CITIZENS FINANCIAL CORP /KY/
Form 10-K
March 28, 2001

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

FORM 10-K

X ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 2000

TRANSITION REPORT UNDER 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 Exchange Act: None

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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. [ ]

State the aggregate market value of the voting stock held by non-affiliates of the registrant: $7,423,852 (based on a $10.38 per share quoted bid price on March 21, 2001).

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,758,215 shares of Class A Stock as of March 21, 2001.

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 24, 2001 are incorporated into Part III of this Form 10-K.

The date of this Report is March 22, 2001.

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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 Comany'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. DESCRIPTION OF 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"). During October 1999, the Company acquired Kentucky Insurance Company ("Kentucky Insurance"), which is licensed as a property and casualty insurer in four states. Kentucky Insurance is planning to offer home service fire and casualty insurance coverage; however, it currently has no business inforce. In January 2001, the Company contributed the stock of Kentucky Insurance to Citizens Security. The Life Insurance Subsidiaries and Kentucky 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 substantially 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. As stated above, in October 1999, the Company acquired Kentucky Insurance. See Item 7. "Management's Discussion and Analysis" and Item 8, 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.

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, "Management's Discussion and Analysis" and in Item 8, Note 11 of the Notes to Consolidated Financial Statements.

Segment Revenue, Profit or Loss, and Assets:

Year Ended December 31	2000	1999	1998
Revenue:			
Home Service Life	$ 9,036,005	$ 8,745,144	$ 8,315,665
Broker Life	6,090,607	6,003,025	5,341,104
Preneed Life	5,584,207	3,614,758	2,099,584
Dental	7,933,598	7,141,409	6,435,680
Other Health	1,469,316	1,383,437	1,409,483
Segment Totals	30,113,733	26,887,773	23,601,516
Net realized investment gains, net of expenses	1,180,879	9,375,339	3,675,489
Total Revenue	$31,294,612	$36,263,112	$27,277,005

Year Ended December 31	2000	1999	1998
Segment Profit (Loss):			
Home Service Life	$ 200,479	$ 312,703	$ 211,713
Broker Life	299,777	150,317	254,189
Preneed Life	(827,265)	(993,560)	15,325
Dental	331,206	436,587	295,038
Other Health	32,186	(64,524)	90,174
Segment Totals	36,383	(158,477)	866,439
Net realized investment gains, net of expenses	1,180,879	9,375,339	3,675,489
Interest expense	769,132	553,017	468,268
Income before Income Tax	$ 448,130	$8,663,845	$4,073,660

December 31	2000	1999	1998
Assets:			
Home Service Life	$ 45,577,255	$ 47,347,032	$ 43,299,037
Broker Life	57,721,008	57,958,271	52,783,159
Preneed Life	29,421,677	29,754,353	30,869,962
Dental	799,496	913,939	674,728
Other Health	2,018,570	2,006,435	1,872,237
Total Assets	$135,538,006	$137,980,030	$129,499,123

Home Service Life. The Home Service Life segment consist 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, introduced in the second quarter of 1997, 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. This product was introduced in the third quarter of 1997. 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 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)	2000	1999	1998
Gross In-force at beginning of			

period1	$765,440	$757,571	$680,664
Business purchased	43,940	---	88,107
New business issued during period:			
Individual	$ 91,182	$ 84,640	$ 65,860
Group	2,001	7,170	4,026
New business total	$ 93,183	$ 91,810	$ 69,886
Terminations during period	$ 93,518	$ 83,941	$ 81,086
Termination rate2	11.9%	11.7%	10.8%
Gross In-force at end of period1:			
Individual	$658,800	$605,309	$590,467
Group	150,245	160,131	167,104
Gross In-force Total	$809,045	$765,440	$757,571
Reinsurance ceded at end of period	100,829	119,001	122,993
Net In-force at end of period	$708,216	$646,439	$634,578

1 Before deduction of reinsurance ceded.
2 Represents the percentage of individual policies terminated during the indicated period by lapse, surrender, conversion, maturity, or otherwise.

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 and long-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 2,600 sales representatives are licensed as independent agents for the Life Insurance Subsidiaries. The majority of these agents also represent other insurers. Approximately 400 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 300 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 Life Insurance Subsidiaries' non-investment grade bonds, based on reported fair values, represented 4.5% of the Company's cash and invested assets as of December 31, 2000. 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 3.4% of cash and invested assets as of December 31, 2000. Neither the Company nor its subsidiaries owned any collateralized mortgage-backed securities as of December 31, 2000 that would be included in the high-risk classification.

For additional information concerning investment results, see Item 7, "Management's Discussion and Analysis."

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, 2000, approximately $100,829,000 or 12.5% of life insurance in force was reinsured under arrangements described in Note 13 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 its 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, 1999, when it was upgraded to B (Fair) from B- (Fair). United Liberty's rating has remained at B- (Fair) since its 1998 acquisition. According to Best, B and 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 and 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 six 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. Kentucky 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 their 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 its 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 convention 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 contracts 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 $(11,000), $(13,000), and $24,665 in 2000, 1999 and 1998, 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 2000, the maximum amount of dividends that Citizens Security, United Liberty, and Kentucky Insurance could pay, without the Commissioner's approval, is $715,000, $294,000, and $93,000 respectively. It is presently anticipated that the Company will derive substantially all of its liquidity 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 owed by the Company.

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, 2000, 2000 and 1999, is shown in Item 7. "Management's Discussion and Analysis". 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, 2000, the Insurance Subsidiaries each have capital levels which are at least 250% of the minimum 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. 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. "Management's Discussion and Analysis" and Note 9 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 21, 2001, 72 people, excluding agents, were employed by the Company. As of that date, the Company had approximately 2,600 independent agents licensed to sell its products.

ITEM 2. DESCRIPTION OF PROPERTY

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 28% 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 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

During June 2000, the Company was informed of an action filed against United Liberty, by two policyholders. The complaint in the action refers to a particular class of life insurance policies that United Liberty issued over a period of years ending around 1971. The complaint alleges that United Liberty's dividend payments on these policies from 1993 through 1999 were less than the required amount. The complaint does not specify the amount of the alleged underpayment but implies a maximum of about $1 million. 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 plaintiffs are seeking to have the action certified as a class action on behalf of all other policyholders whose policies were still in force in 1993. United Liberty has filed its answer denying the material allegations of the complaint and intends to defend the action vigorously. The Company has engaged in pre-trial discovery proceedings, in relation both to the plaintiffs' underlying allegations and their request for class action certification. At this early 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 COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

As of March 21, 2001, there were approximately 2,600 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 2000 was about 13% of the average shares outstanding during the year and trading volume by non-affiliates was about 30% 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 2000 and 1999 as reported by NASDAQ. Such quotations reflect inter-dealer prices and do not include retail markup, markdown, or commission, and may not represent actual transactions.

	Bid Quotations for Class A Stock	
Quarter Ended	High Bid	Low Bid
December 31, 2000	$ 12.750	$ 10.000
September 30, 2000	$ 16.313	$ 11.500
June 30, 2000	$ 13.875	$ 10.625
March 31, 2000	$ 12.750	$ 11.000
December 31, 1999	$ 12.469	$ 10.750
September 30, 1999	$ 12.500	$ 11.000
June 30, 1999	$ 11.250	$ 9.250
March 31, 1999	$ 11.000	$ 8.438

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 income before interest and tax expense plus dividends, to its interest expense and dividend payments for five (5) consecutive quarters and provided that there is no default or potential default under the loan agreement. As of January, 2001, the Company could pay dividends in the maximum amount of approximately $3,075,000 without violating the loan agreement covenant. 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.

ITEM 6. SELECTED FINANCIAL DATA

Year Ended December 31	2000	1999	1998	1997	1996

RESULTS OF OPERATIONS

Premiums and other considerations	$23,822,424	$20,844,828	$18,371,628	$17,690,877	$17,947,623
Investment and other income, net	6,291,309	6,042,945	5,229,888	3,817,818	4,187,500
Policy benefits and reserve change	19,400,397	17,038,433	13,936,902	12,605,227	12,707,700
Commissions, expense, amortization, net	10,676,953	10,007,817	8,798,175	8,284,629	8,222,534
Segment profit (loss)	36,383	(158,477)	866,439	618,839	1,204,889
Realized investment gains, net	1,180,879	9,375,339	3,675,489	2,193,148	915,062
Interest expense	769,132	553,017	468,268	341,275	784,325
Pretax profit	448,130	8,663,845	4,073,660	2,470,712	1,335,626
NET INCOME	$238,130	$6,438,845	$3,299,660	$1,988,212	$1,109,323
NET INCOME APPLICABLE TO COMMON STOCK	$238,130	$6,438,845	$3,020,010	$1,581,212	$ 707,109
NET INCOME PER SHARE:					
Basic	$0.14	$3.59	$2.31	$1.47	$0.66
Diluted	$0.14	$3.59	$1.82	$1.10	$0.62

FINANCIAL POSITION

Total assets	$135,538,006	$137,980,030	$129,499,123	$84,749,842	$80,262,708
Notes payable	8,000,000	$8,500,000	$6,510,000	$3,510,000	$4,095,869
Redeemable convertible preferred stock	---	---	---	$4,043,907	$4,043,907
Shareholders' equity	$23,274,109	$28,036,457	$21,745,281	$14,320,885	$10,573,455
Shareholders' equity per share - Basic	$13.24	$15.86	$12.06	$13.31	$9.83
Shareholders' equity per share - Diluted	$13.24	$15.86	$12.06	$10.11	$8.05

INVESTMENTS

Average cash and invested assets	$121,807,002	$115,045,517	$98,436,023	$70,294,955	$70,958,058
Average equity portfolio (cost basis)	$20,017,915	$20,650,875	$14,529,633	$11,587,579	$7,125,001
Investment income yield	4.9%	5.1%	5.3%	5.4%	5.9%
Change in unrealized investment gains (losses) net of tax	$(4,896,265)	$243,355	$484,618	$2,166,218	$(1,442,872)

LIFE INSURANCE DATA

Premiums	$14,553,493	$12,443,385	$10,657,675	$9,127,795	$9,490,351
Insurance in force, net at end of					

period	$706,044,000	$646,439,000	$634,578,000	$565,446,000	$583,294,000

ACCIDENT AND HEALTH INSURANCE DATA

Premiums	$9,268,931	$8,401,443	$7,713,953	$8,563,082	$8,457,272
Claims ratio	66.0%	64.5%	65.2%	68.0%	68.7%

Note: Above amounts include results from acquisitions: National Affiliated Investors Life Insurance Company (reinsurance assumption), Kentucky Insurance Company and United Liberty Life Insurance Company from the dates of their acquisition in 2000, 1999 and 1998, respectively.

ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS

During 2000, the Company's net income applicable to common shares totaled $238,000 compared to $6,439,000 in 1999 and $3,020,000 in 1998. In addition, the comprehensive loss (including net unrealized losses) for 2000 was $4,658,000 compared to comprehensive gains of $6,682,000 and $3,784,000 in 1999 and 1998, repectively. Accordingly, although the Company's total book value has declined from the end of 1999, it remains more than $1.5 million or 7% above the level at January 1, 1999. The majority of the 2000 decline in net income and comprehensive income is attributable to the downturn in the securities markets during the last half of the year. Obviously we cannot forecast movement in securities markets during the coming year; however, we do intend to participate in these markets. Although certainly not without risk, our strategies during the past ten (10) years have produced an after-tax compound annual growth rate in book value per share of 9.7% and a 10 year annual growth rate for total equity of 14.3%. In addition, as detailed below, during the past three years the Company has maintained an equity portfolio averaging approximately $18,399,000 (cost basis) which has yielded an average annual pretax total return in excess of 17%.

During 2000, the Company achieved premium increases in four of its five product segments, Home Service Life, Preneed Life, Dental, and Other Health. Pretax segment income for 2000, excluding realized investment gains and interest expense, increased to $36,000 from a prior year loss of $158,000. This improvement was impacted by an overall 14% premium increase and improving margins in a majority of the product segments. This improvement was realized while maintaining the Company's total-return investment strategy which dampens operating income yields and while making continued investment in the growing Preneed Life segment.

As described below, during the year the Company purchased a small block of life insurance business for a net purchase price of approximately $355,000. In addition, the Company repurchased 9,000 and 35,400 shares of its common stock during 2000 and 1999, respectively, at average prices of $11.58 and $11.05 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.

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 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.

Kentucky Insurance Company

On October 14, 1999, the Company acquired 100% of the stock of Kentucky Insurance from an unaffiliated insurance holding company (the "Kentucky Insurance Acquisition"). Kentucky Insurance is licensed as a property and casualty insurance company in four states and has approximately $3.4 million of statutory capital and surplus; however, it currently has no insurance operations. The aggregate purchase price for the Kentucky Insurance Acquisition was approximately $3,550,000 (including net costs associated with the transaction of approximately $50,000). The acquisition was financed with available internal funds and $2,500,000 of additional bank borrowings at the prime rate.

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 United Acquisition was accounted for as a purchase and United Liberty's results of operations are included in the consolidated statements since the date of 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.

The United Acquisition was financed with the working capital of Citizens Security and with approximately $3,400,000 of the $6,710,000 of proceeds under a Term Loan Agreement dated as of May 8, 1998 between the Company and a commercial bank (the "Term Loan Agreement"). The remaining borrowing under the Term Loan Agreement represented refinancing of debt relating to a prior acquisition.

Integrity National Life Insurance Company

During September 1995, the Company and Citizens Security acquired the common stock of Integrity National Life Insurance Company (the "Integrity Acquisition") from an unaffiliated insurance holding company. The aggregate purchase price for the Integrity acquisition, as finally adjusted, was $9,419,000 (including $437,000 of net transaction costs). Integrity National was merged into Citizens Security during 1995.

FINANCIAL POSITION

Assets. At December 31, 2000, the Company's available-for-sale fixed maturities had a fair value of $71,403,674 and amortized cost of $72,516,172. The Company's fixed maturities portfolio increased approximately 5% in 2000 and decreased approximately 8% in 1999, on an amortized cost basis. The 2000 increase resulted primarily from the NAIL acquisition, while the 1999 decrease resulted from repositioning funds to cash and the equity market. Shown below is a distribution by rating category of the Company's fixed maturities portfolio as of December 31, 2000.

Standard & Poor's Corporation Rating	Amortized Cost 1	Fair Value 2
Investment grade:		
AAA to A-	$56,143,683	$56,251,789
BBB+ to BBB-	10,322,495	10,033,747
Total investment grade	66,466,178	66,285,536
Non-investment grade:		
BB+ to BB-	1,611,931	1,494,807
B+ to B-	3,589,098	2,741,731
CCC+ to C	827,715	860,350
CI to not rated	21,250	21,250
Total non-investment grade	6,049,994	5,118,138
Total fixed maturities	$72,516,172	$71,403,674

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, 2000 were obtained from the Company's investment advisor's portfolio review, which used market prices from Shaw Data Services

The Company believes it has a well diversified portfolio and has no definitive plans to decrease its non-investment grade portfolio significantly below its current level, 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 8.3% and 8.8% of the fixed maturities portfolio, on an amortized cost basis at December 31, 2000 and 1999, respectively.

Shown below are the Company's four largest holdings in non-investment grade bonds by a single issuer as of December 31, 2000.

	Non-Investment Grade	
December 31, 2000	Amortized Cost	Fair Value

Largest	$500,000	$445,625
Second largest	488,155	521,850
Third largest	476,227	402,900
Fourth largest	401,025	479,350
Total	$1,865,407	$1,849,725

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

The Company's investment in equity securities decreased $4,551,000 and $10,363,000 during 2000 on a cost (net of write-downs) and fair value basis, respectively, after increasing $3,495,000 and $5,733,000 on the same basis in 1999. As of December 31, 2000 there were $1,099,000 of unrealized losses on equity securities, as compared with $4,713,000 and $2,474,000 of unrealized gains at December 31, 1999 and December 31, 1998, respectively. One security accounted for $672,000 of the 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. In addition, market performance subsequent to the balance sheet date has historically been a key factor. However, due to wide market fluctuations occurring prior and subsequent to December 31, 2000, post balance sheet price movements have become less useful for assessing permanent impairment. Accordingly, 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 $5,733,000 during 2000 ($1,035,000, $865,000, $838,000 and $2,995,000 for the first through fourth quarters, respectively). In addition, $912,000 of impairment losses were recognized on fixed maturities during 2000 ($513,000, $5,000, $387,000 and $7,000 during the first through fourth quarters, respectively). During 2000, equity securities and fixed maturities were sold which contained impairment writedowns of $1,108,000 and $15,000, respectively.

As more extensively discussed under Consolidated Results and Analysis, below, the Company realized significant net capital gains from its marketable investments over the three-year period ended December 31, 2000. Management believes these pretax net gains, which total $14,232,000 ($1,181,000, $9,375,000, and $3,676,000 for 2000, 1999 and 1998, respectively), are greater than would have been obtained from a more conservative investment strategy involving only investment grade bonds. The Company's strategy has in some years subjected it to fluctuations in income and shareholders' equity of a magnitude significantly larger than would be anticipated under a more conservative investment strategy. Net capital gains or losses for a given period are not necessarily indicative of those for future periods. In addition, the net realized gains (and unrealized losses) reported for 2000 are significantly impacted by the judgmental determination of securities impairments discussed above.

Citizens Security owns the building in which the Company and its subsidiaries maintain their home offices. The Company occupies approximately 28% of the building with 62% leased to third-party tenants and 10% being offered for lease. Market conditions for this property are generally favorable and the Company does not anticipate significant difficulty in leasing available space. An appraisal obtained during 1996 indicates that the current market value of the property is approximately $1,700,000 higher than its carrying value.

The Company has maintained significant cash and short-term balances over the past several years, principally to hedge against the uncertainty of future interest rates.

At December 31, 2000, the Company holds a $156,000 mortgage loan from a real estate limited partnership in which the Company also has a 20% equity interest. The mortgage loan, maturing March 31, 2002, permits revolving credit advances,

not to exceed at any time, the lesser of $750,000 or 80% of the collateral fair value. Stockholders of the partnership's general partner personally guarantee 80% of the loan.

Liabilities. A comparison of total policy liabilities as of December 31, 2000, 1999 and 1998 is shown below. Approximately 82% of the 2000 total consists of future policy benefit reserves while policyholder deposit liabilities represent 16% of the total.

Year Ended December 31	2000	1999	1998
Home Service Life	$ 31,543,557	$ 30,300,225	$ 28,967,749
Broker Life	44,631,499	41,718,948	39,933,144
Preneed Life	23,094,830	21,509,265	23,260,792
Dental	610,111	633,751	485,750
Other Health	2,143,247	3,031,510	2,997,162
Total	$102,023,244	$ 97,193,699	$ 95,644,597

Home Service Life policy liabilities comprise approximately 31% of the Company total. During recent years, this segment has experienced moderate growth 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 2000 net growth is due primarily to the NAIL acquisition, while the 1999 growth resulted from favorable sales of the Company's simplified issue and graded benefit life products which were redesigned in late 1997. The Company initially entered the Preneed Life business in 1998 after completing the United Acquisition. During 2000, Preneed Life product offerings were redesigned and the Company attracted a number of new producers who have reacted favorably to the new products and level of service provided. During the initial full year of Preneed production in 1999, claims on the inforce business outpaced the Company's new sales production. The Company's Dental products are annual term coverages; accordingly, policy liabilities for this segment are not significant. The Other Health segment change in 2000 relates primarily to the settlement of a reinsurance obligation with no impact on overall retention.

Shown below is a progression of the Company's policyholder deposit activity for the year ended December 31, 2000.

Year Ended December 31, 2000	Total	Annuity	Universal Life	Other
Beginning Balance	$15,811,486	$9,346,749	$5,205,603	$1,259,134
Acquired Business	$1,600,158	309,794	1,193,240	97,124
Deposits	866,778	308,685	550,802	7,291
Withdrawals	(2,785,603)	(1,818,106)	(892,359)	(75,138)
Interest credited	888,428	507,285	319,430	61,713
Ending Balance	$16,381,247	$8,654,407	$6,376,716	$1,350,124

The 2000 increase in total policyholder deposits of approximately $570,000 is primarily attributable to the NAIL acquisition. Without the acquisition, deposits would have declined approximately $1,080,000 compared to a 1999 net reduction of $512,000. The Company is not devoting significant marketing effort toward these products and has elected not to aggressively compete in crediting excess interest.

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	2000	1999	1998
Home Service Life	$6,906,473	$6,697,932	$6,551,375
Broker Life	3,425,795	3,447,440	3,040,231
Preneed Life	4,221,225	2,298,013	1,066,069
Dental	7,892,356	7,105,627	6,414,720
Other Health	1,376,575	1,295,816	1,299,233
Total	$ 23,822,424	$ 20,844,828	$ 18,371,628

Home Service Life premium increased 3.1% during 2000 as the Company achieved its most favorable sales results since the late 1995 acquisition of this product line. The Company has continued to attract a number of successful, experienced Home Service agents without subsidizing inexperienced agents. In addition, a 1999 pilot program to automate and streamline agent field accounting was expanded during 2000 and continues to be favorably received by the agency force. During 1998, the Company introduced redesigned products which raised premium rates approximately 15%, increased base renewal commission rates by approximately 5% of premium, simplified the policy application form, and streamlined the policy underwriting process for qualifying agents. These changes were favorably received by the Home Service Life agency force and production began increasing during the fourth quarter of 1998.

The less than 1% decline in Broker Life premium during 2000 was primarily attributable reductions in group life premium and lapses on a closed block of business obtained in the United Acquisition. In addition, the Company experienced some softening in sales of simplified issue and graded benefit life policies, partially offset by additional premium from the NAIL acquisition. The 13% increase in Broker Life premium during 1999 was attributable to increased sales of simplified issue and graded benefit life policies as well as to receiving a full year of premium on participating life policies obtained in the 1998 United Acquisition.

The 84% increase in Preneed Life premium during 2000 resulted from intensified marketing efforts aimed at introducing the Company as a committed participant in this market, successfully negotiating various competitive third-party marketing agreements, and redesigning the former United Liberty Preneed products. The Company anticipates accelerating growth in this segment along with increased statutory surplus strain associated with advance commission arrangements typical in the industry. The premium growth in 1999 reflects the resumption of sales efforts and recognition of a full year of premium from policies obtained in the 1998 United Acquisition.

The 11% growth rates for Dental premium during 2000 and 1999 reflect a continuing focus on this market, favorable reaction to the quality of customer service, and a modest marketing incentive program. The Company constantly strives to build strong customer and agent loyalty by continuing to improve 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 equity securities comprising 10% to 20% of the Company's cash and invested assets, which tends to dampen current income yields in favor of an overall total return focus. Investment income yields were 4.9%, 5.1%, and 5.3% for 2000, 1999, and 1998, respectively. The investment income yield declines in 2000 and 1999 resulted primarily from higher equity security and short-term investment average balances.

Net realized gains on equity securities were $119,790, $9,131,389, and $2,848,000 for 2000, 1999, and 1998, respectively. These amounts reflect the direct expenses shown below, as well as increases (reductions) for amortization of deferred policy acquisition costs of $201,179, $(229,861), and $(139,027) in 2000, 1999, and 1998, respectively. Also included in gross realized losses during 2000, 1999 and 1998 are reductions in the carrying value of available-for-sale equity securities of $5,733,000, 1,122,000, and $1,356,000 respectively, relating to declines in value which were considered by management to be other than temporary. The equity portfolio had $1,099,000 of net pre-tax unrealized losses as of December 31, 2000 compared to net pre-tax unrealized gains of $4,713,000 and $2,474,000 at December 31, 1999 and 1998, respectively. As previously indicated, much of the 2000 decline in realized and unrealized investment gains is attributable to the decline in the equity markets during the second half of the year. Many of the 1999 gains arose from technology related securities, which experienced significant declines during 2000.

As noted above, although increased cash and equity security balances have dampened investment income yields and segment operating income results, total return performance for the past three years has been favorable. As illustrated below, during the past three years the Company's equity securities have generated approximately $5,600,000 of additional pre-tax total return, above a hypothetical 7.0% fixed-maturity return. During this period, the Company's annual net pretax total return on its equity portfolio has averaged 17%.

Equity Portfolio - Pretax Total Return

Year Ended December 31,	Total/Average	2000	1999	1998
Average Equities Cost	$18,399,474	$20,017,915	$20,650,875	$14,529,633
Realized Gains 1	$13,274,860	$ 24,530	$10,064,022	$ 3,186,308
Change in Unrealized Gains (Losses)	(4,028,116)	(5,812,184)	2,238,293	(454,225)
Dividends	1,343,919	397,552	523,520	422,847
Gross Total Return	10,590,663	(5,390,102)	12,825,835	3,154,930
Direct Expenses	(1,147,235)	(207,369)	(702,772)	(237,094)
Net Total Return	9,443,428	(5,597,471)	12,123,063	2,917,836
7.0% Base Return	(3,863,889)	(1,401,254)	(1,445,561)	(1,017,074)

Excess Return	$ 5,579,539	$ (6,998,725)	$10,677,502	$ 1,900,762
Total Return Rate - Gross	19.2%	(26.9)%	62.1%	21.7%
Total Return Rate - Net	17.1%	(28.0)%	58.7%	20.1%

1 Excludes adjustments for incentive and guaranty fees incurred by the Company for investment management services. These amounts are included separately as "Direct Expenses".

Segment Earnings.

Pretax income for 2000 totaled approximately $448,000 compared to $8,664,000 in 1999 and $4,074,000 in 1998. Pretax profit (loss) is shown below for the Company's five business segments, along with total realized investment gains and interest expense. As previously indicated, the Company's equity investments have historically produced very favorable total returns; however, if these funds had been invested in fixed-maturities yielding 7.0%, the segment profit totals below would have increased by an additional $1,004,000, $922,000, and $594,000 in 2000, 1999, and 1998 respectively.

Year Ended December 31	2000	1999	1998
Home Service Life	$ 200,479	$ 312,703	$ 211,713
Broker Life	299,777	150,317	254,189
Preneed Life	(827,265)	(993,560)	15,325
Dental	331,206	436,587	295,038
Other Health	32,186	(64,524)	90,174
Segment Profit (Loss)	36,383	(158,477)	866,439
Net realized investment gains, net of expenses	1,180,879	9,375,339	3,675,489
Interest expense	769,132	553,017	468,268
Income before Income Tax	$ 448,130	$ 8,663,845	$ 4,073,660

The 2000 decline in Home Service Life profit resulted primarily from the moderate growth of inforce business as described above, offset by a slight increase in mortality. The 1999 increase in Home Service profit resulted from moderate volume growth and some mortality improvement. The 2000 Broker Life earnings increase resulted primarily from improved mortality on simplified issue and graded benefit life plans. During 1999, increased mortality on the acquired United Liberty business offset improvements in simplified issue and graded benefit life mortality. The 2000 Preneed Life improvement is primarily attributable to improving mortality on business obtained in the 1998 United Acquisition and efficiencies associated with growing levels of new business. As indicated above, the Company has intensified marketing efforts in the Preneed segment and expects continued revenue growth and improving segment results along with increased statutory surplus strain associated with higher new business volumes. 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	2000	1999	1998

Premium	$7,892,356	$7,105,627	$6,414,720
Claims and Reserves	$5,369,742	$4,717,678	$4,370,499
Contribution Margin	$1,516,948	$1,432,204	$1,224,470
Claim Ratio	68.0%	66.4%	68.1%

The overall Dental contribution margin continued to improve during 2000 as a result of an 11% increase in premium volume, however the claim ratio also increased somewhat during the year. After two years of strong premium growth, management will again reassess renewal underwriting criteria in order to maintain expected profit margins. The significant improvement in profitability during 1999 resulted from a number of initiatives. These initiatives included reconfiguring products to provide additional margins for certain more costly dental procedures, engaging a company to provide expert assistance with ongoing adjudication of claims, and implementing a program of aggressive renewal underwriting and re-rating. In addition to the profitability initiatives, during 1999 the Company launched initiatives aimed at increasing premium volume, including agent incentive and referral programs for new business. The Company has not been actively marketing its Other Health products in recent years. However, the Company is closely monitoring recent sales activity increases for certain cancer and disability coverages. In addition, state filings for significant rate increases on certain older blocks of Other Health business have been approved and will be implemented, beginning in the second quarter of 2001.

Income Taxes. Historically, the Company has experienced a relatively low effective income tax rate, due primarily to the small life insurance company deduction. However, during 2000, the effective rate was substantially increased by state and local income taxes on the parent company's investment gains (which are not eligible for offset by Insurance Subsidiary investment losses), and the effect of an increased valuation allowance on deferred tax assets as discussed below.

The small life insurance company deduction allows the Life Insurance Subsidiaries to reduce their taxable income by 60% before computing its current provision 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 9 to the 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 19%, 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"). During 1999, A.M. Best Company ("Best") upgraded Citizens Security's rating to B from B-. United Liberty's rating has remained at B- by Best since it was acquired in 1998, and Kentucky Insurance, due to its lack of insurance operations, is not rated. Citizens Security reports its investment in United Liberty on the equity method of accounting for statutory accounting purposes. Accordingly, the admitted value of Citizens Security's investment in United Liberty equals United Liberty's statutory capital and surplus total of $3,112,690 at December 31, 2000. Citizens Security's 2000 statutory net income includes United Liberty's 2000 statutory net income of $289,489. 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, 2000.

Year Ended December 31	Net Income	Net Operating Income	Statutory Capital and Surplus	Asset Valuation Reserves1	Capital Ratio2
2000	$1,868,575	$ 715,250	$8,315,902	$1,548,271	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%
1997	$1,708,884	$ 762,357	$9,627,479	$2,753,064	18.2%
1996	$3,062,421	$ 871,089	$9,145,830	$1,426,918	16.1%

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 December 31, 2000, 1999 and 1998 amounts also include United Liberty's reserves.
2 Represents Statutory Capital and Surplus plus Asset Valuation Reserves divided by invested assets plus cash.

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. The significant decline during 2000 has been partially offset during 2001 by the contribution of KIC's stock to Citizens Security in January, 2001. 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. During 1997, statutory capital and surplus and asset reserves increased by approximately $1,808,000. This increase resulted primarily from $1,709,000 of statutory net income and $1,130,000 of unrealized investment gains, partially offset by a $1,050,000 redemption of preferred capital stock.

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 Preneed Life sales increase, the Company anticipates incurring surplus strain.

In addition to the statutory totals shown above, Kentucky Insurance generated approximately $93,000 of net income, during 2000 and $150,000 during 1999, with $21,000 of the 1999 total earned after Kentucky Insurance was acquired by the Company. At December 31, 2000, Kentucky Insurance capital and surplus totaled approximately $3,379,000. Effective January 31, 2001, 100% of the capital stock of Kentucky Insurance was contributed by Citizens Financial into Citizens Security.

CASH FLOW AND LIQUIDITY

During 2000, the Company used approximately $467,000 of cash flow in operations while generating $361,000 and $1,620,000 of cash flow during 1999 and 1998, respectively. The 2000 decrease is principally attributable to Federal Income Tax deposits required early in the year, which are being refunded. The 1999 decrease is attributable primarily to additional spending on Preneed Life marketing programs and a decline in accounts payable and accrued expenses at December 31, 1999.

Cash provided by investment activities during 2000 of $4,488,000 resulted primarily from a reduction in equity portfolio positions and net cash received in the acquisition of the NAIL business, partially offset by additional property and equipment expenditures, including a fractional aircraft ownership share. Cash provided by investment activities during 1999 of $11,200,000 resulted primarily from a conservative decision to limit reinvestment activity near year-end, due to increased market volatility. Cash used in investing activities during 1998 includes payment of approximately $7,076,000 for the United Acquisition, less $3,288,000 of cash held by United Liberty on the effective acquisition date, for a net outflow of $3,788,000. Cash used by financing activities during 2000 includes higher levels of policyholder deposit withdrawals, principally due to the Company's decision not to aggressively compete in crediting higher interest returns on such funds. Cash used by financing activities in 1999 includes net policyholder deposit withdrawals comparable to the 1998 level, a $2,500,000 bank borrowing associated with the Kentucky Insurance Acquisition, net brokerage advance repayments of $1,400,000, and common stock repurchases of approximately $390,000. Cash provided by financing activities in 1998 includes $3,400,000 of additional bank borrowings, which were used, along with available funds at Citizens Security, to acquire United Liberty on May 12, 1998.

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's total return on equity securities during 2000 was a loss of approximately $5,600,000, the Company has successfully managed the risk of equity security price fluctuations during the past several years. For the three years ended December 31, 2000, the total pretax return on equity securities has exceeded $9,400,000, for an average annual return of approximately 17.1%. 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 Item 8, Note 3 of the Notes to Consolidated Financial Statements. At December 31, 2000 the fair value of the Company's equity portfolio was approximately $12,578,000 compared to an adjusted cost basis of $13,677,000. Accordingly, a 10% decline in equity prices would reduce the fair value of the Company's equity portfolio by $1,257,800.

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 decrease the fair value of its $71.4 million fixed maturity portfolio by approximately 2.8% or $2 million. 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 37% 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, 2000 cash and fixed-maturity investments with maturities of less than five years equaled more than 75% 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 commercial bank debt is also subject to interest rate risk. The rate on this debt is variable and equals 100% of the bank's prime lending rate. At December 31, 2000, the rate on the Company's $8,000,000 of bank borrowings was 9.50% and has since decreased to 8.00% at March 21, 2001. 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 2001, 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. The Company will service debt and other expenses by:

- Management fees charged to the Insurance Subsidiaries

- Redemption of Citizens Security preferred stock as necessary, with such redemption also requiring approval by the Kentucky Department of Insurance

- Dividends from the Insurance Subsidiaries, which are limited by law to the lesser of prior year net operating income or 10% of prior year-end capital and surplus unless specifically approved by the Kentucky Department of Insurance

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:

- 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 Item 7);
- customer and agent response to new products, distribution channels and marketing initiatives, including exposure to unrecoverable advanced commissions;
- mortality, morbidity, lapse rates, and other factors which may affect the profitability of the Company's insurance products;
- regulatory changes or actions, including those relating to regulation of insurance products and insurance companies (see the State Insurance Regulation section of Item 1);
- ratings assigned to the Company and its subsidiaries by independent rating organizations which the Company believes are important to the sale of its products;
- general economic conditions and increasing competition which may affect the Company's ability to sell its products;
- the Company's ability to achieve anticipated levels of operating efficiencies and meet cash requirements based upon projected liquidity sources;
- unanticipated adverse litigation outcomes (see Item 3); and
- 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. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Qualitative and quantitative disclosures about market risk are described on page 21, (Cash Flow and Liquidity section of Item 7 - Management's Discussion and Analysis).

ITEM 8. FINANCIAL STATEMENTS

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 consolidated financial statements of Citizens Financial Corporation and subsidiaries listed in the accompanying index to financial statements at Item 8. Our audit also included the financial statement schedules listed in the index at Item 14. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Citizens Financial Corporation and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, 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 22, 2001

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Income

Year Ended December 31	2000	1999	1998
Revenues:			
Premiums and other considerations	$ 24,834,809	$ 21,897,264	$ 19,402,959
Premiums ceded	(1,012,385)	(1,052,436)	(1,031,331)
Net premiums earned	23,822,424	20,844,828	18,371,628
Net investment income	5,993,362	5,885,312	5,190,322
Net realized investment gains, net of expenses	1,180,879	9,375,339	3,675,489
Other income	297,947	157,633	39,566
Total Revenues	31,294,612	36,263,112	27,277,005
Policy Benefits and Expenses:			
Policyholder benefits	16,881,624	15,556,565	13,576,645
Policyholder benefits ceded	(1,074,788)	(1,013,424)	(1,039,024)
Net benefits	15,806,836	14,543,141	12,537,621
Increase in net benefit reserves	2,705,133	1,632,677	553,673
Interest credited on policyholder deposits	888,428	862,615	845,608
Commissions	5,047,274	4,340,262	3,775,530
General expenses	5,775,093	5,385,477	4,430,902
Interest expense	769,132	553,017	468,268
Policy acquisition costs deferred	(1,832,617)	(1,376,309)	(1,106,373)

Amortization expense:			
Deferred policy acquisition costs	539,062	491,221	696,719
Value of insurance acquired	766,498	839,314	696,702
Goodwill	78,014	51,885	35,771
Depreciation expense	303,629	275,967	268,924
Total Policy Benefits and Expenses	30,846,482	27,599,267	23,203,345
Income before Income Tax	448,130	8,663,845	4,073,660
Income Tax Expense	210,000	2,225,000	774,000
Net Income	238,130	6,438,845	3,299,660
Dividends on Redeemable Convertible Preferred Stock	---	---	(279,650)
Net Income Applicable to Common Stock	$ 238,130	$ 6,438,845	$ 3,020,010
Net Income Per Common Share:			
Basic	$ 0.14	$ 3.59	$ 2.31
Diluted	$ 0.14	$ 3.59	$ 1.82

See Notes to Consolidated Financial Statements.

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Financial Condition

December 31	2000	1999
ASSETS		
Investments:		
Securities available-for-sale, at fair value:		
Fixed maturities (amortized cost of $72,516,172 and $68,958,634 in 2000 and 1999, respectively)	$ 71,403,674	$ 69,501,248
Equity securities (cost of $13,677,303 and $18,228,519 in 2000 and 1999, respectively)	12,577,874	22,941,274
Investment real estate	3,506,386	3,513,579
Mortgage loans on real estate	156,000	158,309
Policy loans	4,270,588	4,059,801
Short-term investments	610,379	580,425
Total Investments	92,524,901	100,754,636
Cash and cash equivalents	20,093,774	18,696,401
Accrued investment income	1,328,491	1,145,447
Reinsurance recoverable	2,686,747	3,607,349

Premiums receivable	212,089	388,146
Property and equipment	2,959,744	2,051,414
Deferred policy acquisition costs	6,511,948	4,690,774
Value of insurance acquired	4,884,680	5,295,818
Goodwill	851,795	809,809
Federal income tax receivable	1,364,502	169,502
Deferred federal income tax	1,711,661	---
Other assets	407,674	370,734
Total Assets	$135,538,006	$137,980,030

See Notes to Consolidated Financial Statements.

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Financial Condition

December 31	2000	1999
LIABILITIES		
Policy liabilities:		
Future policy benefits	$ 83,403,780	$ 79,507,902
Policyholder deposits	16,381,247	15,811,486
Policy and contract claims	1,816,947	1,456,030
Unearned premiums	217,670	176,779
Other	203,600	241,502
Total Policy Liabilities	102,023,244	97,193,699
Notes payable	8,000,000	8,500,000
Accrued expenses and other liabilities	2,240,653	2,270,660
Deferred federal income tax	---	1,979,214
Total Liabilities	112,263,897	109,943,573
COMMIMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common stock, 6,000,000 shares authorized; 1,758,215 and 1,767,215 shares issued and outstanding in 2000 and 1999, respectively	1,758,215	1,767,215
Additional paid-in capital	7,640,988	7,736,201
Accumulated other comprehensive income (loss)	(1,573,294)	3,322,971
Retained earnings	15,448,200	15,210,070
Total Shareholders' Equity	23,274,109	28,036,457
Total Liabilities and Shareholders' Equity	$135,538,006	$137,980,030

See Notes to Consolidated Financial Statements.

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Comprehensive Income (Loss) Total
Balance at January 1, 1998	1,075,615	4,836,057	2,594,998	5,814,215	
Net Income				3,299,660	$3,299,660
Net unrealized appreciation of available for sale securities			484,618		484,618
Comprehensive income					$3,784,278
Preferred stock dividends				(279,650)	
Preferred stock conversion	722,000	3,215,768			
Preferred stock redemption				(63,000)	
Options exercised	5,000	40,000			
Balance at December 31, 1998	1,802,615	8,091,825	3,079,616	8,771,225	
Net Income				6,438,845	$6,438,845
Net unrealized appreciation of available for sale securities			243,355		243,355
Comprehensive income					$6,682,200
Common stock repurchases	(35,400)	(355,624)			
Balance at December 31, 1999	1,767,215	7,736,201	3,322,971	15,210,070	
Net Income				238,130	238,130
Net unrealized depreciation of available for sale securities			(4,896,265)		(4,896,265)

Comprehensive loss					$(4,658,135)
Common stock repurchases	(9,000)	(95,213)			
Balance at December 31, 2000	1,758,215	7,640,988	(1,573,294)	15,448,200	

See Notes to Consolidated Financial Statements.

Citizens Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Year Ended December 31	2000	1999	1998
Cash Flows from Operations:			
Net income	$ 238,130	$ 6,438,845	$ 3,299,660
Adjustments reconciling to cash from operations:			
Increase in benefit reserves	1,810,331	1,806,387	806,183
Increase (decrease) in claim liabilities	305,543	196,571	(111,746)
(Increase) decrease in reinsurance recoverable	920,602	(142,987)	(380,034)
Interest credited on policyholder deposits	888,428	862,615	845,608
Provision for amortization and depreciation, net of deferrals	(145,414)	308,403	591,743
Amortization of premium and accretion of discount on securities purchased, net	54,094	147,566	112,432
Net realized investment gains	(1,180,879)	(9,375,339)	(3,675,489)
(Increase) decrease in accrued investment income	(183,044)	79,307	12,304
Change in other assets and liabilities	(434,302)	325,992	(269,857)
Deferred income tax expense (benefit)	(1,545,000)	550,000	(19,000)
Increase (decrease) in federal income taxes payable	(1,195,000)	(836,515)	408,000
Net Cash provided by (used in) Operations	(466,511)	360,845	1,619,804
Cash Flows from Investment Activities:			
Securities available-for-sale:			
Purchases - fixed maturities	(14,302,398)	(7,956,333)	(12,642,382)
Purchases - equity securities	(77,517,925)	(73,590,880)	(33,322,649)
Sales - fixed maturities	14,362,095	16,523,864	15,160,161
Sales - equity securities	81,928,028	79,476,540	33,432,382
Net cash received (paid) for insurance business and			

subsidiary acquisitions	1,976,855	(3,117,832)	(3,787,613)
Investment management and brokerage account fees	(680,654)	(292,195)	(417,326)
Short-term investments sold (acquired), net	(29,954)	572,192	(22,313)
Additions to real estate	(139,232)	(204,216)	(35,270)
Additions to property and equipment, net	(1,065,533)	(197,603)	(512,242)
Decrease in net broker receivable	---	8,125	245,000
Other investing activities, net	(43,476)	(5,776)	159,955
Net Cash provided by (used in) Investment Activities	4,487,806	11,215,886	(1,742,297)
Cash Flows from Financing Activities:			
Policyholder deposits	866,778	705,985	817,372
Policyholder withdrawals	(2,785,603)	(2,080,766)	(2,158,681)
Proceeds from note payable - bank	---	2,500,000	3,400,000
Payments on notes payable - bank	(500,000)	(510,000)	(400,000)
Net brokerage account loan proceeds (repayment)	(100,884)	(1,406,524)	989,014
Common stock repurchase	(104,213)	(391,024)	---
Preferred stock redemption	---	---	(169,139)
Dividends on redeemable convertible preferred stock	---	---	(279,650)
Issuance of common stock	---	---	45,000
Net Cash provided by (used in) Financing Activities	(2,623,922)	(1,182,329)	2,243,916
Net Increase in Cash and Cash Equivalents	1,397,373	10,394,402	2,121,423
Cash and Cash Equivalents at Beginning of Period	18,696,401	8,301,999	6,180,576
Cash and Cash Equivalents at End of Period	$ 20,093,774	$ 18,696,401	$ 8,301,999

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1--NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Presentation. The accompanying consolidated financial statements include the accounts of Citizens Financial Corporation and its wholly-owned subsidiaries: Citizens Security Life Insurance Company ("Citizens Security"), United Liberty Life Insurance Company ("United Liberty"), Kentucky Insurance Company ("Kentucky Insurance"), and Corporate Realty Service, Inc. ("Corporate Realty"). These entities are collectively hereinafter referred to as the "Company". United Liberty, and (effective January 31, 2001) KIC, are also wholly owned subsidiaries of Citizens Security. All significant intercompany accounts and transactions are eliminated in consolidation. Certain balances in prior years have been reclassified to conform to current year classifications.

Nature of Operations. The Company engages primarily in the business of life insurance, annuities and accident and health insurance through Citizens Security and United Liberty ("the Life Insurance Subsidiaries"). The Life Insurance Subsidiaries offer life, fixed-rate annuity and accident and health insurance products to individuals and groups through independent agents. Kentucky Insurance was acquired during 1999 (see Note 2) and is licensed as a property and casualty insurer in four states. The Company is planning to offer home service fire and casualty insurance coverage; however, Kentucky Insurance currently has no business inforce. Corporate Realty manages the Company's real estate along with two other properties affiliated with the Company's Chairman.

The individual life insurance products currently offered by the Life Insurance Subsidiaries consist of traditional whole life insurance and universal life insurance policies. Citizens Security also sells group life and accidental death and dismemberment policies. The fixed-rate annuity products offered by Citizens Security consist of flexible premium deferred annuities, life policy annuity riders, and single premium deferred annuities. Citizens Security's individual accident and health insurance products 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, while the group accident and health products provide coverage for short and long-term disability, income protection and dental procedures.

Citizens Security is licensed to sell products in the District of Columbia and 20 states primarily located in the South and Southeast. United Liberty is licensed to sell products in 23 states primarily located in the South, Midwest, and West. United Liberty's ongoing sales efforts are focused primarily in nine states where Citizens Security is not licensed.

The Life Insurance Subsidiaries market their portfolio of products through the personal producing general agent distribution system and presently have approximately 2,600 sales representatives. Many of these agents also represent other insurance carriers. Approximately 400 of the agents specialize in the home service market while approximately 300 are preneed representatives who market through funeral homes. These markets consist primarily of individuals who desire whole life policies with policy limits typically below $10,000.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Investments. The Company classifies fixed maturities and equity securities as "available-for-sale". Available-for-sale securities are carried at fair value, with unrealized gains and losses included in accumulated other comprehensive income (loss) , net of applicable deferred taxes and adjustments to related deferred policy acquisition costs.

Fixed maturities and equity securities having a decline in value considered by management to be other than temporary are adjusted to an amount which, in management's judgment, reflects such declines. Such amounts are included in net realized investment gains and losses. For purposes of computing realized gains and losses on fixed maturities and equity securities sold, the carrying value is determined using the specific-identification method. Mortgage loans and policy loans are carried at unpaid balances. Investment real estate is carried at depreciated cost. Short-term investments, which consist of certificates of deposit and treasury bills, are carried at cost which approximates fair value.

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase and are also carried at cost which approximates fair value.

Deferred Policy Acquisition Costs. Commissions and other policy acquisition costs which vary with, and are primarily related to, the production of new insurance contracts are deferred, to the extent recoverable from future policy revenues and gross profits, and amortized over the life of the related contracts. See Premiums, Benefits and Expenses regarding amortization methods.

Property and Equipment. Property and equipment, including the home office building, are carried at cost less accumulated depreciation, using principally the straight-line method of depreciation. Accumulated depreciation at December 31, 2000 was $1,977,438 ($1,718,359 at December 31, 1999).

Goodwill and Value of Insurance Acquired. Goodwill represents the excess of purchase price of purchased subsidiaries, over amounts assigned (based on estimated fair values at the date of acquisition) to the identifiable net assets acquired. Goodwill is amortized ove