MEMORANDUM

TO: Jennifer Montero, Chief Financial Officer
Citizens Property Insurance Corporation

FROM: Kapil Bhatia, Raymond James & Associates, Inc.

RE: Citizens' Legacy Securities

DATE: March 7, 2016

Introduction

The financial crisis of 2007-2008 (also known as the Great Recession of 2007) is considered by many to be the worst financial crisis since the Great Depression of the 1930's. It resulted in the threat of total collapse of large financial institutions, the bailout of banks by national governments, the crash of the housing market, prolonged unemployment, downturns in stock markets around the world, limited economic activity leading to the 2008–2012 global recession, and contributed to the European sovereign debt crisis culminating with global central bank intervention to ease the money supply. This memorandum summarizes the components of the financial crisis, intervention by the government to prevent a further economic downturn, the subsequent economic rebound, and how these events have affected Citizens' legacy investments in Structured Investment Vehicles from Issuer Entity (Ottimo), Pacific West, Atlantic East, and AFF Financing, and Lehman Brothers Holdings Escrow.

Background on Financial Crisis and Subsequent Recovery

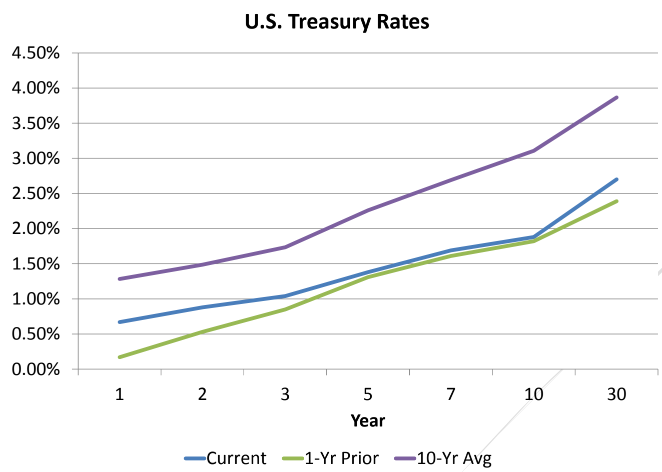
In August 2007, multiple hedge funds that specialized in U.S. mortgage debt ceased activity which signaled that trillions of dollars of derivatives based on subprime mortgages were not worth what the market had previously thought. Based on this development, the banking system froze due to the subprime mortgage exposure and large unknown losses each bank had related to these subprime mortgages. The bottom was realized in September 2008 when the U.S. Treasury Department allowed Lehman Brothers to file bankruptcy instead of finding a buyer for it like the government had previously done for Bear Stearns earlier in the year. Within a month, the threat of more "Lehman Brothers" scenarios caused the U.S. government and to inject significant capital into banks to prevent them those banks from collapsing through various measures.

Global financial conditions since the Great Recession of 2007 have significantly changed and are summarized below:

- The U.S. Federal Reserve balance sheet grew by $3.5 trillion due to its multiple Quantitative Easing programs which ended in 2014;
- Global central banks have implemented various intervention measures (i.e. Quantitative Easing / bond purchase programs, low or negative interest rates, etc.), the numbers include:
    - 637 interest rate cuts since March 2008

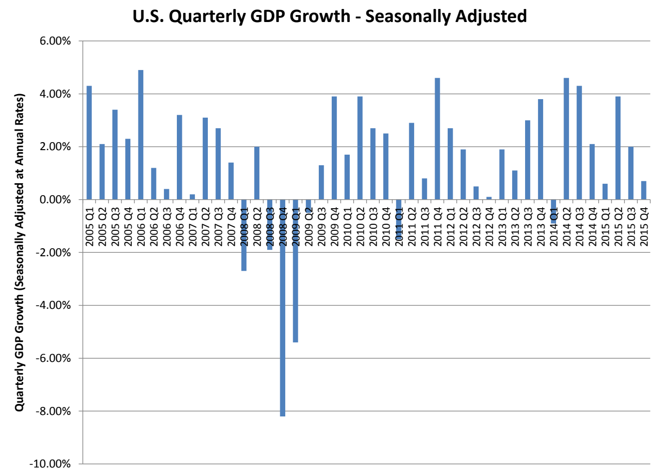
- $12.3 trillion of asset purchases through global Quantitative Easing programs
- $8.3 trillion of global debt yielding 0% or less
- -1.11% 2-year Swiss bond, the lowest-yielding government debt in the world

- The balance sheets of the U.S. Federal Reserve ($4.5 trillion) and the European Central Bank ($2.8 trillion) total $7.3 trillion or 20% of the U.S. and Eurozone GDP
- Interest rates have remained near historic lows as the Federal Open Market Committee ("FOMC") maintained the federal funds rate near zero until December 2015, though interest rates are still expected to remain low as currently reflected in the Fed Funds future interest rates;
- Treasury rates began decreasing significantly in 2007 as the flight to quality drove yields down to all-time lows and have remained low, despite the Federal Reserve's increase in the federal funds rate in December 2015 – the 1, 5, 10, and 30-year Treasury rates are currently 48%, 39%, 40%, and 30% less than their 10-year averages;

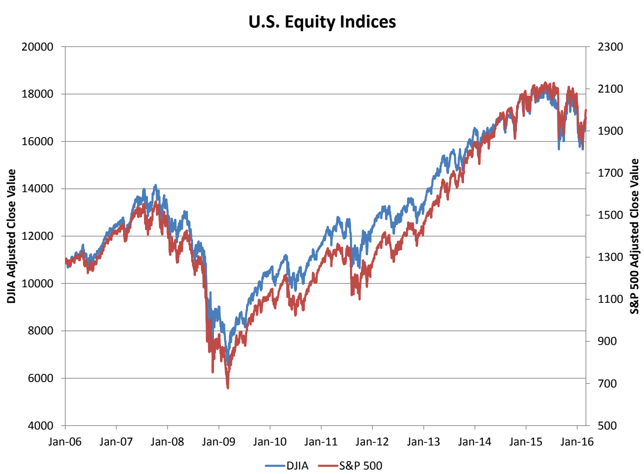


U.S. Treasury Rates				
	1-Year	5-Year	10-Year	30-Year
Current	0.67	1.38	1.88	2.70
1-Yr Prior	0.17	1.31	1.82	2.39
5-Yr Average	0.19	1.32	2.31	3.27
10-Yr Average	1.28	2.26	3.11	3.87

- An ongoing sovereign debt crisis in Europe, as the European Central Bank ("ECB") lowered interest rates to record lows, provided low interest rate loans to maintain money flows between European banks, and began a $65 billion bond-buying stimulus program in March 2015 with a current projected end date of March 2017;
- Both the ECB and the Bank of Japan are now charging "negative deposit rates" on banks to hold money in its vaults;
- Global 10-year Treasury rates are at or near historic lows as seen in the following countries:
  - Germany – 0.24%
  - France – 0.58%
  - Switzerland – (0.43%)
  - Japan – (0.05%)
- U.S. gross domestic product ("GDP") has continued to grow modestly with 1.8% annual growth for 2015; though employment has increased with the unemployment rate currently is at 4.9%, however, the unemployment rate for under employed, including those marginally attached to the labor force, and part-time employed but looking for full-time employment currently stands at 9.9%, reflecting labor dynamics and existing structural deficiencies;



- Global economies continue to grow although at a significantly slower rate as evidenced by the growth forecasts – Eurozone at 1.7%, Japan at 0.74%, and China at 4-6%;
- The equity market hit a market low on March 9, 2009 and reversed course on March 26, 2009, but has struggled so far in 2016 amidst concerns of oil prices and global economic conditions; currently, the DJIA and S&P500 are up 160% and 196%, respectively, from the lows reached on March 9, 2009, but are relatively flat 2016 year-to-date;



(Since 2006)	DJIA	S&P 500
Current	**17,007**	**2,000**
Minimum	6,547	677
Maximum	18,312	2,131
Date of Minimum	3/9/2009	3/9/2009
Date of Maximum	5/19/2015	5/21/2015

Citizens' Legacy Investments

Citizens' legacy securities were acquired by its former investment manager in 2007 before the financial market collapse. Financial markets have recovered significantly since that time period as economic conditions have improved despite some recent market challenges, as currently reflected in the equity and fixed income markets. In addition, so far in 2016, market liquidity is again becoming challenging in lower rated fixed income markets. However, during and until the end of 2015, we experienced marginally stronger activity in structured investment vehicles ("SIVs") as most of the old SIVs have been restructured and are significantly smaller in size but overall market conditions in 2016 have made SIVs trading again marginally difficult.

Although, our SIVs have paid a significant portion of the principal and interest payments since 2007 and therefore the market value of remaining SIVs have improved significantly and stabilized, and are expected to remain unchanged as interest rates will likely to only change marginally going forward from at or near all-time lows.

The proceeds of Citizens' legacy SIV portfolio are providing a total return in the range of 1-2%, although the expected remaining average life remains uncertain. Citizens held these assets during the worst of the financial crisis and has since recovered 71% of original principal value. However, as a result of broader market recoveries the current and anticipated recoveries are beginning to decelerate. Citizens has the option to liquidate its SIV legacy assets and reinvest in liquid securities pursuant to its new investment policy in order to maximize investment returns. Liquidating these securities will also limit market risk and volatility and will bring the overall portfolio into compliance with the new investment policy. Citizens also has legacy assets invested in Lehman Brothers Holdings Escrow, which is currently not trading due to the ongoing restructuring process, but is expected to continue to distribute cashflows as directed by the bankruptcy proceedings. A summary of Citizens' legacy securities history is on the following page:

CPIC Illiquid Assets Summary (As of December 31, 2015)					
($ In Millions)	**Issuer Entity (Ottimo)**	**Pacific West**	**Atlantic East**	**AFF Financing**	**Total Legacy Securities**
Original Acquisition Cost[1]	$46.5	$99.2	$181.5	$225.0	$552.1
Total Write Downs[2]	($30.4)	($38.7)	($56.9)	($111.6)	($237.5)
Principal Recoveries	$10.2	$22.6	$39.1	$78.6	$150.5
Net Total Writedowns	($20.2)	($16.1)	($17.7)	($32.9)	($86.9)
Disposal Gain/Loss	$0.0	$0.0	$0.0	$0.0	$0.0
Amortization	$0.0	$0.0	$0.1	$0.2	$0.2
Principal Paydowns	$17.9	$64.2	$134.0	$159.9	$376.0
Current Amortized Cost	$8.4	$18.8	$29.8	$32.3	$89.4
Current Market Value at 100%	$18.8	$27.4	$41.2	$41.3	$128.7
Unrealized Gains at 100%	$10.4	$8.6	$11.3	$9.0	$39.3
Expected Market Sale Price at 80%	$15.1	$21.9	$32.9	$33.0	$103.0
Expected Market Sale Price at 90%	$16.9	$24.7	$37.0	$37.2	$115.8

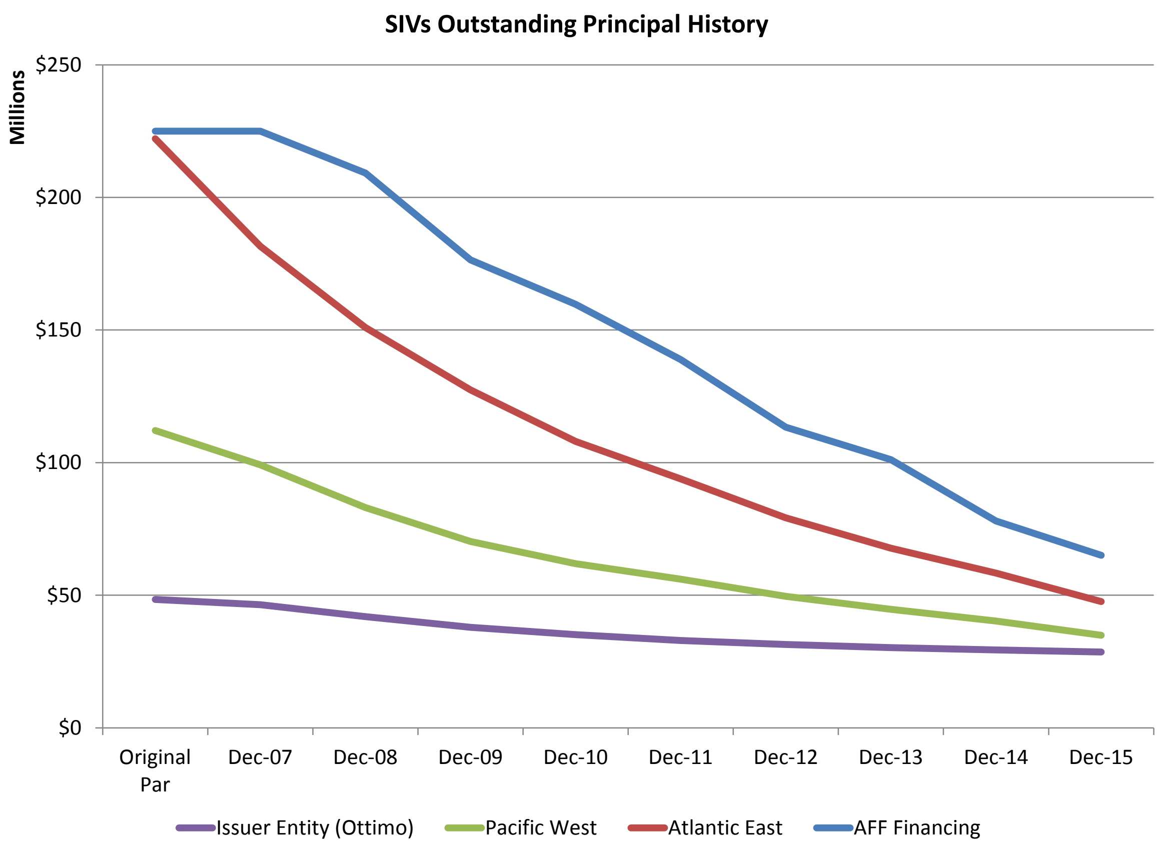
[1] Original securities were issued at a discount of $45.5 million.

[2] Writedowns occurred on December 31, 2007, September 30, 2008, and December 31, 2008 in the amounts of $88.5 million, $117.8 million, and $84.3 million, respectively.

Citizens currently has approximately $87 million of unrecovered writedowns from its SIV legacy securities from an original writedown of $237 million, excluding Lehman, with a current unrealized mark-to-market gain of over $39 million. Upon the sale of SIVs, Citizens should be able to capture the unrealized gain equal to the SIVs current market value at 100%, unrecovered principal potentially would total $48 million (compared to the original $237 million). As shown in the table above, the market sale price of the SIV portfolio is expected to be approximately 85% ± 5% (80% - 90%) of its current market value of $129 million, or in the range of $103-$116 million. The discount of 15% ± 5% is primarily due to market volatility and higher trading spreads in the underlying securities within the SIVs. The sale of the SIV portfolio will allow Citizens to realize mark-to-market gains of approximately $14-$26 million based on a preliminary sale price at 85% ± 5% and would also end one of the last chapters of the 2007 financial crisis within our portfolio.

As seen in the graph and table below, the original SIV legacy par amount in August 2007 was approximately $608 million and is currently at $176 million as of December 31, 2015. Since August 2007, Citizens has received approximately $431 million of principal payments, or 71% of the original par, with an average monthly payment of approximately $4.3 million. The current sale price is expected to be approximately $103-$116 million.

SIVs Principal Payment History					
($ In Millions)	**Issuer Entity (Ottimo)**	**Pacific West**	**Atlantic East**	**AFF Financing**	**Total**
Original Par	$48.4	$112.1	$222.1	$225.0	$607.6
Current Par	$28.6	$34.9	$47.6	$65.1	$176.2
Amount of Principal Received	$19.8	$77.1	$174.5	$159.9	$431.4
% of Original Par Paid Off	40.92%	68.84%	78.58%	71.09%	71.01%
Average Amount of Principal Received Per Month	$0.2	$0.8	$1.7	$1.6	$4.3
Average % of Principal Paid Per Month	0.41%	0.68%	0.78%	0.70%	0.70%



The pros and cons of selling legacy securities at this time are as follows:

Pros

- Realize mark-to-market gains of approximately $14-$26 million, which will increase net income dollar for dollar
- In addition to the contribution of surplus through realized gains of $14-$26 million, Citizens would reverse a charge to surplus for non-admitted assets of $39 million as a result of accounting treatment prescribed by F.S. 625.305 following disposition, thereby increasing total surplus by $53-$65 million in sum.
- Provides liquidity and funds for future claim payments
- Higher stable income return of approximately $1.4 million at 1.25% from reinvestment of sales proceeds
- Investment policy compliance

Cons

- Eliminates any potential future recovery of remaining unrecovered losses, which are expected to be minimal considering the original issuance date of the SIV securities

Conclusion

We evaluated the sale of the SIV legacy securities in July 2013 and recommended to hold the securities, and since then we have recovered $82 million of principal. As market conditions have significantly changed since 2013, we recommend that the Board authorize or allow Citizens staff to work with its Financial Advisor to develop a strategy to sell its SIV legacy securities in the price range of at least 85% ± 5% of the current market value of $129 million to generate sale proceeds of $103-$116 million.