kentucky	61-1187135
(State of Incorporation)	(I.R.S. Employer Identification No.)

12910 Shelbyville Road, Louisville, Kentucky 40243
(Address of principal executive offices)

(502) 244-2420
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Class A Stock, No Par Value

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ~~X~~ No ~~~~~

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

Indicate by check mark whether the registrant is an accelerated filer (as determined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ~~~~~ No ~~X~~

State the aggregate market value of the common equity held by non-affiliates of the registrant: $3,055,495 (based on an $4.77 per share average of bid and asked prices on March 25, 2003).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 1,685,228 shares of Class A

Stock as of March 25, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's Board of Director's Proxy Statement for the Annual Meeting of Shareholders now scheduled for May 22, 2003 are incorporated into Part III of this Form 10-K. The date of this Report is April 7, 2003.

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This report contains projections and other forward-looking statements regarding future events or the future financial performance of the Company. Actual events and results may differ materially from those in the projections and other forward-looking statements set forth herein. Among the important factors that could cause actual events or results to differ materially from those in the projections and other forward-looking statements are: changes in the market value of the Company's investments, including stock market performance and interest rate changes; customer response to marketing efforts; mortality and morbidity trends; regulatory changes; actions of independent rating agencies; general economic conditions and increased competition; the Company's ability to achieve operating efficiencies; unanticipated adverse litigation; and changes in Federal tax law. Readers are referred to the Items 1, 7, 7a and 8 in this report and to the Company Report on Financial Statements in the Company's Annual Report for a discussion of these and other important risk factors concerning the Company and its operations.

PART I
ITEM 1. BUSINESS

General

Citizens Financial Corporation (herein, the "Company" or the "Registrant") was incorporated in Kentucky in 1990 at the direction of the Board of Directors of Citizens Security Life Insurance Company ("Citizens Security") for the ultimate purpose of becoming an insurance holding company. Pursuant to a merger completed in 1991, Citizens Security became a wholly owned subsidiary of the Company. The Company is now a holding company that engages in the business of life insurance, annuities, and accident and health insurance through Citizens Security and United Liberty Life Insurance Company ("United Liberty") (herein collectively, the "Life Insurance Subsidiaries"). The Company also owns Citizens Insurance Company ("Citizens Insurance"), which is licensed as a property and casualty insurer but currently has no business inforce. The Life Insurance Subsidiaries and Citizens Insurance are herein collectively referred to as the "Insurance Subsidiaries".

Citizens Security was incorporated in Kentucky and commenced business in 1965. In 1971, Citizens Security acquired Central Investors Life Insurance Company by merger. In 1987, it purchased the stock of Old South Life Insurance Company ("Old South"). In 1992, Old South merged into Citizens Security. In 1995, the Company and Citizens Security purchased all of the stock of Integrity National Life Insurance Company ("Integrity") and merged it into Citizens Security. During May 1998, Citizens Security purchased all of the outstanding shares of United Liberty. In October 1999, the Company acquired Citizens Insurance and in January 2001, it contributed the stock of Citizens Insurance to Citizens Security. See Item 7 and Note 2 of the Notes to Consolidated Financial Statements, for descriptions of certain of these acquisitions. The Life Insurance Subsidiaries are currently licensed to transact the business of life insurance, annuities, and accident and health insurance. Citizens Security is licensed in twenty states and the District of Columbia while United Liberty is licensed in twenty-three states and Citizens Insurance is licensed in six states.

Insurance Operations

The Company, through its Life Insurance Subsidiaries, operates in five segments -- 1) home service life insurance, 2) broker-sold life insurance and annuities, 3) preneed life insurance, 4) dental insurance, and 5) other health and accident insurance. The home service and preneed life segments provide individual coverages; the dental segment provides group coverages; while the broker life and other health segments include individual and group insurance coverages. The following table presents each business segment"s revenue; pretax income or loss excluding realized investment gains and interest expense; and ending assets for each of the last three fiscal years. Additional segment information is contained in Item 7 and in Note 9 of the Notes to Consolidated Financial Statements.

Segment Revenue, Profit or Loss, and Assets:

December 31	2002	2001	
Revenue:			
Home Service Life	$ 9,260,097	$ 9,290,120	$ 9
Broker Life	5,964,089	6,497,286	6
Preneed Life	19,706,136	9,974,405	5
Dental	8,209,257	8,025,375	7
Other Health	1,432,607	1,487,562	1
Segment Totals	44,572,186	35,274,748	30
Net realized investment gains (losses)	(2,469,768)	(7,911,829)	1
Total Revenue	$ 42,102,418	$ 27,362,919	$ 31

Year Ended December 31	2002	2001	
Segment Profit (Loss):			
Home Service Life	$275,809	$ 382,723	$
Broker Life	(265,488)	74,960	
Preneed Life	(670,349)	(264,488)	
Dental	297,740	256,385	
Other Health	(191,289)	10,847	
Segment Totals	(553,577)	460,427	
Net realized investment gains (losses)	(2,469,768)	(7,911,829)	1
Interest expense	305,715	532,962	
Income (Loss) before income tax and cumulative effect of a change in accounting principle	$ (3,329,060)	$ (7,984,364)	$

December 31	2002	2001	
Assets:			
Home Service Life	$ 45,219,971	$ 44,818,038	$ 45
Broker Life	53,874,949	54,954,194	57
Preneed Life	46,739,831	34,138,535	29
Dental	660,334	726,728	
Other Health	1,946,447	1,959,588	2
Total Assets	$148,441,532	$136,597,083	$135

Home Service Life. The Home Service Life segment consists primarily of traditional whole life insurance, which provides policyholders with permanent life insurance and fixed, guaranteed rates of return on the cash value element of policy premiums. Agents for these products sell primarily small face value policies (typically from $1,000 to $10,000). These policies are subject to normal underwriting procedures with the extent of such procedures determined by the amount of insurance, age of applicant and other pertinent factors.

Broker Life. The Broker Life segment offers traditional whole life insurance; universal life insurance, which provides policyholders with permanent life insurance and adjustable rates of return on the cash value element of policy premiums, based upon current interest rates; annuities; group life; accidental death and dismemberment; and dependent life insurance. The majority of Broker Life sales consist of whole life graded death benefit and simplified issue policies.

The graded death benefit policy returns premium plus interest compounded at an annual rate of 10% if the insured dies of natural causes during the first three years the policy is in force. If the insured dies of an accidental cause, the benefit payable is the face amount of the policy. The simplified issue product provides full face amount coverage from date of issue, is more extensively underwritten and carries lower premium rates than the graded death benefit product. These products are targeted towards the "final expense market".

Generally, traditional whole life insurance products are more profitable than universal life policies, in part because investment margins are normally greater for traditional whole life products than for universal life policies. Overall profitability on universal life policies may decline as a result of downward interest crediting rate adjustments to the extent that policyholders withdraw funds to invest in higher-yielding financial products. The profitability of traditional whole life products and universal life policies is also dependent upon the ultimate underwriting experience and the realization of anticipated unit administrative costs. The Company believes that the historical claims experience for the traditional whole life and universal life products issued by the Life Insurance Subsidiaries has been within expected ranges, in relation to the mortality assumptions used to price the products.

Substantially all annuity considerations are attributable to sales of flexible premium deferred annuities, life policy annuity riders, and single premium deferred annuities. Generally, a flexible premium deferred annuity or a life policy annuity rider permits premium payments in such amounts as the policyholder deems appropriate, while a single premium deferred annuity requires a one-time lump sum payment.

Preneed Life. The Preneed Life segment products are traditional whole life policies sold to individuals in connection with prearrangement of their funeral and include single and multi-pay coverages, generally in amounts of $10,000 and less. These policies are generally sold to older individuals at increased premium rates.

The following table provides information concerning the Life Insurance Subsidiaries' volume of life insurance coverage in force excluding participation in group underwriting pools for federal employees (FEGLI) and service personnel (SGLI) for each of the last three fiscal years.

Year Ended December 31 (Dollars in Thousands)	2002	2001
Gross In-force at beginning of period1	$812,515	$809,045
Business purchased	---	---
New business issued during period:		

Individual	$95,706	$ 113,119
Group	13,063	7,632
New business total	$108,769	$ 120,751
Terminations during period	$128,562	$ 117,281
Termination rate2	15.8%	14.5%
Gross In-force at end of period1:		
Individual	$663,394	$668,565
Group	129,328	143,950
Gross In-force total at end of period	$792,722	$812,515
Reinsurance ceded at end of period	96,202	109,227
Net In-force at end of period	$696,520	$703,288

Dental Insurance. Dental products are indemnity policies sold on a pure group and voluntary group basis. Voluntary dental groups must meet prescribed participation limits. All dental products have annual limits on all covered procedures and lifetime limits on orthodontia procedures. In addition, orthodontia and major restorative procedures are not covered for the first six months to one year, depending upon the plan, unless a no-loss-no-gain provision is attached to the policy.

Other Health Insurance. Other Health products include individual accident and health insurance policies, which provide coverage for monthly income during periods of hospitalization, scheduled reimbursement for specific hospital and surgical expenses and cancer treatments, and lump sum payments for accidental death or dismemberment. Group health plans are also offered, providing coverage for short-term disability, and income protection. The Company is not allocating significant marketing resources to this segment.

Marketing. The Life Insurance Subsidiaries are currently licensed to sell products in 29 states and the District of Columbia. Citizens Security and United Liberty are both licensed in the states designated below with a "b" while only Citizens Security is licensed in the states designated "c" and only United Liberty in the states designated "u".

b	Alabama	b	Indiana	u	Nebraska	u	Oregon
u	Arizona	u	Kansas	u	Nevada	c	Pennsylvania
b	Arkansas	b	Kentucky	c	New Jersey	b	South Carolina
u	Colorado	b	Louisiana	u	New Mexico	b	Tennessee
c	Delaware	b	Maryland	c	North Carolina	b	Texas
c	District of Columbia	b	Mississippi	u	Oklahoma	u	Utah
b	Florida	b	Missouri	b	Ohio	c	Virginia
c	Georgia					b	West Virginia

The Life Insurance Subsidiaries market products through the personal producing general agent distribution system. Approximately 3,500 sales representatives are licensed as independent agents for the Life Insurance Subsidiaries. The majority of these agents also represent other insurers. Approximately 600 of these agents specialize in the home service market. That market consists primarily of middle and low-income families and individuals who desire whole life policies with policy limits typically below $10,000. Agents usually collect premiums directly at monthly intervals. The home service market has higher than average policy lapse rates. Approximately 800 agents specialize in the preneed market. Typically, these agents are funeral directors or operate from facilities owned by funeral directors.

The Life Insurance Subsidiaries furnish rate material, brochures, applications, and other pertinent sales material, at no expense to the agents. The agents are responsible for complying with state licensing laws and any related appointment fees. Agents are compensated by commissions. The Life Insurance Subsidiaries have agent commission arrangements that are generally intended to provide competitive incentives for agents to increase their production of new insurance and to promote continued renewals of in-force insurance. Historically, these incentives have frequently involved awards, overrides, and compensation scales that escalate according to achievement levels for newly-issued business and that provide additional payments for renewal business.

Underwriting. The Life Insurance Subsidiaries follow underwriting procedures designed to assess and quantify insurance risks before issuing life and health insurance policies to individuals and members of groups. Such procedures require medical examinations (including blood tests, where permitted) of applicants for certain policies of health insurance and for policies of life insurance in excess of certain policy limits. These requirements are graduated according to the applicant's age and vary by policy type. In addition, certain types of life insurance policies are offered with higher premium rates and less stringent underwriting requirements. The Life Insurance Subsidiaries also rely upon each applicant's written application for insurance, which is generally prepared under the supervision of a trained agent. In issuing health insurance, information from the application and, in some cases, inspection reports, physician statements, or medical examinations are used to determine whether a policy should be issued as applied for, issued with reduced coverage under a health rider, or rejected.

Acquired Immunodeficiency Syndrome ("AIDS") claims identified to date, as a percentage of total claims, have not been significant for the Life Insurance Subsidiaries. Evaluating the impact of future AIDS claims under health and life insurance policies issued is extremely difficult, in part due to the insufficiency and conflicting data regarding the number of persons now infected with the AIDS virus, uncertainty as to the speed at which the AIDS virus has and may spread through the general population, and advancements in medical treatment options. The Life Insurance Subsidiaries have implemented, where legally permitted, underwriting procedures designed to assist in the detection of the AIDS virus in applicants.

Investments. The Company derives a substantial portion of its revenue from investments. The Life Insurance Subsidiaries maintain diversified investment portfolios that are held primarily to fund future policyholder obligations. State insurance laws impose certain restrictions on the nature and extent of investments by insurance companies and, in some states, require divestiture of assets contravening these restrictions. Within the framework of such laws, the Life Insurance Subsidiaries follow a general strategy to maximize total return (current income plus appreciation) without subjecting themselves to undue risk. Where deemed appropriate, the Life Insurance Subsidiaries will hold selected non-investment grade bonds that provide higher yields or are convertible to common stock. The Company considers a bond non-investment grade if it is unrated or rated less than BBB by Standard & Poor's Rating Group ("S&P") or BAA by Moody's Investors Service ("Moody's"). The Company's non-investment grade bonds, based on reported fair values, represented 4.1% of the Company's cash and invested assets as of December 31, 2002. Citizens Security has maintained substantial investments in equity securities in order to achieve higher investment earnings than can usually be achieved through portfolio bonds but at a greater comparative risk. The Company also maintains an investment portfolio of equity securities separate from those of the Insurance Subsidiaries. Mortgage loans, federally-insured mortgage-backed securities, collateralized mortgage obligations and real estate investments, apart from the investment in the office building described in Item 2. "Description of Property," represented approximately 8.0% of cash and invested assets as of December 31, 2002. Neither the Company nor its subsidiaries owned any collateralized mortgage-backed securities as of December 31, 2002 that would be included in the high-risk classification.

For additional information concerning investment results, see Item 7.

Reinsurance. In keeping with industry practice, the Life Insurance Subsidiaries reinsure, with unaffiliated insurance companies, portions of the life and health insurance risks which they underwrite. The Life Insurance Subsidiaries retain no more than $40,000 of individual life insurance risk and $15,000 of group life insurance risk for any single life. Graded death benefit and simplified issue coverages above $4,000 are generally 50% reinsured, with the Life Insurance Subsidiaries maintaining a maximum $10,000 risk on any one life. Individual and group accidental death coverage is 100% reinsured. At December 31, 2002, approximately $96,202,000 or 12% of life insurance in force was reinsured under arrangements described in Note 11 of the Notes to the Consolidated Financial Statements. Under most reinsurance arrangements described above, new insurance is reinsured automatically rather than on a basis that would require the reinsurer's prior approval. Generally, the Life Insurance Subsidiaries enter into indemnity reinsurance arrangements to assist in diversifying their risks and to limit their maximum loss on large or unusually hazardous risks. Indemnity reinsurance does not discharge the ceding insurer's liability to meet policy claims on the reinsured business. Accordingly, the Life Insurance Subsidiaries remain responsible for policy claims on the reinsured business to the extent a reinsurer should fail to pay such claims.

Competition. The insurance industry is highly competitive, with approximately 1,500 life and health insurance companies in the United States. Many insurers and insurance holding company systems have substantially greater capital and surplus, larger and more diversified portfolios of life and health insurance policies, and larger agency sales operations than those of the Life Insurance Subsidiaries. Financial and claims-paying ratings assigned to insurers by A.M. Best Company ("Best") and by nationally-recognized statistical rating organizations have become more important to policyholders. Citizens Security's rating was last changed by Best in October, 2001, when it was downgraded to B- (Fair) from B (Fair). United Liberty's rating has remained at B- (Fair) since its 1998 acquisition. According to Best, B- ratings are assigned to companies that have on balance, fair financial strength, operating performance and market profile when compared to the standards established by Best. Also according to Best, B- companies have an ability to meet their current obligations to policyholders, but their financial strength is vulnerable to adverse changes in underwriting or economic conditions. There are seven Best rating categories above the B- category from B to A++. The Life Insurance Subsidiaries will continue to pursue upward revisions in their Best ratings. Citizens Insurance has no insurance business inforce and is not rated by Best.

S&P assigns claims-paying ability ratings to certain U.S. insurers. Generally, such a rating is S&P's opinion of an insurer's financial capacity to meet the obligations of its insurance policies in accordance with their terms. In the case of companies like Citizens Security that have not requested ratings, S&P's methodology uses statistical tests based on statutory financial data as filed with the National Association of Insurance Commissioners ("NAIC"). The rating process does not involve contact between S&P analysts and the insurer's management. In 1998, S&P changed its rating methodology and revised Citizens Security's rating from BBq to BBpi. (The "q" subscript designated the quantitative method of rating while the "pi" subscript designates the public information method). United Liberty has not been rated by S&P. According to S&P,

BB companies may have adequate financial security but their capacity to meet policyholder obligations is vulnerable to adverse economic and underwriting conditions. The BB rating is the highest of five ratings in the vulnerable range of ratings.

A rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.

The Life Insurance Subsidiaries compete primarily on the basis of the experience, size, accessibility and claims response of their customer service representatives, product design, service and pricing. The Company believes that the Life Insurance Subsidiaries are generally competitive in the markets in which they are engaged based upon premium rates and services, have good relationships with their agents, and have an adequate variety of insurance and annuity products approved for issuance.

State Insurance Regulation. The Insurance Subsidiaries, in common with other insurers, are subject to comprehensive regulation in the states in which they are authorized to conduct business. The laws of such states establish supervisory agencies with broad administrative powers, among other things, to grant and revoke licenses for transacting business, regulate the form and content of policies, establish reserve requirements, prescribe the type and amount of allowable investments, and review premium rates for fairness and adequacy. The Insurance Subsidiaries file detailed annual statements with all states in which they are licensed to transact business. The Kentucky Department of Insurance also periodically examines the business and accounts of the Insurance Subsidiaries. In recent years, various state insurance departments and the NAIC have expressed concern, essentially about the "rate of return" earned by holders of small face amount life policies, potentially including Preneed policies. Although the Company does not believe calculating a simple "rate of return" is meaningful for traditional life insurance products, state insurance regulators could take steps that would alter the profitability of existing policies and/or eliminate small face amount policies as a viable product offering.

The Life Insurance Subsidiaries also can be required, under the solvency or guaranty laws of most states in which they do business, to pay assessments (up to prescribed limits) to fund policyholder losses or liabilities of other insurance companies that become insolvent. These assessments may be deferred or foregone under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium or intangible property taxes. Gross assessments for the Life Insurance Subsidiaries, net of (refunds) but before offsets for future premium or intangible property taxes, were $12,587, $(1,000), and $(11,000) in 2002, 2001, and 2000, respectively.

Kentucky, in common with substantially all states, regulates transactions between or affecting insurance holding companies and their insurance company subsidiaries, including the Company and the Insurance Subsidiaries. Generally, under Kentucky insurance holding company statutes, the Kentucky Department of Insurance must approve in advance the direct or indirect acquisition of 15% or more of the voting securities of an insurance company organized under the laws of Kentucky. Such statutes also regulate certain transactions among affiliates, including the payment of dividends by an insurance company to its holding company parent. Under the Kentucky statutes, the Insurance Subsidiaries may not during any year pay dividends on their common and preferred stock to their parent company in excess of the lesser of the net gain from operations for the preceding year or 10% of their capital and surplus at the end of the preceding year, without the consent of the Kentucky Commissioner of Insurance. For 2003, the maximum amount of dividends that United Liberty and Citizens Insurance could pay, without the Commissioner's approval, is $215,000, and $62,000 respectively. Citizens Security is unable to pay such a dividend. The Company provides substantially all management, operating and employee services for the Insurance Subsidiaries and is reimbursed at actual cost plus fifteen percent. This management fee totaled $4,704,000 for 2002. The Company currently has resources which could be adequate to service debt obligations through 2004. In addition, the Company's Chairman has expressed potential willingness to lend up to $3,000,000 of additional funds to the Company if necessary. Accordingly, the Company is not relying upon affiliate dividends or preferred stock redemptions for near-term debt service.

During recent years, the National Association of Insurance Commissioners (NAIC) has taken several steps to address public concerns regarding insurer solvency. These steps included implementing a state certification program designed to promote uniformity among the insurance laws of the various states and developing insurer reporting requirements that focus on asset quality, capital adequacy, profitability, asset/liability matching, and liquidity. These requirements include establishment of asset valuation reserves ("AVR") and interest maintenance reserves ("IMR"), risk-based capital ("RBC") rules to assess the capital adequacy of an insurer, and a revision to the Standard Valuation Law ("SVL") that specifies minimum reserve levels and requires cash flow testing in which projected cash inflows from assets are compared to projected cash outflows for liabilities to determine reserve adequacy.

The Life Insurance Subsidiaries' AVR, as of December 31, 2002, 2001 and 2000, is shown in Item 7. Cash flow testing and the results of such testing as applied to the Life Insurance Subsidiaries are also described and discussed in Item 7.

RBC provides a means of establishing the capital standards for insurance companies to support their overall business operations in light of their size and risk profile. The four categories of major risk involved in the formula are [i]asset risk -- the risk with respect to the insurer's assets; [ii]insurance risk -- the risk of adverse insurance experience with respect to the insurer's liabilities and obligations; [iii]interest rate risk -- the interest risk with respect to the insurer's business; and [iv]business risk -- all other business risks. A company's RBC is calculated by applying factors to various asset, premium and reserve items, with higher factors for those items with greater underlying risk and lower for less risky items. RBC standards are used by regulators to set in motion appropriate regulatory actions relating to insurers that show signs of weak or deteriorating conditions. They also provide an additional standard for minimum capital, below which companies would be placed in conservatorship.

Based on RBC computations as of December 31, 2002, the Insurance Subsidiaries each have capital which is well in excess minimum regulatory requirements.

Action taken by the NAIC in these and other areas may have a significant impact on the regulation of insurance companies during the next several years. In addition, various proposals are being considered for permitting insurers to elect Federal regulation. Given their comparatively small size, it may be expected that the Life Insurance Subsidiaries would be affected by more stringent regulatory policy, both under existing laws and any new regulatory initiatives. Such effects could include curtailment or discontinuance of insurance underwriting in one or more states, mandated increases in capital and surplus, and/or other effects.

Income Taxation. The Life Insurance Subsidiaries are taxed under the life insurance company provisions of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, a life insurance company's taxable income incorporates all income, including life and health premiums, investment income, and certain decreases in reserves. The Code currently establishes a maximum corporate tax rate of 35% and imposes a corporate alternative minimum tax rate of 20%. See Item 7 and Note 7 of the Notes to Consolidated Financial Statements.

The Code currently requires capitalization and amortization over a five to ten year period of certain policy acquisition costs incurred in connection with the sale of certain insurance products. Prior tax laws permitted these costs to be deducted as incurred. These provisions apply to life, health, and annuity business. Certain proposals to make additional changes in the federal income tax laws, including increasing marginal tax rates, and regulations affecting insurance companies or insurance products, continue to be considered at various times in the United States Congress and by the Internal Revenue Service. The Company currently cannot predict whether any additional changes will be adopted in the foreseeable future or, if adopted, whether such measures will have a material effect on its operations.

Reserves. In accordance with applicable insurance laws, the Life Insurance Subsidiaries have established and carry as liabilities actuarially determined reserves to meet their policy obligations. Life insurance reserves, when added to interest thereon at certain assumed rates and premiums to be received on outstanding policies, are required to be sufficient to meet policy obligations. The actuarial factors used in determining reserves in the statutory basis financial statements are based upon statutorily-prescribed mortality and interest rates. Reserves maintained for health insurance include the unearned premiums under each policy, reserves for claims that have been reported but not yet paid, and reserves for claims that have been incurred but have not been reported. Furthermore, for all health policies under which renewability is guaranteed, additional reserves are maintained in recognition of the actuarially-calculated probability that the frequency and amount of claims will increase as policies persist. The Life Insurance Subsidiaries do not continue accumulating reserves on reinsured business after it is ceded. The Life Insurance Subsidiaries are required to maintain reserves on reinsured business assumed on a basis essentially comparable to direct insurance reserves. Reinsurance business assumed is presently insignificant in amount.

The reserves carried in the financial statements included in this Form 10-K are calculated on the basis of accounting principles generally accepted in the United States and differ from the reserves specified by laws of the various states, which govern preparation of financial statements on the statutory basis of accounting for the Life Insurance Subsidiaries. These differences arise from the use of different mortality and morbidity tables and interest assumptions, the introduction of lapse assumptions into the reserve calculation, and the use of the level premium reserve method on all insurance business. See Note 1 of the Notes to Consolidated Financial Statements, for certain additional information regarding reserve assumptions under accounting principles generally accepted in the United States.

Employees. As of March 25, 2003, 72 people, excluding agents, were employed by the Company. As of that date, the Company had approximately 3,500 independent agents licensed to sell its products.

ITEM 2. PROPERTIES

The Company owns, through Citizens Security, a three-story, 63,000 square foot office building in suburban Louisville, Kentucky completed in 1988. The Company and its Subsidiaries occupy about 31% of the building for their headquarters and home offices. The Company leases the remaining space to tenants under leases of various duration. Market conditions for this property are generally favorable and, in management's opinion, the property is adequately covered by insurance. Currently, the Company's policy is not to invest in additional real estate or real estate mortgages, although a change in such policy would not require a vote of security holders. In addition, the Company's current bank lending agreement precludes investment in additional real estate and in mortgages with a loan-to-appraised-value ratio of more than 75%.

ITEM 3. LEGAL PROCEEDINGS

An action was filed against United Liberty in the Court of Common Pleas for Butler County, Ohio by two policyholders in June 2000. The Complaint refers to a particular class of life insurance policies that United Liberty issued over a period of years ending around 1971. It alleges that United Liberty's dividend payments on these policies from 1993 through 1999 were less than the required amount. It does not specify the amount of the alleged underpayment but implies a maximum of about $850,000. The plaintiffs also allege that United Liberty is liable to pay punitive damages, also in an unspecified amount, for breach of an implied covenant of good faith and fair dealing to the plaintiffs in relation to the dividends. The action has been certified as a class action on behalf of all policyholders who were Ohio residents and whose policies were still in force in 1993. United Liberty has denied the material allegations of the Complaint and is defending the action vigorously. Pre-trial discovery is continuing. United Liberty has filed a motion for summary judgment to which the plaintiffs have not yet responded. At United Liberty's request, an initial mediation session has been completed and negotiations are continuing. As a pre-requisite for the mediation, United Liberty offered to settle the matter for payments over time, which would include attorneys' fees, and which would be contingent upon an exchange or reformation of the insurance policies currently owned by the members of the class. At this stage of the litigation, the Company is unable to determine whether an unfavorable outcome of the action is likely to occur or, alternatively, whether the chance of such an outcome is remote. Therefore, at this time, management has no basis for estimating potential losses, if any. There are no other material legal proceedings pending against the Company or its subsidiaries or of which any of their property is the subject other than routine litigation incidental to the business of the Company and its subsidiaries. There are no material proceedings in which any director, officer, affiliate or shareholder of the Company, or any of their associates, is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted during the fourth quarter of the fiscal year covered by this Form 10-K to a vote of the Company's security holders, through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of March 25, 2003, there were approximately 2,500 holders of record of the

Company's Class A Stock, its only class of common equity. The Class A Stock is currently eligible for quotation on the National Association of Securities Dealers, Inc.'s Small-Cap Market ("NASDAQ") under the trading symbol CNFL. Trading volume in 2002 was about 10% of the average shares outstanding during the year and trading volume by non-affiliates was about 25% of the average shares owned by non-affiliates during the year.

The following table summarizes quarterly high and low bid quotations for the Class A Stock in 2002 and 2001 as reported by NASDAQ. Such quotations reflect inter-dealer prices and do not include retail markup, markdown, or commission, and may not necessarily represent actual transactions.

	Bid Quotations for Class A Stock	
Quarter Ended	High Bid	Low Bid
December 31, 2002	$ 5.260	$ 3.350
September 30, 2002	$ 8.000	$ 3.800
June 30, 2002	$ 8.900	$ 7.500
March 31, 2002	$ 9.000	$ 8.050
December 31, 2001	$ 9.750	$ 8.100
September 30, 2001	$ 10.000	$ 8.600
June 30, 2001	$ 10.875	$ 9.350
March 31, 2001	$ 11.500	$ 10.375

The Company has not paid a dividend on the Class A Stock. The Board of Directors of the Company has not adopted a dividend payment policy; however, dividends must necessarily depend upon the Company's earnings and financial condition, applicable legal restrictions, and other factors relevant at the time the Board of Directors considers a dividend policy. The Company is subject to a loan agreement covenant that prevents it from paying dividends on the Class A Stock without the consent of the lender except to the extent it can meet certain requirements relating to the ratio of its outstanding borrowings compared to dividends and income before interest expense, amortization, depreciation and income tax expense for (5) consecutive quarters and provided that there is no default or potential default under the loan agreement. As of January 2003, the bank loan covenant precludes the Company from paying any dividends. Cash available for dividends to shareholders of the Company must initially come from income and capital gains earned on its investment portfolio, management service fees and dividends paid by the Insurance Subsidiaries, and Citizens Security's repurchase of its preferred stock owned by the Company. Provisions of the Kentucky Insurance Code subject transactions between the Insurance Subsidiaries and their respective parents, including dividend payments, to certain standards generally intended to prevent such transactions from adversely affecting the adequacy of the Insurance Subsidiaries' capital and surplus available to support policyholder obligations. See Item 1. "Description of Business -- State Insurance Regulation." In addition, under the Kentucky Business Corporation Act, the Company may not pay dividends if, after giving effect to a dividend, it would not be able to pay its debts as they become due in the usual course of business or if its total liabilities would exceed its total assets.

Below is summary of securities available for issuance under equity compensation plans.

	a	b	c
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securitie Available for Future Equity Compensation Pl Securities Reflected

Equity compensation plans approved by security holders	0	Not applicable	110,000
Equity compensation plans not approved by security holders	0	Not applicable	0
Total	0	Not applicable	110,000

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31	2002	2001	2000	
RESULTS OF OPERATIONS				
Premiums and other considerations	$38,479,150	$28,744,376	$23,822,424	$20,8
Investment and other income, net	6,093,036	6,530,372	6,291,309	6,0
Policy benefits and reserve change	31,878,748	22,989,732	19,400,397	17,0
Commissions, expense, amortization, net	13,247,015	11,824,589	10,676,953	10,0
Segment profit (loss)	(553,577)	460,427	36,383	(1
Realized investment gains (losses), net	(2,469,768)	(7,911,829)	1,180,879	9,3
Interest expense	305,715	532,962	769,132	5
Cumulative effect - accounting change	---	(311,211)	---	
Income tax expense (benefit)	(757,000)	(2,090,000)	210,000	2,2
NET INCOME (LOSS)	$(2,572,060)	$(6,205,575)	$ 238,130	$ 6,4
NET INCOME (LOSS) APPLICABLE TO COMMON STOCK	$(2,572,060)	$(6,205,575)	$ 238,130	$ 6,4
NET INCOME (LOSS) PER SHARE:				
Before accounting change	$(1.50)	$(3.39)	$0.14	
Basic	$(1.50)	$(3.57)	$0.14	
Diluted	$(1.50)	$(3.57)	$0.14	

FINANCIAL POSITION				
Total assets	$ 148,441,532	$136,597,083	$135,538,006	$137,9
Notes payable	$ 7,779,168	$ 7,095,834	$ 8,000,000	$ 8,5
Shareholders' equity	$ 17,757,632	$ 20,002,483	$ 23,274,109	$ 28,0
Shareholders' equity per share	$10.53	$11.65	$13.24	

INVESTMENTS				
Average cash and invested assets	$117,460,459	$112,982,243	$121,807,002	$115,0

Average equity portfolio (cost basis)	$6,966,585	$ 9,736,625	$ 20,017,915	$ 20,6
Investment income yield	4.8%	5.6%	4.9%	
Change in unrealized investment gains (losses), net of tax	$ 466,654	$ 3,019,188	$ (4,896,265)	$ 2

LIFE INSURANCE DATA				
Premiums	$ 28,948,728	$ 19,362,994	$ 14,553,493	$ 12,4
Insurance in force, net at end of period	$696,520,000	$703,288,000	$706,044,000	$646,4

HEALTH INSURANCE DATA				
Premiums	$ 9,530,422	$ 9,381,382	$ 9,268,931	$ 8,4
Benefit ratio	69.5%	67.9%	66.7%	

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

The Company's 2002 net loss was $2,572,000 compared a net loss of $6,206,000 in 2001 and net income of $238,000 in 2000. Comprehensive losses (which combine net losses and net unrealized gains and losses) were $2,105,000, $2,875,000, and $4,658,000 for 2002, 2001, and 2000, respectively. During 2002, the Company continued to be adversely affected by declining equity markets along with declining interest yields on its fixed income investment portfolio. The majority of the 2001 and 2000 declines in net income and the comprehensive losses were attributable to adverse securities markets during those years, including the effects of declines in the telecommunications and technology sectors, a general economic recession and terrorist events.

During 2002, the Company achieved a 34% or $9,735,000 increase in premiums. A 114% increase in the Preneed Life segment accounts for essentially all of the net increase, along with approximate 2.5% increases in the Home Service Life and Dental segments, partially offset by moderate reductions in Broker Life and Other Accident and Health. Pretax segment profit (loss), excluding realized investment gains and losses and interest expense, was ($554,000), $460,000 and $36,000 for 2002, 2001, and 2000 respectively. The decline in 2002 was primarily attributable to lower interest yields and adverse mortality, while the 2001 improvement was primarily attributable to increased Preneed Life production.

The Company repurchased 29,987, 41,400 and 9,000 shares of its common stock during 2002, 2001, and 2000 respectively, at average prices of $4.65, $9.58 and $11.58 per share, respectively.

The Company manages its operations in five business segments, Home Service Life, Broker Life, Preneed Life, Dental, and Other Health. Products in all five segments are sold through independent agency operations. Home Service Life consists primarily of traditional life insurance coverage sold in amounts of $10,000 and under to middle and lower income individuals. This distribution channel is characterized by a significant amount of agent contact with customers throughout the year. Broker Life product sales consist primarily of simplified issue and graded-benefit policies in amounts of $10,000 and under. Other products in the Broker Life segment which comprise a significant portion of existing business include group life, universal life, annuities and participating life coverages. Preneed Life products are sold to individuals in connection with prearrangement of their funeral and include single and multi-pay coverages, generally in amounts of $10,000 and less. These policies are generally sold to older individuals at increased premium rates. Dental products are term coverages generally sold to small and intermediate size employer groups. Other Health products include various accident and health coverages sold to individuals and employer groups. Profit or loss for each segment is reported on a pretax basis, without an allocation of realized investment gains or interest expense.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based on its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to investments, agent receivables, intangible assets, policy liabilities, income taxes, regulatory requirements, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following accounting policies, judgments and estimates, which have been discussed with the Audit Committee of the Board of Directors, critically impact preparation of its consolidated financial statements.

Investment in Debt and Equity Securities. The Company holds debt and equity interests in a variety of companies, many of which are seeking to exploit recent technology advancements. The majority of these are publicly traded and many have experienced volatile market prices. We periodically evaluate whether the declines in fair value of our investments are other-than-temporary. These evaluations involve significant judgment. Our evaluation consists of a review of qualitative and quantitative factors, including analysis of the company's competitive position in its markets, deterioration in the financial condition of the issuer, downgrades of the security by a rating agency, and other publicly available issuer-specific news or general market conditions. Declines in fair values of securities deemed to be other-than-temporary are included in net income as realized investment losses. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Goodwill and Intangible Impairment. Assessing recoverability of the Company's goodwill and other intangibles (including deferred policy acquisition costs and value of insurance acquired) requires assumptions regarding estimated future cash flows and other factors (see Policy Liabilities below) to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded. On January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and performed an evaluation for potential impairment. The Company concluded that no impairment adjustment was necessary for its goodwill or other intangible assets.

Policy Liabilities and Policy Intangible Assets. Establishing policy liabilities and related intangible assets, including deferred acquisition costs and the value of acquired insurance, for the Company's long-duration insurance contracts requires making many assumptions, including policyholder persistency, mortality rates, investment yields, discretionary benefit increases, new business pricing, and operating expense levels. The Company evaluates historical experience for these factors when assessing the need for changing current assumptions. However, since many of these factors are interdependent and subject to short-term volatility during the long-duration contract period, substantial estimates and judgment are required. Accordingly, if actual experience emerges differently from that assumed, material financial statement adjustments could be required.

Deferred Taxes. The Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. In assessing the need for the valuation allowance, the Company has considered ongoing prudent and feasible tax planning strategies but has not assumed future taxable income. In the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to deferred tax assets would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to deferred tax assets would be charged to income in the period such determination was made.

Litigation. As further described in Note 12 of the Notes to Consolidated Financial Statements, United Liberty is party to an outstanding lawsuit concerning payment of policyholder dividends. The Company is currently unable to determine whether an unfavorable outcome of this action is likely, and no provision has been recorded for an unfavorable outcome. Accordingly, if an unfavorable outcome occurs, a financial statement adjustment would be required.

ACQUISITIONS

National Affiliated Investors Life

On July 7, 2000, the Company acquired, through an assumption reinsurance agreement, 100% of the inforce business of National Affiliated Investors Life Insurance Company ("NAIL") for a net cash purchase price of approximately $355,000 (the "NAIL Acquisition"). The acquisition was coordinated through the National Organization of Life and Health Guaranty Associations. The acquired business consists primarily of individual life insurance business with policy reserves and annual premium of approximately $3,500,000 and $300,000, respectively.

Citizens Insurance Company

On October 14, 1999, the Company acquired 100% of the stock of Citizens Insurance (formerly Kentucky Insurance Company) from an unaffiliated insurance holding company (the "Citizens Insurance Acquisition"). Citizens Insurance is licensed as a property and casualty insurance company in six states and has approximately $3.6 million of statutory capital and surplus; however, it currently has no insurance operations. The aggregate purchase price for the Citizens Insurance Acquisition was approximately $3,550,000 (including net costs associated with the transaction of approximately $50,000).

United Liberty Life Insurance Company

On May 12, 1998, the Company and Citizens Security acquired 100% of the common stock of United Liberty from an unaffiliated insurance holding company (the

"United Acquisition"). The aggregate purchase price for the United Acquisition was approximately $7,076,000 (including net costs associated with the acquisition of approximately $445,000). In conjunction with the acquisition, the seller retained approximately $2,100,000 of United Liberty's real estate related and other assets, which were replaced with cash by Citizens Security.

FINANCIAL POSITION

Assets. At December 31, 2002, the Company's available-for-sale fixed maturities had a fair value of $103,953,815 and amortized cost of $101,161,174. The Company's fixed maturities portfolio increased approximately 33% during 2002 and 5% during 2001, on an amortized cost basis. These increases are primarily attributable to Preneed Life sales growth. Shown below is a distribution by rating category of the Company's fixed maturities portfolio as of December 31, 2002.

Standard & Poor's Corporation Rating	Amortized Cost 1	Fair Value 2
Investment grade:		
AAA to A-	$ 80,102,193	$ 83,103,323
BBB+ to BBB-	15,852,485	16,054,042
Total investment grade	95,954,678	99,157,365
Non-investment grade:		
BB+ to BB-	2,651,515	2,589,976
B+ to B-	1,431,094	1,282,473
CCC+ to C	658,941	461,650
CI to not rated	464,946	462,351
Total non-investment grade	5,206,496	4,796,450
Total fixed maturities	$101,161,174	$103,953,815

1 Net of write-downs on bonds whose decline in value is believed to be other-than-temporary

2 Fair values as of December 31, 2002 were obtained primarily from Interactive Data Corporation.

The Company believes it has a well diversified portfolio and has no plans to adjust its non-investment grade portfolio significantly, unless necessary to satisfy requirements of state regulators or rating agencies. The Company purchases non-investment grade bonds to obtain higher yields or convertible features and attempts to reduce credit risk by portfolio diversification. Non-investment grade securities comprised 5.1% and 6.7% of the fixed maturities portfolio, on an amortized cost basis at December 31, 2002 and 2001, respectively. During 2002, the Company recognized approximately $501,000 of impairment losses on fixed maturities, with the majority of these related to the airline and telecommunication industries. The Company is monitoring its fixed maturity portfolio and, although it has no specific projections, if the overall economy does not improve, additional impairments could occur during 2003.

Shown below are the Company's four largest holdings in non-investment grade bonds by a single issuer as of December 31, 2002.

	Non-Investment Grade	
December 31, 2002	Amortized Cost	Fair Value

Largest	$507,176	$525,000
Second largest	449,643	267,486
Third largest	408,411	390,000
Fourth largest	387,727	385,084
Total	$1,752,957	$1,567,570

The Company had no guarantee or other type of enhancement associated with the issuers represented above.

During 2002, the Company's investment in equity securities increased $53,000 on a cost basis and decreased $355,000 on a fair value basis, after decreasing $6,622,000 and $4,461,000 on a cost and fair value basis, respectively, during 2001. As of December 31, 2002 and 2001, there were $653,000 and $1,062,000 respectively, of unrealized gains on equity securities, compared to $1,099,000 of unrealized losses at December 31, 2000.

The Company reviews its marketable investments each quarter to determine if there have been declines in their value that in management's opinion are other-than-temporary. These reviews can involve qualitative and quantitative information relating to an individual company or industry and general factors impacting the economy. However, due to wide market fluctuations occurring during the past two years, determining whether declines are temporary has become much more complex and judgmental. These reviews resulted in the recognition of impairment losses on equity securities totaling $754,000 during 2002 ($141,000, $315,000, $250,000 and $48,000 for the first through fourth quarters, respectively). In addition, $501,000 of impairment losses were recognized on fixed maturities during 2002 ($133,000, $88,000, and $280,000 during the second, third, and fourth quarters, respectively). During 2002, equity securities were sold which contained impairment writedowns of $1,531,000.

Citizens Security owns the building in which the Company and its subsidiaries maintain their home offices. They occupy approximately 31% of the building with the balance leased to third-party tenants. Market conditions for this property are generally favorable. An updated appraisal obtained during 2002 indicates the market value of the property is approximately $2,500,000 higher than its carrying value.

At December 31, 2002 the Company has recorded $756,000 of goodwill and $13,533,000 of other intangible assets for deferred policy acquisition costs and value of insurance acquired. As noted in the above discussion of critical accounting policies and estimates, these intangibles, and the recorded value of policy liabilities, are based on many assumptions that require substantial estimates and judgment. In connection with adoption of SFAS No. 142, the Company reassessed the assumptions supporting these values. Although no impairment was considered necessary, a continued historically low interest rate environment could require adjustment of these recorded values.

Liabilities. A comparison of total policy liabilities as of December 31, 2002, 2001 and 2000 is shown below. Approximately 87% of the 2002 total consists of insurance policy benefit reserves while policyholder deposit liabilities represent 13% of the total.

Year Ended December 31	2002	2001	2000
Home Service Life	$ 33,970,723	$ 32,609,959	$ 31,543,557
Broker Life	45,054,589	44,414,974	44,631,499
Preneed Life	38,971,203	27,512,646	23,094,830
Dental	524,249	565,119	610,111
Other Health	2,194,869	2,137,079	2,143,247

Total	$120,715,633	$107,239,777	$102,023,244

Home Service Life sales have been favorable in recent years, with net growth in policy liabilities of 4.2% and 3.4% in 2002 and 2001, respectively, through a combination of attracting new producers and continuing to focus on meeting the needs of existing customers and agents. The Broker Life segment's 2002 policy liability net increase of $640,000 resulted primarily from normal aging of existing reserves. A significant portion of the $217,000 decrease in Broker Life policy liabilities during 2001 relates to expiration of a withdrawal waiting period for the NAIL business acquired during 2000. During 2002 and 2001, the Company increased Preneed Life production through arrangements with several third party marketing groups and its internal marketing organization, with significant growth occurring in Ohio, Pennsylvania, Kentucky, Indiana, and North Carolina. A significant portion of this growth consists of single premium policies whereby individuals are fully funding their funeral costs. Due to the lower interest rate environment, the Company has reduced the rate of annual increases in benefit amounts and is in the process of reducing some agent commission schedules. Accordingly, depending on competitor responses, future business growth could be adversely impacted. The Company's Dental products are annual term coverages; accordingly, policy liabilities for this segment are not significant. The Other Health segment business is not a significant marketing focus.

Shown below is a progression of the Company's policyholder deposit activity for the year ended December 31, 2002.

Year Ended December 31, 2002	Total	Annuity and Other	Universal Life
Beginning Balance	$15,917,731	$ 9,907,941	$ 6,009,790
Deposits	741,863	168,084	573,779
Withdrawals	(1,698,063)	(781,182)	(916,881)
Interest Credited	781,762	510,239	271,523
Ending Balance	$15,743,293	$ 9,805,082	$ 5,938,211

As indicated above, total policyholder deposits decreased by a net $174,000 during 2002. The Company is not devoting significant marketing effort towards Annuity, Universal Life and other deposit products and has elected not to aggressively compete in crediting excess interest on such products.

CONSOLIDATED RESULTS AND ANALYSIS

Premiums and Other Considerations. The following table details premiums and other considerations received during the past three fiscal years.

Year Ended December 31	2002	2001	2000
Home Service Life	$7,334,030	$7,152,242	$6,906,473
Broker Life	3,621,053	3,812,841	3,664,072
Preneed Life	17,993,645	8,397,911	3,982,948
Dental	8,182,483	7,988,620	7,892,356
Other Health	1,347,939	1,392,762	1,376,575
Total	$ 38,479,150	$ 28,744,376	$ 23,822,424

Home Service Life premium increased 2.5% and 3.6% during 2002 and 2001, respectively. New sales levels continue to be favorable, at levels which more than exceed normal policy lapses. The Company continues to attract a number of successful, experienced Home Service agents without subsidizing inexperienced agents. In addition, the Company's program to automate and streamline agent field accounting continues to expand with favorable reaction among the agency force. During early 2003 the Company terminated a small Home Service marketing joint venture in two southern states with a much larger property and casualty insurance carrier. To mitigate effects of the lower interest rate environment, during the second quarter of 2003 the Company will be introducing premium rate increases on its Home Service products.

The 5% decrease in Broker Life premium during 2002 resulted from reduction of business provided by certain larger brokers during 2002 and continuing pressure from the overall economic slowdown on middle and lower-income consumers. The

Company is evaluating opportunities for revising its product design and commission rates to counteract the softening in demand for its simplified issue and graded benefit life policies. The 4.1% Broker Life premium increase during 2001 is primarily attributable to receiving a full year of premium on the NAIL business compared to receiving six months of additional premium during 2000.

The 114% increase in Preneed Life premium during 2002 and the 111% increase during 2001 resulted from intensified marketing efforts aimed at defining the Company as a committed participant in this market, successfully negotiating competitive third-party marketing agreements, implementing various product enhancements, and positive referrals from customers who comment favorably on the Company's organization and customer service. However, as described above, in early 2003, the Company modified certain policy benefits and commissions which may reduce future premium production.

The 2.4% growth in Dental premium during 2002 resulted primarily from normal inflationary increases, while the 1.2% growth during 2001 was impacted by loss of a large group case. During the past two years, new business production has become increasingly competitive as larger providers expand their marketing initiatives. However, the Company has historically maintained strong customer and agent loyalty by continuing to improve customer service, including sales and administrative support functions.

The Company has not been actively marketing Other Health coverages for several years. However, in response to agent requests, certain cancer and disability protection products have been updated and promoted. Pricing, underwriting, and claims experience on these products are closely monitored.

Investments. The Company monitors its available-for-sale fixed maturities and equity securities to assure they are strategically positioned within the current market environment. This practice has historically resulted in holding significant equity security positions, which tend to dampen current income yields in favor of an overall total return focus. The Company's equity securities comprised 6.5% and 8.6% of its total investment portfolios at December 31, 2002 and 2001, respectively. The Company's investment income yields were 4.8%, 5.6%, and 4.9% for 2002, 2001, and 2000, respectively. The 2002 yield decline resulted primarily from substantially lower interest rates on new investments and the Company's 33% net addition to its fixed maturity portfolio during the year, much of which is attributable to additional Preneed Life business. The 2001 yield increase resulted primarily from carrying significantly lower levels of equity securities and higher levels of fixed maturity investments. Although the Company's total return on investments has historically been very favorable, returns for the past three years have been severely impacted by declines in the telecommunications and technology sectors, a general economic recession and the effect of terrorist events on the securities markets.

As detailed below, net realized and unrealized investment losses totaled approximately $(11,953,000) for the three years ended December 31, 2002, while net realized and unrealized gains totaled approximately $14,200,000 for the two years ended December 31, 1999. The Company does not anticipate continued severe deterioration in the securities markets, although some additional losses on fixed income securities may occur if the overall economic slowdown continues. At December 31, 2002, the Company's investment portfolios are somewhat more conservatively positioned compared to prior years, and they contain a net unrealized gain outstanding of $3,446,000. Below is an approximate calculation of investment income yields and total return rates for the five years ending December 31, 2002.

Year Ended December 31,	2002	2001	2000	1999
Investment Income	$5,665,596	$6,274,143	$5,993,362	$5,885,312
Gains and Losses:				
Fixed Maturities:				
Realized gains (losses)	(228,710)	(1,260,092)	1,061,089	243,949
Unrealized gains (losses)	1,130,402	2,303,205	(1,655,112)	(1,804,929)
Net Fixed Maturities	901,692	1,043,113	(594,023)	(1,560,980)
Equity Securities:				
Realized gains (losses)	(2,241,058)	(7,123,269)	119,790	9,131,390
Unrealized gains (losses)	(408,399)	2,160,985	(5,812,184)	2,238,293
Net Equity Securities	(2,649,457)	(4,962,284)	(5,692,394)	11,369,683
Total Gains and Losses	(1,747,765)	(3,919,171)	(6,286,417)	9,808,703
Total Return	$3,917,831	$2,354,972	$(293,055)	$ 15,694,015
Average Cash and Investments	$117,460,000	$112,980,000	$121,810,000	$115,050,000
Yield - Income	4.8%	5.6%	4.9 %	5.1%
Yield - Total Return	3.3%	2.1%	(0.2)%	13.6%

Segment Earnings. The 2002 loss before income tax and the cumulative effect of a change in accounting principle was $3,329,000 compared to a loss of $7,984,000 in 2001 and income of $448,000 in 2000. Pretax profit (loss) is shown below for the Company's five business segments, along with total realized investment gains and interest expense.

Year Ended December 31	2002	2001	
Segment Profit (Loss):			
Home Service Life	$ 275,809	$ 382,723	$
Broker Life	(265,488)	74,960	
Preneed Life	(670,349)	(264,488)	

Dental	297,740	256,385	
Other Health	(191,289)	10,847	
Segment Totals	(553,577)	460,427	
Net realized investment gains (losses)	(2,469,768)	(7,911,829)	1
Interest expense	305,715	532,962	
Income (Loss) before income tax and cumulative effect of a change in accounting principle	$ (3,329,060)	$ (7,984,364)	$

During 2002, the Company's investment income yield declined approximately 73 basis points. Accordingly, since the Company allocates investment income to each business segment based on average net policy reserves, each of the three life insurance segments were adversely impacted by investment yields during 2002. In addition, the 2002 Home Service Life profit was adversely impacted by increased mortality, partially offset by lower expenses, while 2001 profit benefited from sales growth and improved mortality results. The 2002 Broker Life earnings decrease resulted primarily from the lower investment yield while the 2001 decrease resulted primarily from increased mortality and expenses. The 2002 Preneed Life loss resulted from lower investment yields, unfavorable mortality,

and increased expenses. During 2002, the Company accepted a significant amount of single-premium business, which generally has higher than average mortality rates. In addition, significant management and marketing resources were devoted to this business. To improve profitability, annual benefit growth rates were reduced twice during 2002, and in early 2003, certain commission rates were reduced and agent contracts revised to encourage production of the more profitable multi-pay products. The 2001 Preneed Life loss improved approximately $563,000 from the prior year while premium increased approximately 111%. This volume growth leveraged fixed costs and improved per-policy profitability. Although the Company is optimistic about improving profitability in this highly competitive market, if adverse profitability trends continue, several options are available. These options, including further lowering discretionary annual benefit increases and adjusting premiums and commissions on new business, could further adversely impact the Company's ability to compete for new business.

Information regarding Dental profitability is included below. The "contribution margin" shown below is a direct margin without allocable investment income and general expense.

Year Ended December 31	2002	2001	2000
Premium	$8,182,483	$7,988,620	$7,892,356
Claims and Reserves	$5,634,940	$5,551,624	$5,369,742
Contribution Margin	$1,560,208	$1,465,017	$1,516,948
Claim Ratio	68.9%	69.5%	68.0%

The overall Dental contribution margin increased slightly during 2002 due to improved claim levels. The 2001 contribution margin decrease resulted from somewhat higher claims. Also, beginning in 2001 the Company began encountering more competition as additional insurers are expanding in the Dental market and Dental providers are continuing to provide higher levels of care to patients. The Company is continuing its ongoing efforts to maintain profitability in this line by reconfiguring products to provide adequate margins for the various dental procedures, utilizing a third-party company to provide expert assistance with ongoing adjudication of claims, and continuing its program of aggressive renewal underwriting and re-rating. The Company has not devoted significant marketing effort towards its Other Health products in recent years. However, during 2002, a significant increase in disability claims occurred, with a concentration in New Jersey. The Company has strengthened underwriting practices in this area and has taken steps towards filing for a rate increase on its disability products. In addition, during 2001 the Company implemented significant rate increases on certain older blocks of Other Health business.

Income Taxes. Historically, the Company has experienced a relatively low effective income tax rate, due primarily to the small life insurance company deduction. The effective rate was approximately 23% and 26% in 2002 and 2001, respectively. The effective rate was much higher in 2000, due to state and local income taxes on the parent company's investment gains along with an increased valuation allowance on deferred tax assets.

The small life insurance company deduction allows the Life Insurance Subsidiaries to reduce their taxable income by 60% before computing their current provisions for regular or alternative minimum tax. However, for purposes of computing deferred income tax liabilities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", the Company is precluded from assuming the small life insurance company deduction will be available in the future. Accordingly, by disallowing this deduction, SFAS No. 109 significantly increases the deferred taxes on the Life Insurance Subsidiaries' temporary differences. Thus, when a significant increase or decrease occurs in the Company's net temporary differences, the related deferred tax is computed using the 34% federal tax rate, whereas tax may actually be paid on these net liabilities (when realized) at a rate potentially as low as 17% (the alternative minimum tax rate after application of the allowable small life insurance company deduction). The Company's gross deferred federal income tax liabilities and assets are more fully discussed in Note 7 of the Notes to Consolidated Financial Statements. All deferred tax assets of the Company are realizable by offset against existing deferred tax liabilities or by carryback to recapture prior years' taxes paid on operating income and capital gains. The deferred tax assets are offset, to some extent, by valuation allowances related to the Company and to the Life Insurance Subsidiaries. Due to the impact of the small life insurance company deduction, the Life Insurance Subsidiaries record a valuation allowance to reduce deferred tax assets (associated with temporary differences) to their expected benefit rate of approximately 17%, rather than 34%. The Company's valuation allowance is designed to reduce deferred tax assets to their estimated ultimate realization value.

Statutory Insurance Information. For insurance regulatory and rating purposes, the Insurance Subsidiaries report on the basis of statutory accounting principles ("SAP"). As described in Note 8 of the Notes to Consolidated Financial Statements, effective January 1, 2001 portions of SAP were revised by a process called "Codification". In recent years, various state insurance departments and the NAIC have expressed concern, essentially about the "rate of return" earned by holders of small face amount life policies, potentially including Preneed policies. Although the Company does not believe calculating a simple "rate of return" or premium "pay-back" measure is meaningful for traditional life insurance products, certain state insurance regulators are considering actions that could alter the profitability of existing contracts or eliminate small face amount policies as a viable product offering. During 2002, A.M. Best Company ("Best") affirmed Citizens Security's B- rating. This rating was previously lowered from a B in 2001. United Liberty's rating has remained at B- by Best since it was acquired in 1998, and Citizens Insurance, due to its lack of insurance operations, is not rated.

During December 2002, Citizens Financial strengthened the statutory capital position of Citizens Security by acquiring $2,000,000 of Citizens Security redeemable preferred stock. During January 2001, Citizens Financial contributed 100% of the capital stock of Citizens Insurance to Citizens Security. The statutory value of this contribution was $3,540,555. Citizens Security has reported its investments in United Liberty and Citizens Insurance on the equity method of accounting, since their acquisition in 1998 and 2001, respectively. However, beginning in 2001, Codification changed the statutory equity method of accounting to preclude a parent insurer from recording as income, its share of undistributed subsidiary earnings. Accordingly, Citizens Security's net income includes United Liberty's net earnings of $404,553, $234,853, and $289,489, in 1998, 1999, and 2000, respectively. For 2001 and 2002, Citizens Security reported as income the $292,000 and $214,000 respectively, of dividend distributions which it received from United Liberty. At December 31, 2002, Citizens Security reported its investments in United Liberty and Citizens Insurance at their statutory equity values of $2,159,092 and $3,783,528, respectively. To provide a more detailed understanding of Citizens Security's operations, shown below are SAP basis net income, net operating income, statutory capital and surplus, asset reserves, and capital ratios for Citizens Security for the five years ended December 31, 2002.

Year Ended December 31	Net Income (Loss)	Net Operating Income (Loss)	Statutory Capital and Surplus	Asset Valuation Reserves1	Capital Ratio2
2002	$(1,184,496)	$ (64,815)	$9,903,639	$ 862,732	11.6%
2001	$(3,497,701)	$ 361,863	$9,687,289	$ 978,418	13.6%
2000	$1,868,575	$ 715,250	$8,315,902	$1,589,735	13.7%
1999	$4,945,708	$ 568,436	$12,942,331	$4,335,111	22.4%
1998	$3,662,188	$1,105,631	$11,227,528	$3,606,655	20.5%

1 Asset Valuation Reserves are statutory liabilities that act as contingency reserves in the event of extraordinary losses on invested assets and as a buffer for policyholders' surplus to reduce the impact of realized and unrealized investment losses. The 1998 through 2002 amounts also include United Liberty's asset valuation reserves.

2 Represents Statutory Capital and Surplus plus Asset Valuation Reserves divided by invested assets plus cash.

During 2002, statutory capital and surplus and asset valuation reserves increased approximately $101,000. This increase resulted primarily from the $2,000,000 issuance of preferred stock described above, net of the $1,184,000 net loss for the year and $950,000 of unrealized losses. During 2001, statutory capital and surplus and asset valuation reserves increased approximately $760,000. This increase resulted primarily from the Citizens Insurance capital contribution noted above, plus $1,082,000 of unrealized gains offsetting the $3,498,000 net loss and a $572,000 increase in nonadmitted assets. During 2000, statutory capital and surplus and asset reserves decreased by approximately $7,413,000. This decrease resulted primarily from $1,869,000 of statutory net income offset by $7,875,000 of unrealized losses and a $1,200,000 redemption of Citizens Security's preferred capital stock. During 1999, statutory capital and surplus and asset reserves increased by approximately $2,443,000. This increase resulted primarily from $4,946,000 of statutory net income offset by a $1,200,000 redemption of preferred capital stock, and a $1,000,000 shareholder dividend paid. During 1998, statutory capital and surplus and asset reserves increased by approximately $2,454,000. This increase resulted primarily from $3,662,000 of statutory net income offset by a $1,500,000 redemption of preferred capital stock, along with unrealized investment gains.

In addition to the statutory totals shown above, Citizens Insurance generated statutory net income of approximately $63,000, $76,000, and $93,000 during, 2002, 2001, and 2000, respectively without remitting any dividends to its parent.

Statutory capital and surplus, specifically the component called surplus, is used to fund the expansion of an insurance company's first year individual life and accident and health sales. The first year commission and underwriting expenses on such sales will normally consume a very high percentage of, if not exceed, first year premiums. Accordingly, a statutory loss (surplus strain) often occurs on these sales during the first policy year. Historically, the Company's level of life insurance sales has not significantly impacted statutory surplus. However, as multi-pay Preneed Life sales increase, the Company anticipates that surplus strain will dampen statutory earnings.

CASH FLOW AND LIQUIDITY

Due to losses during the past three years and the adverse impact of the low interest rate environment on operating results, during 2002 the Company borrowed $2,000,000 from its Chairman to strengthen the statutory capital position of its principal insurance subsidiary. The Company also has $5,779,168 of commercial bank debt outstanding, with scheduled repayments due through 2007. During 2002, the Company did not comply with a loan covenant (debt to earnings ratio) on this debt and received a waiver of such violation through December 31, 2002. However, since the Company is not assured of meeting this covenant throughout 2003, the full balance of $5,779,168 can be considered payable within one year. Although the Company does not expect the full balance to be called during 2003, it believes such an obligation could be met through a refinancing arrangement or sale of selected assets or a block of insurance business. Regarding the currently scheduled debt repayments, the Company believes its available funds will be adequate to service 2003 debt obligations and, with other available assets, will probably be adequate to service debt obligations through 2004. In addition, the Company's Chairman has expressed potential willingness to loan the Company an additional $3,000,000 if necessary, which could service debt obligations through the majority of 2006. Additional information regarding debt obligations is included in Note 5 of the Notes to Consolidated Financial Statements.

The Company is completing a strategic review of its products and operations. A key element of this initiative is mitigating the significant losses incurred on the Preneed Life business segment and strengthening profitability in the Broker Life and Home Service Life segments.

The Company generated approximately $16,554,000 and $6,394,000 of cash flow from operations during 2002 and 2001, respectively, while using $467,000 of cash from operations in 2000. The 2002 and 2001 increases are principally attributable to growth of Preneed Life premium collections. The 2000 decrease is principally attributable to Federal income tax deposits required early in the year.

Cash used by investment activities of $27,877,000 and $5,555,000 during 2002 and 2001 respectively, relates primarily to investing additional Preneed Life premiums in fixed maturity securities, although the 2002 total also includes investing $11,734,000 of cash and short term balances outstanding at December 31, 2001. Cash provided by investment activities during 2000 of $4,488,000 resulted primarily from a reduction in equity portfolio positions and net cash received from acquisition of the NAIL business, partially offset by additional property and equipment expenditures, including a fractional aircraft ownership share. The $412,000 of cash used by financing activities during 2002 includes $1,317,000 of debt repayments and $956,000 of net withdrawals of policyholder deposits, partially offset by additional borrowings of $2,000,000. Cash used by financing activities during 2001 includes net withdrawals of policyholder deposits of approximately $1,200,000, debt repayments of $904,000 and common stock repurchases of $396,000. Cash used by financing activities during 2000 includes net withdrawals of policyholder deposits of approximately $1,920,000 and debt repayments of $500,000. The policyholder deposit withdrawals are principally due to the Company's decision not to aggressively compete in crediting higher interest returns on such funds.

The Company is subject to various market risks. However, the most significant such risks relate to fluctuations in prices of equity securities and interest rates. Although the Company experienced negative total returns on its equity portfolio during the past three years, historically these returns have been very favorable and the Company has successfully managed the risk of equity security price fluctuations over many years. As described above, the Company does not anticipate that investment markets will continue to deteriorate at the rate encountered during the past three years. The Company and its investment advisory firm, SMC Advisors, Inc., devote significant attention to the equity markets and reposition the Company's portfolio upon detection of adverse risk trends associated with individual securities or overall markets. SMC Advisors, Inc. also manages market risks associated with investments in option securities, as described in Note 3 of the Notes to Consolidated Financial Statements. The fair

value of the Company's equity portfolio was approximately $7,762,000 and $8,117,000 at December 31, 2002 and 2001, respectively. Accordingly, a 10% decline in equity prices would have reduced the fair value of the Company's equity portfolio by $776,200 and $811,700 at December 31, 2002 and 2001, respectively. The average cost value of the Company's equity portfolio was $6,967,000 and $9,737,000 during 2002 and 2001, respectively.

Regarding interest rate risk, the value of the Company's fixed-maturity investment portfolio will increase or decrease in an inverse relationship with fluctuations in interest rates while net investment income earned on newly-acquired fixed-maturities increases or decreases in direct relationship with interest rate changes. Management estimates that a 100 basis point increase in interest rates ("rate shock") would have decreased the fair value of its $104.0 million fixed maturity portfolio by approximately 3.2% or $3.3 million at December 31. 2002 and 2.8% or $2.2 million at December 31, 2001. From an income perspective, the Company does not believe rising interest rates present a significant risk, as essentially all of the Company's policy liabilities bear fixed rates. However, approximately 45% of policy liabilities contain provisions permitting interest or benefit adjustments at the discretion of the Boards of Directors of the Insurance Subsidiaries. The Company's cash flow testing (described below) indicates that overall profitability will generally be enhanced in rising interest rate scenarios. From a liquidity perspective, the Company's fixed rate policy liabilities have been relatively insensitive to interest rate fluctuations. Accordingly, the Company believes gradual increases in interest rates do not present a significant liquidity exposure. The Company monitors economic conditions on a regular basis and manages this interest rate risk primarily by adjusting the duration of its fixed-maturity portfolio. Historically, the Company has maintained conservative durations in its fixed-maturity portfolio. At December 31, 2002 cash and fixed-maturity investments with maturities of less than five years equaled approximately 60% of total policy liabilities. Notwithstanding the foregoing, if interest rates rise significantly in a short timeframe, there can be no assurance that the life insurance industry, including the Company, would not experience increased levels of surrenders and reduced sales, and thereby be materially adversely affected.

Interest expense on the Company's debt varies quarterly and is therefore also subject to interest rate risk. For its commercial bank debt, the Company elects the lower of the prime lending rate or the one-month LIBOR rate plus 2.75%. For its related party debt, the interest rate is the higher of 6% or the commercial bank prime lending rate plus 1%. At December 31, 2002, the weighted average rate on the Company's $7,779,168 of borrowings was 4.64%. The Company believes its current liquidity position and profitability levels are adequate to guard against this interest rate risk.

In addition to the measures described above, the Life Insurance Subsidiaries comply with the NAIC promulgated Standard Valuation Law ("SVL") which specifies minimum reserve levels and prescribes methods for determining them, with the intent of enhancing solvency. The SVL also requires the Company to perform annual cash flow testing for its Life Insurance Subsidiaries. This testing is designed to ensure that statutory reserve levels will maintain adequate protection in a variety of potential interest rate scenarios. The Actuarial Standards Board of the American Academy of Actuaries also requires cash flow testing as a basis for the actuarial opinion on the adequacy of the reserves which is a required part of the annual statutory reporting process.

Cash flow testing projects cash inflows from assets and cash outflows for liabilities in various assumed economic and yield curve scenarios. This is a dynamic process, whereby the performance of the assets and liabilities is directly related to the scenario assumptions. (An example would involve the credited interest rate on annuity products and how such rates vary depending upon projected earnings rates, which are based upon asset performance under a particular economic scenario.)

The Life Insurance Subsidiaries' most recent cash flow testing, which was completed in February 2003, involved a review of two basic measures. The first was the value of free market surplus, which is defined as the difference between the projected market value of assets and liabilities at the end of the analysis period (typically 10-20 years). Deficits could indicate the need for corrective action depending upon the severity and the number of scenarios in which a deficit appeared. A second measure involved distributable earnings. Negative earnings for extended durations might impair the ability of the Life Insurance Subsidiaries to continue without exhausting surplus. Again, depending upon severity and frequency, corrective measures might be needed. Based on results of the testing, no corrective measures were indicated at the current time. However, such testing is ongoing and dynamic in nature and future events in the interest and equity markets or a significant change in the composition of Life Insurance Subsidiaries' business could negatively impact testing results and require the initiation of corrective measures.

Any necessary corrective measures could take one or more forms. The duration of existing assets might not match well with those of the liabilities. Certain liabilities, such as those associated with indemnity accident and health, short-term disability and group dental products, are short-term in nature and are best matched with cash and short-term investments. By contrast, whole life insurance, which involves lifetime obligations, is usually best matched by longer duration maturities. In the event there are insufficient assets of these types, a repositioning of the investment portfolio might be undertaken.

Initially balanced durations do not guarantee positive future results. Asset type, quality, and yield will vary depending upon the economic scenario tested. Liabilities will be similarly affected. Projected reinvestment yields may cause overall yields to fall below those required to support projected liabilities. In that event, portfolio realignment might involve the type, quality and yield of investments rather than duration. Alternatively, additional reserve amounts could be allocated to cover any future shortfalls.

The above discussion centers around asset management. Other possible corrective measures might involve liability realignment. The Company's marketing plan could be modified to emphasize certain product types and reduce others. New business levels could be varied in order to find the optimum level. Management believes that the Company's current liquidity, current bond portfolio maturity distribution and cash flow from operations give it substantial resources to administer its existing business and fund growth generated by direct sales.

FORWARD-LOOKING INFORMATION

All statements, trend analyses and other information contained in this report relative to markets for the Company's products and trends in the Company's operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause actual results to be materially different from those contemplated by the forward-looking statements. Such factors include, among other things:

- |X| the market value of the Company's investments, including stock market performance and prevailing interest rate levels (see the Cash Flow and Liquidity section of this Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations);
- |X| customer and agent response to new products, distribution channels and marketing initiatives, including exposure to unrecoverable advanced commissions;
- |X| mortality, morbidity, lapse rates, and other factors which may affect the profitability of the Company's insurance products;
- |X| regulatory changes or actions, including those relating to regulation of insurance products and insurance companies (see the State Insurance Regulation section of Item 1 - Business);
- |X| ratings assigned to the Company and its subsidiaries by independent rating organizations which the Company believes are important to the sale of its products;
- |X| general economic conditions and increasing competition which may affect the Company's ability to sell its products;
- |X| the Company's ability to achieve anticipated levels of operating efficiencies and meet cash requirements based upon projected liquidity sources;
- |X| unanticipated adverse litigation outcomes (see Item 3 - Legal Proceedings); and
- |X| changes in the Federal income tax laws and regulations which may affect the relative tax advantages of some of the Company's products.

There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company's results of operations.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative disclosures about market risk are described in the Cash Flow and Liquidity section of Item 7 - Management's Discussion and Analysis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

CITIZENS FINANCIAL CORPORATION AND SUBSIDIARIES

Financial Statements For Full Fiscal Years Page

Financial Statement Schedules

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted or the information is presented in the consolidated financial statements or related notes.

REPORT OF INDEPENDENT AUDITORS

The Shareholders and Board of Directors
Citizens Financial Corporation

We have audited the accompanying consolidated balance sheets of Citizens Financial Corporation and subsidiaries at December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Citizens Financial Corporation and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 14, 2003

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Operations

Year Ended December 31	2002	2001
Revenues:		
Premiums and other considerations	$ 39,722,589	$ 29,969,756
Premiums ceded	(1,243,439)	(1,225,380)
Net premiums earned	38,479,150	28,744,376
Net investment income	5,665,596	6,274,143
Net realized investment gains (losses)	(2,469,768)	(7,911,829)
Other income	427,440	256,229
Total Revenues	42,102,418	27,362,919
Policy Benefits and Expenses:		
Policyholder benefits	19,210,582	17,537,817
Policyholder benefits ceded	(1,340,821)	(1,129,446)
Net benefits	17,869,761	16,408,371
Increase in net benefit reserves	13,226,999	5,846,674
Interest credited on policyholder deposits	781,988	734,687

Commissions	7,394,498	6,414,289
General expenses	6,246,475	6,145,361
Interest expense	305,715	532,962
Policy acquisition costs deferred	(2,712,796)	(3,177,040)
Amortization expense:		
Deferred policy acquisition costs	1,445,740	1,279,485
Value of insurance acquired	560,305	706,773
Goodwill	---	96,013
Depreciation expense	312,793	359,708
Total Policy Benefits and Expenses	45,431,478	35,347,283
Income (Loss) before income tax and cumulative effect of a change in accounting principle	(3,329,060)	(7,984,364)
Income Tax Expense (Benefit)	(757,000)	(2,090,000)
Income (Loss) before cumulative effect of a change in accounting principle	(2,572,060)	(5,894,364)
Cumulative effect - prior years (since January 1, 1999) accounting for embedded options	---	(311,211)
Net Income (Loss)	$(2,572,060)	$(6,205,575)
Per Share Amounts:		
Income (Loss) before cumulative effect of a change in accounting principle	$(1.50)	$(3.39)
Cumulative effect - prior years (since January 1, 1999) accounting for embedded options	---	(0.18)
Net Income (Loss)	$(1.50)	$(3.57)

See Notes to Consolidated Financial Statements.

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Financial Condition

December 31	2002
ASSETS	
Investments:	
Securities available-for-sale, at fair value:	
Fixed maturities (amortized cost of $101,161,174 and $75,872,277 in 2002 and 2001, respectively)	$ 103,953,815
Equity securities (cost of $7,108,735 and $7,055,402 in 2002 and 2001, respectively)	7,761,892
Investment real estate	3,252,424
Mortgage loans on real estate	---
Policy loans	4,239,128
Short-term investments	632,381
Total Investments	119,839,640

Cash and cash equivalents	6,699,171
Accrued investment income	1,330,036
Reinsurance recoverable	2,886,256
Premiums receivable	215,759
Property and equipment	2,767,763
Deferred policy acquisition costs	9,915,288
Value of insurance acquired	3,617,602
Goodwill	755,782
Federal income tax receivable	250,158
Other assets	164,077
Total Assets	