

# CITIZENS, INC.

## CORPORATE GOVERNANCE GUIDELINES

### A. BOARD COMPOSITION

#### 1. Size of the Board

The Board has eight members in accordance with the Corporation's Bylaws, and periodically reviews the appropriate size of the Board.

#### 2. What Constitutes Independence for Non-employee Directors

Citizens determines whether a Director is "independent" in accord with NYSE requirements for independent directors (Section 303A of the NYSE's Listed Company Manual). In addition to compliance with NYSE independence rules, the Board is also responsible to determine affirmatively that each independent Director has no other material relationship with the Corporation or its affiliates or any executive officer of the Corporation or his or her affiliates. A relationship will be considered "material" if in the judgment of the Board it would impair their effectiveness or independent judgment as a Director.

#### 3. Board Membership Criteria

The Board as a whole is responsible for selecting candidates for Director. With the active involvement of the Chairman and Chief Executive Officer, the Board is responsible for screening and recommending candidates. In discharging this responsibility, the Board from time to time should review the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. This assessment should include an evaluation of the Board's effectiveness and composition, including matters such as business and professional backgrounds, age, current employment, community service and relationships. These factors, and others as considered useful by the Board, are reviewed in the context of an assessment of the perceived needs of the Board at a particular point in time.

Board members are expected to rigorously prepare for, attend, and participate in all Board and applicable committee meetings. Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as an outstanding director. These other commitments will be considered when reviewing Board candidates and in connection with the Board's annual self-assessment process.

#### 4. Selection of New Director Candidates

The Board should be responsible for selecting its own members.

## **5. Directors Who Change Their Present Job Responsibility**

The Board does not believe that Directors who retire or change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board or a Nominating Committee if such exists, to review the continued appropriateness of Board membership under these circumstances.

## **6. Term Limits**

The Board does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who over time have developed increasing insight into the Corporation and its operations and therefore provide an increasing contribution to the Board as a whole.

## **7. Board Compensation**

It is the general policy of the Board that Board compensation should be in cash. Inside directors will not be paid for Board membership in addition to their regular employee compensation. Independent directors may not receive consulting, advisory or other compensatory fees from the Corporation in addition to their Board compensation. To the extent practicable, independent directors who are affiliated with the Corporation's service providers will undertake to ensure that their compensation from such providers does not include amounts connected to payments by the Corporation.

The staff of the Corporation should report from time to time to the Board or Compensation Committee, if any, on the status of Board compensation in relation to their similarly situated life insurance holding companies.

## **B. RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

### **1. Primary Responsibilities of the Board**

The primary responsibilities of the Board of Director are oversight, counseling and direction to the management of the Corporation in the interest and for the benefit of the Corporation's stockholder.

The Board's detailed responsibilities include:

- (a) Selecting, regularly evaluating the performance of, and approving the compensation of the Chairman of the Board, Chief Executive Officer and other senior executives;
- (b) Planning for succession with respect to the position of Chairman of the Board and monitoring management's succession planning for other senior executives;
- (c) Reviewing and, where appropriate, approving the Corporation's major financial objectives, strategic and operating plans and actions;

- (d) Reviewing the performance of the Corporation;
- (e) Overseeing the conduct of the Corporation's business to evaluate whether the business is being properly managed; and
- (f) Overseeing the processes for maintaining the integrity of the Corporation with respect to its financial statements and other public disclosures, and compliance with law and ethics and internal controls.

The Board of Directors has delegated to the Chairman of the Board, working with the other executive officers of the Corporation, the authority and responsibility for managing the business of the Corporation in a manner consistent with the standards and practices of the Corporation, and in accordance with any specific plans, instructions or directions of the Board. The Chairman of the Board and management are responsible to seek the advice and, in appropriate situations, the approval of the Board with respect to extraordinary actions to be undertaken by the Corporation.

## **2. Expectations of Individual Directors**

Among other things, the Board expects each Director to:

- understand Citizens' businesses and the marketplaces in which they operate;
- regularly attend meetings of the Board and the Committees of which he serves;
- review and understand the materials provided in advance of meetings and any other materials provided to the Board from time to time;
- actively, objectively and constructively participate in meetings and the strategic decision-making processes;
- share his or her perspective, background, experience, knowledge and insights as they relate to the matters before the Board and its Committees; and
- be reasonably available when requested to advise the Chairman of the Board and management on specific issues not requiring the attention of the full Board but where an individual Director's insights might be helpful to the Chairman of the Board or management.

## **3. Corporate Business Principles**

Members of the Board of Directors shall act at all times in accordance with the requirements of the Corporation's policies and procedures, which shall be applicable to each director in connection with his or her activities relating to the Corporation. This obligation shall at all times include, without limitation, adherence to the Corporation's policies with respect to conflicts of interest, confidentiality, protection of the Corporation's assets, ethical conduct in business dealings and respect for and compliance with applicable law. Any waiver of the requirements of these policies and procedures with respect to any individual director shall be reported to, and be subject to the approval of, the Board of Directors.

## C. **BOARD MEETINGS AND MATERIALS**

### 1. **Scheduling and Selection of Agenda Items for Board Meetings**

Board meetings are scheduled at least quarterly with a 30 day advance notice where practical. In addition to regularly scheduled meetings, additional Board meetings may be called upon appropriate notice at any time to address specific needs of the Corporation. The Board may also take action from time to time by unanimous written consent.

Typically, the meetings are held at the Corporation's headquarters in Austin, Texas.

The Chairman of the Board, Chief Executive Officer, the President and the Corporate Secretary, in consultation with the other members of the Board and senior management, draft the agenda for each meeting and distribute it in advance to the Board. Each director may propose the inclusion of items on the agenda, request the presence of or a report by any member of the Corporation's management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

The annual cycle of agenda items for Board meetings is expected to change on a periodic basis to reflect, e.g., Board requests, changing business and legal issues and the work done by the Board Committees. The Board's annual agenda will include the long-term strategic plan for the Corporation and the principal issues that the Corporation expects to face in the future.

### 2. **Board Material Distributed in Advance**

Information that is important to the Board's understanding of the business and its meeting agenda items should be distributed in writing to the Board before the Board meets. Supplemental written materials will be provided to the Board on a periodic basis and at any time upon request of Board members.

As a general rule, materials on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. Sensitive subject matters may be discussed at the meeting without written materials being distributed in advance or at the meeting.

### 3. **Access to Employees and Board Presentations**

The Board has complete access to contact and meet with any Citizens' employee. Board members are encouraged to make arrangements in advance to meeting with management or employees. The Corporate Secretary shall, whenever requested, assist in arranging and facilitating such meetings and site visits.

The Board encourages management to schedule employees to present at Board Meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) have future potential that management believes should be given exposure to the Board.

#### **4. Independent Directors' Discussions**

The Board's policy is to have a separate meeting time for the independent directors regularly scheduled at least twice a year during the regularly scheduled Board meetings. A lead independent director will assume the responsibility of chairing the meetings of independent directors and shall bear such further responsibilities which the independent directors as a whole might designate from time to time.

#### **5. Director Orientation and Continuing Education**

The Chairman of the Board in conjunction with management are responsible for new-director orientation programs and for director continuing education programs. The orientation, although informal, is based upon the director's experience with the Company and the industry. It is designed to familiarize new directors with the Company's businesses, strategies and challenges and to assist new directors in developing and maintaining skills necessary or appropriate for the performance of their responsibilities. The company encourages Board members to attend applicable third party presentations.

### **D. BOARD COMMITTEES**

#### **1. Number of Committees**

The current three Committees are Audit, Compensation and Executive. There will, from time to time, be occasions on which the Board may want to form a new committee or disband a current committee depending upon the circumstances. The Audit and Compensation committees shall be composed entirely of independent directors.

Each Committee will have a written charter, approved by the Board, which describes the Committee's general authority and responsibilities. Each Committee will undertake an annual review of its charter, and will work with the Board to make such revisions as are considered appropriate.

Each Committee has the authority to engage outside experts, advisors and counsel to the extent it considers appropriate to assist the Committee in its work.

Each Committee will regularly report to the Board concerning the Committee's activities.

The Audit Committee is responsible for the hiring, oversight and compensation of the independent certified public accounts that audit the Corporation's financial statements, and for monitoring the effectiveness of the Corporation's internal financial and accounting organization and controls and financial reporting.

The Compensation Committee reviews and determines salaries and other matters relating to compensation of the executive officers of the Corporation.

The Executive Committee may exercise all of the authority of the Board of Directors in the management of the business affairs of the Company, except where action of a majority of all

members of the Board of Directors is required by law or by our Articles of Incorporation or Bylaws. All material actions taken by the Executive Committee are subsequently reviewed by the Board of Directors.

**2. Assignment and Term of Service of Committee Members**

The Board is responsible for the appointment of Committee Members and Committee Chairmen. Committee assignments are reviewed from time to time among the Board members.

**3. Frequency and Length of Committee Meetings and Committee Agenda**

The Committee Chairman, in consultation with the Chairman of the Board and appropriate members of management, will determine the frequency and length of the Committee meetings and develop the Committee's agenda. The agendas and meeting minutes of the Committees, will be shared with the full Board, and other Board members are welcome to attend Committee meetings.

**E. MANAGEMENT AND BOARD REVIEW AND RESPONSIBILITY**

**1. Formal Evaluation of Chief Executive Officer**

The compensation Committee will perform a formal annual evaluation of the Chairman of the Board and the Chief Executive Officer.

**2. Succession Planning and Management Development**

The Board plans for the succession to the position of Chairman of the Board. To assist the Board, the Chairman of the Board should annually provide the board with an assessment of senior managers and their potential to succeed him. He also provides the Board with an assessment of persons considered potential successors to certain senior management positions, including a review of any development plans recommended for such individuals. The results of these reviews are reported to and discussed with the Board. The Chairman of the Board has presented the Board with a succession plan to be implemented in the event of an emergency.

**3. Formal Evaluation of the Board**

The Board shall conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Chairman of the Board should manage the Board's process for annual Director self-assessment and evaluation of the Board.

**4. Board Interaction with Outside Interested Parties**

The Board believes that management speaks for the Corporation. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are

involved with the Corporation, but it is expected that Board members would do this with the knowledge of management, and in most instances, at the request of management.

The Board of Directors will review these Corporate Governance Guidelines on at least an annual basis and make revisions as it deems necessary in compliance with NYSE rules and regulations and other applicable laws, such as the federal securities laws.