

**CITIZENS PROPERTY INSURANCE CORPORATION
FULL TRANSCRIPT OF THE MINUTES OF THE
AUDIT COMMITTEE MEETING HELD TUESDAY MARCH 15, 2016**

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 1.00pm on Tuesday March 15, 2016 in Maitland, FL.

The following members of the Audit Committee were present:

Juan Cocuy, Chairman
Jim Henderson
Bette Brown - via telephone

The following Citizens staff members were present:

Jay Adams	Steve Bitar
Violet Bloom	Kelly Booten
Mitch Brockbank	Barry Gilway
Karen Holt	Joe Martins
Cindy McVay	Bruce Meeks
Jennifer Montero	Michael Peltier
Tom Popko	John Rollins
Dan Sumner	Barbara Walker
Carol Williams	Karen Wittlinger
David Woodruff	Andrew Woodward

The following persons were present:

Kapil Bhatia, Raymond James
Lisa Miller & Associates, LLC

The following person attended by telephone:

Matt Church, Dixon, Hughes, Goodman

Call Meeting to Order

Ms. Walker called the meeting to order, took the roll call and confirmed there was a quorum.

CHAIRMAN COCUY: Thank you. Governor Brown is supposed to be calling in and we will keep checking to see if she has dialed in in the next few minutes. At this point I would like to start with the first item of business, which is the approval of the December 8th, 2015 Minutes.

Governor Henderson proposed a motion to accept the minutes of the December 8, 2015 meeting. All were in favor and the minutes were approved

CHAIRMAN COCUY: Motion carries. Moving on to Office of the Internal Auditor's report, Joe Martins.

MR. MARTINS: Thank you, Mr. Chairman. For the record, I am Joe Martins, Chief of Internal Audit. I wish to refer you to page 17 of your books. On this page we start by mentioning that the Office of Internal Audit delivered its annual report to the Board and appointing officers on February 15, as required by the Citizens' statute. In this report we provided a comprehensive summary of

work of 2015, and commented that our work indicated Citizens has a well-established functioning and controlled environment. A copy of this report can be found at page 27. As of the beginning of March we have completed seven percent of the work scheduled for this year and have another 36 percent or 16 engagements in progress. You will note that of the 16 engagements in progress, six are peer assurance type audits, while we are providing control guidance for five consulting engagements and continue to keep an eye on five projects with system enhancements. The scope of our activities will span across systems and operations, underwriting, claims, Human Resources and finance. Work completed during this quarter indicated that a few minor control issues are being addressed by management. At the December meeting the committee requested that the Office of Internal Audit provide an overview of our assessment of controls of IT security and data. With me I have Karen Wittlinger, our IT Audit Director as well as Mitch Brockbank, Citizens Director of IT Security and Risk. Karen will provide an overview of audits we have completed during the past few years. The slide is on page 22. While Mitch will give us some insight into work in progress to focus attention on IT risk and information security.

MS. WITTLINGER: For the record my name is Karen Wittlinger. I am the IT Audit Director. The Office of Internal Audit uses a risk based approach to determine the audit plan which includes discussion and input from IT management. Generally we consider IT security risks to be non-compliance to legislation or regulations, impairment of business activities or performance to client and customer confidence or business reputation and financial loss. There are many threats that may result in these risks being realized. Examples of these threats would be unauthorized access, disclosure of personal information, theft or fraud, disruption of a third party doing business with our organization, and so on. Risks by nature have a degree of uncertainty. In the current business landscape more rigor is required to understand the threats and additional diligence is needed in assessing the risks and internal controls environment to ensure risks are properly mitigated, accepted or transferred. In assessing security risks and determining the audit plan consideration is given to key risks and top technology challenges that are being discussed by IT professionals and surveys, periodicals, conferences, et cetera. This includes data in cyber risks which are now at the forefront of all business concerns. In addition to drawing inferences from the industry for this year we are collaborating more extensively with Enterprise Risk Management to discuss business areas and risks to provide a broader perspective. The IT audit plan remains dynamic throughout the year by utilizing our emerging risk process to assess events, anomalies and management considerations and changing the plan accordingly. On page 24 of your book, more specific to your question at the last meeting regarding IT security audit risk coverage, I have included some details showing fundamental categories of IT security related to data protection along with examples of the audits that have been completed in the past few years or are scheduled for this year. The audits align with the areas that provide key risk for mitigation for data in cyber security. This provides focus areas that have been covered from an assurance or advisory standpoint. Over the past five years we have performed 28 audits having security touch points with output of numerous recommendations. Through these audits we have reviewed a very good cross section of important areas within security that are specific to security risks including a large scale privacy audit in 2012, a third party network assessment in 2014, assistance in creation of a robust computer incident response plan in 2014, server virtualization, social media, many reviews associated with security across many platforms, and a network architecture and design review this year. Most of the IT audits have included an assessment of some type of security controls, extensive security is pervasive across all infrastructure and applications, and we have seen many improvements in security over the past few years. The IT Security Director, Mitch Brockbank, will be reviewing with you some of his thoughts on data security, however, I would say that the overall process of IT security is continuous in every organization. Management should review risks based upon new threats and vulnerabilities, monitor the environment and make adjustments to policies and procedures to accommodate the changing landscape. Having this

continuous cycle in place as well as the management commitment and diligence that supports this cycle is important. With the on-boarding of Mitch in 2013, and management's commitment to data and cyber security the processes appear to be implemented to provide an ongoing assessment of risks and implementation of relevant internal controls to manage the environment. Mitch will provide a quick overview of Citizens' IT security program. Thank you.

MR. BROCKBANK: Thank you. My name is Mitch Brockbank. I am the Director of IT risk and security for Citizens. Since Karen was presenting information regarding her team's IT security audit activities we felt it would be beneficial to provide an overview of our IT security program. The goal of the IT security program at Citizens is to protect a confidentiality, integrity and availability of the systems and data whether on site or hosted by a third party. Within your meeting material we provided a slide with the visual representation of the program. I believe it is page 26. This representation depicts the high level aspects of the program and shows their interrelationships of the program's functions. If you will notice on the upper left-hand corner of the slide you will see that our program is driven by our business requirements, threats and risks to our systems and data, and compliance with laws and regulations such as state of Florida laws, Gramm Leach Bliley and HIPAA. Moving to the right to support these requirements, reduce our risks and ensure compliance, we have developed a program governance structure consisting of policy standards and procedures and operational controls to manage the technical, physical and administrative aspects of the program. Moving further to the right you will see that we have a governance review and IT security operations functions which are basically action based and include multiple activities to ensure the program is operating effectively and continues to evolve to address changes to our program drivers. So it is a continuous cycle. The IT security program is subject to multiple audits, which is represented by the red outlined area in the slide. These audits provide independent review and assurance that our program meets the needs of our stakeholders which include our Board of Governors, the Audit Committee, and the State of Florida. Audits include those conducted by our Office of Internal Audit, the Office of Insurance Regulation, the State of Florida Auditor General, and our financials audits which we conduct every year utilizing a third party. Some additional relevant information is included at the bottom of the slide including the best practices, the IT security frameworks and standards that we utilize to structure our program. These include National Institute of Standards and Technology, NIST, special publications related to information security, COBIT, the center for internet security critical security controls and benchmarks that they provide as well as ISO standards including the 27,000 series. Moving to the right on the bottom you will see we have program over-site and governance committees and work groups that we utilize to govern our program including our Board of Governors, the executive leadership team, our risk committee, the information systems advisory committee, the IT steering committee and the IT governance committee. And lastly, we would like to show that we have internal partnerships within our organization as well to ensure coordination of the program. These include our legal and privacy office, the Enterprise Risk Management office and our Office of Internal Audit. This concludes my presentation and I would like to say a quick thank you to the committee and especially those that volunteer their time to serve Citizens, so thank you.

CHAIRMAN COCUY: Thank you, Mitch. Before we move forward, Barbara, do you want to check to see if Governor Bette Brown is on the line?

MS. WALKER: Of course. Governor Bette Brown, do we have you on the line yet?

GOVERNOR BROWN: Yes, I am here.

CHAIRMAN COCUY: Good. Also before we move on, Joe, Jim, do you have any questions or concerns in this area?

GOVERNOR HENDERSON: No, just a comment that I am very pleased about this emphasis about the IT security. It is kind of amazing the responsibility now that we, you take with respect to data and people out there that wants to try to penetrate systems to get in and use that data perhaps maybe very unproductive and maybe harmful way. So that I commend you and leadership to continue to spend the time and effort there that we really can make our data access as hard as we can, yet remain functional and be prepared to deal with an incident if they arise. I know this past year we have also secured insurance coverage for an event to deal with some of the economics and then also deal with some of the intermediation of an event, either public disclosure or data are helping put those people back in place maybe where data was released. So thank you for the effort and time to do this, and let's continue doing it.

CHAIRMAN COCUY: Yes, I guess I would add this is a wonderful presentation. It is in very technical terms. I guess I would ask in layman's terms, what do you guys see as the top say three threats and dangers that we face with our information and, I mean, let's face it, if somebody sophisticated wanted to, cannot only hack and get our information but they can get our resources. They can hack into our bank accounts and our investments. So in layman's terms just tell us what those are and what are we doing to prevent and detect those?

MR. BROCKBANK: You are correct, there are a number of nefarious individuals and organizations that would love to take advantage of the information that we have. First, what we are trying to do is to limit the information that we collect, so that we have as little as possible personal data and reduce our risk. But probably the most significant threats, the top three that you asked for would include third parties, you know we are sharing information with third parties so we want to make sure that they are protecting our information appropriately, which is a difficult task. Our Internet exposure having services available on the Internet exposes us to the global Internet community which includes nations, states, terrorists' organizations as well as organized crime, at the top, all the way down to anybody else that has access that wants to run some tools to see if they can steal some information. And probably the next is our internal users, making sure that our internal users understand, their requirements and our rules and protect our information like they would want their own protected. So I would say those are the top three.

CHAIRMAN COCUY: You know, there is things that you read in the news but there is things that you do not read about. Just recently I think it was Presbyterian Hospital with I am sure very good internal controls and very good protection of their IT got hacked and all of their data was held hostage; they paid the ransom, it was only \$14,000 fortunately, but these people are shrewd. They can do that, get \$14,000. If they were asking for \$14 million, then they probably wouldn't get that money, but if they do enough of them they are successful at what they are trying to accomplish. I know that recently there has been a slew of e-mails that I see in my own firm where, for example, I will get an e-mail from somebody that sounds or looks like it is a client, a common name, John Bradley, says, Juan, attached is my tax information for 2015. Let me know if you have any questions. The gut instinct is to double click on that or click on it, and then you are in trouble. And I detected it but I can tell you that out of 80 people in my firm, somebody might fall for it unless we alert them and let them know. I mean, there is just some basic, some is some real technical things that we can do, but there is also some basic blocking and tackling and communications that we have got to let our staff know of what those are. So it comes with communication and education.

MR. BROCKBANK: Right, and that is what I brought in our internal users. We experienced just like all organizations experience what are that is called a phishing campaign that you are referring to, and yes, educating our users to make sure that they are not opening links or attachments to e-mails that they weren't expecting is a challenge.

CHAIRMAN COCUY: Yes and not just the Audit Committee but the Board, Chairman Gardner has mentioned that at our Board meetings before. So it is a high area of visibility and we, as Governor Henderson is saying, we really need to keep up the efforts here. So thank you. Joe.

MR. MARTINS: Mr. Chairman, just to follow up on that, the Office of Internal Audit is currently revisiting its assessment of IT security risks given the elevation in security threats we just discussed. We will be amending our work program and focus probably through the rest of the year in order to provide further assurance on the topic to management and to the committee. On page 20 I provided a brief summary on progress with the Citizens' internal control framework project. During December we lost the project manager, and I am happy to note that we recently appointed Mike Walton as the audit manager responsible for the Citizens' internal control framework initiative. Michael will work closely with finance control support team to complete the roll out of the framework. Michael has nearly 10 years' experience in audit and consulting with a strong knowledge of SOX implementation and compliance auditing, internal audit standards and the updated COSO framework. The internal control framework initiative is moving steadily on plan with the completion of 18 processes and control reviews to date. This represents 30 percent of the 59 process reviews planned throughout the three-year implementation. Each review involves fully understanding, documenting and testing identified key controls in line with COSO 2013, the initial standards for internal control frameworks. To date 50 key controls have been reviewed and formally documented. We foresee that all process reviews will be completed by the end of 2017.

CHAIRMAN COCUY: Joe, just a comment on that. It is moving steadily, but you have to kind of take a look at the last quarterly meeting we had 14 processes documented and now we have 18, is that the pace we set per quarter to meet the three years?

MR. MARTINS: The challenge, sir, is that we only have one person now doing these reviews and we were down two staff and that is really, what is holding it up. We are revisiting the plan, I think the progress is relatively strong. I don't think it has really changed our plan to date. We have decided that we probably would like to do a review a month. So it takes about four weeks to complete a full review. We just have the one staff and we haven't really changed the plan, per se, given that we are slightly behind but I think it is still doable for us given that we would be in a position to replace the staff member that we would need for the COSO development fairly soon. I do think that the reason that we are slow in the implementation was from the beginning we agreed with the organization that we will work at the pace that will work for the organization in rolling out this framework. It is not as if the control are not there, it is just that we haven't formally documented a framework and managing a framework this specifically. So it does take time to go through that but I think we are still on par to deliver. At the moment we haven't changed the plan to deliver really all reviews by September 2017, and we have asked that question for ourselves the last couple of months and we haven't changed the plan yet, I think all of the reviews have been scheduled, all the meetings dates have really been defined by ourselves and those dates have not really changed at this point in time.

MR. MARTINS: Apart from the COSO framework rollout we also opted to assist the IT organization in the COBIT5 GAAP analysis identification of control weaknesses and monitoring of control enhancements. This analysis has not started as we have not been successful in finding a suitable candidate for the role. We are continuing with our staff search and foresee that this should be commenced during the third quarter. We plan to provide further insight into the process and share some of the results with the committee during the June meeting. At this time every year we are required to assess the current Audit Committee and Office of Internal Audit charters and present these to the committee for consideration and approval. The Audit Committee charter can be found on page 96 and the Office of Internal Audit chart is on page 100. This year's review of the charters did not reveal any specific need for revision. If there are no changes from the

committee I would recommend to the committee approve both charters in their current form. The Audit Committee charter is included in the Board of Governors pack for consideration at the next meeting. Also on page 21 I mention that there are 13 remaining open items. None of these open items are overdue and all of them are relatively minor in nature. Mr. Chairman that concludes my presentation. I would request the motion that the Audit Committee approve both the Audit Committee as well as the Office of Internal Audit charter as presented to the committee.

CHAIRMAN COCUY: Any significant changes from the prior version?

MR. MARTINS: There are no changes, sir.

Governor Henderson moved to approve the Office of Internal Audit Charter and the Audit Committee Charter. All were in favor and the charters were accepted.

CHAIRMAN COCUY: We will move on to the CFO's report, Jennifer Montero.

MS. MONTERO: Good afternoon. Behind tab three you will find the December 31st, 2015, unaudited financial statement. Fiscal year 2015 was marked with several accomplishments and challenges. In 2015 we successfully eliminated the risk assessments from a one in 100-year storm and continued our success with depopulation. We also ended the 2005 emergency assessment and diffused the associated post event bonds. However, 2015 also marked a significant increase in loss in LAE activity, precipitated by the combination of adverse development on prior year's sinkhole claims and non-weather related water losses. Although the increase in loss in LAE activity is considerable, it should be noted that the continued success of depopulation amplifies the impact of this loss activity both in terms of net loss within the PLA as well as the related loss in LAE ratios. At year-end 2015, direct written premium decreased by approximately \$816 million, or 39 percent as compared to 2014. Likewise, the net earned premium decreased by \$617 million or 45 percent through December 31st, 2015. These decreases are largely due to the successful depopulation efforts that have transpired over the year. However, there was a year over year decrease in ceded premium of \$274 million, or 60 percent, due to the decline in the depopulation activity during the fourth quarter of 2015. Policies in force of approximately 504,000 reflect a decrease of more than 157,000 policies or 24 percent as compared to 2014. Policies in force decreased by more than 70,000 during the final quarter of 2015 alone. Although net losses in LAE incurred decreased \$151 million when compared to 2014, the net loss in LAE ratios increased from 46 percent to 64 percent on a combined basis, despite the favorable development in the commercial lines account. As I mentioned previously, the increase in the combined net loss in LAE ratio is largely due to litigated non weather water claims in the tri-county area along with adverse development on prior year's sinkhole losses. Although underwriting expenses including administrative expenses decreased more than 26 percent, the expense ratio has increased to 22 percent. That is up four percent from 18 percent last year. This is driven largely by the \$816 million decrease in written premium. At December 31st, 2015, Citizens was servicing more than 121,000 assumed policies. That is more than 24 percent of the number of policies in force. Primarily as a result of the number of policies serviced driven principally by the volume of depopulation our expense ratio has increased. Simply stated, the denominator of written premium is decreasing at a faster rate than the numerator at the underwriting expenses. While consolidated net income at December 31st, 2015, was \$5.7 million, the personal lines accounts and the coastal account reflect net losses of \$21.5 million and \$54.4 million respectively. Several factors contribute to the net losses, including depopulation and an increase in the loss in LAE ratios within the PLA and coastal account. Finally, cash and invested assets of approximately \$13 billion decreased roughly 529 million or 3.8 percent, primarily due to the year over year decrease in written premium and the decrease in loss in LAE activity. Despite the overall decrease in operating results, Citizens' policyholders' surplus is \$7.4 billion, and claims paying capacity remains fundamentally strong and capable of meeting its policyholder obligations. As a reminder, the quarterly financial analysis

is included in your books. It is extremely detailed, provides a 12-month trend. It is prepared each quarter by Andrew Woodward, our controller and his staff. They do an excellent job. If there are no questions I will turn it over to Brian Smith with Dixon, Hughes, Goodman. He is going to give an external audit update.

CHAIRMAN COCUY: We budgeted \$178 million in net income and we came in at 5.7. So, and I know it reflects the depopulation, and I guess my question slash comment is, in our budgeting process do we just not anticipate that the depopulation was going to be that rapid?

MS. MONTERO: No. If you look at the top on page 1, in the combined you will see that depopulation, ceded premium was \$180.7 million and we actually budgeted 62.9. And then if you will also look, losses incurred, we budgeted 315. And we had 402 of losses incurred in there. So it is the combination of less premium and higher losses, specifically the prior year, sinkhole development and the current year, water losses, non-weather water losses.

CHAIRMAN COCUY: And we are in March of this year so it is a little early to tell, but how is the trend looking?

MS. MONTERO: The trend on the water losses does not seem to be going away. The depopulation has slowed down, and I think that as more and more water losses go throughout the state, the depopulation will probably stop pretty soon. Or slow down quite a bit.

CHAIRMAN COCUY: Thank you.

GOVERNOR HENDERSON: Good report, thank you very much. I don't know if anyone can really predict about further depopulation. If you look at the business that now remains in Citizens, exactly how attractive will that be?

MS. MONTERO: We do have a group that is working together on our scenario planning and it is made up of by John Rollins' group. His corporate analytics along with the accounting and budget people, and they do use predictive modeling where they go in and they basically grade the policy on how attractive it is, and unfortunately those trends are not the same where they are taking the most attractive policy. They are taking wind only policies that are not actuarially sound, and we think PLA is probably cleaned over for the most part, the ones that are there either they are not attractive to anyone or they don't want to leave. But the coastal account is still, seems to have a lot of trending of the wind only, which is new.

GOVERNOR HENDERSON: Well, it is really amazing what blind capital will do though. So it still very unpredictable. Getting to my question, that is that maybe you have or maybe I haven't seen this, but in looking at really a forward two or three-year, four-year forecast because it would appear that were are going to wind up with very much of a tougher class of business. We, the Board and this committee and others indicated we really want to sustain the ability of Citizens to have capacity beyond the level of the policyholders we currently have, and I think that is a good decision. So getting to the point is that, how is our P and L going to look in the next two or three years with this scenario building out?

MS. MONTERO: Well, we put this group together during the budgeting process because we were budgeting a loss. So we wanted to go further out. So this group, it started during the budget process which was about October, and we are starting in 2016, we are going to be going out eight quarters, and it will start probably in June to be able to show March. So it will be a quarter behind, but we are going to forecast out eight quarters and that will continue.

GOVERNOR HENDERSON: That is great. I think it will be very helpful.

CHAIRMAN COCUY: Barry.

PRESIDENT GILWAY: Governor Henderson, for the record, Barry Gilway. I do think it is appropriate to make a couple of comments. As Jennifer indicated, we have put together this scenario planning group. They have been under Kelly Booten's leadership. They have been working really for about a year and a half now and up until this point I think they have done an excellent job of really predicting where we are going. This is the issue. You know, our projected policy count for 2016, I believe is 417,000 policies. There is absolutely no way given the market conditions that we will reach that number. We conducted, utilizing John Rollins' analytics group, we recently conducted a review of the top 10 market share companies in the state, and we added to that five of the larger depop companies just to get a picture of what their 2015 numbers look like, and the numbers frankly are staggering. You have the composite ratio for 2014 shows a 76.2 of combined ratio. That same composite rating for 2015, shows a composite ratio of 91.6. So you have almost a 16 point deterioration in those numbers. If you step back and take a look, by the way the target ratio for a typical company assuming rate adequacy, you are really looking at a target somewhere between 75 and 85 in a non-CAT year for residential. So if you take a look we are well past that target. Then you take a look at market conditions and all of the evidence at this point really indicates that the market is pulling back dramatically in the tri-county area, dramatically. We have three examples of one company is canceling 9,000 policies, another, 8,000 policies, another 7,500 policies. In addition to that, you have most of your major companies that are withdrawing. So the issue that we are going to have going forward is, how do we not grow to a net corner and grow dramatically in 2016. And frankly, without any AOB reform, and without anyone addressing the legislature and not addressing the one way attorney fee statute, it is going to be very difficult to stem that tide.

GOVERNOR HENDERSON: As usual, you are ahead of me. Thank you. We look forward to that report on it. Barry, thank you.

CHAIRMAN COCUY: Thank you, Barry, thank you, Jennifer.

MS. MONTERO: And Brian Smith should be on the phone.

MR. CHURCH: Hi, this is actually Matt Church. We have one update to our audit plan which was discussed at the December meeting, and at the time we were in the process of selecting our actuarial partner for the 2015 audit. And I just wanted to kind of update the committee that we have selected and engaged Merlino & Associates to assist us in our audit of the loss and loss adjustment expense reserves as of December 31st, 2015. And then from a general status update which is pretty minimal, since our update in December we have closed down planning and interim testing along with our IT testing which was pretty much complete at the time and we have no findings to report at this time. We are scheduled to start field work on Monday, March the 28th. And I would be happy to answer any questions.

GOVERNOR HENDERSON: Governor Henderson. I look forward to your report on the loss reserving and the outside consultive view, thank you.

CHAIRMAN COCUY: And you said you finished all of your interim work and your internal control documentation. Have you provided Jennifer and her crew a list of items that they need to prepare for the field work? Has that started?

MR. CHURCH: Yes, we have.

CHAIRMAN COCUY: Thank you Matt. Moving on to item four, Chief Risk Officer John Rollins.

MR. ROLLINS: Thank you, Governors. For the record this is John Rollins, Chief Risk Officer at Citizens. I would like to focus my brief update today on a homework assignment that you gave us, beginning at the September committee meeting for the Audit Committee and then continued

our discussion during the December Audit Committee meeting. And that is a refreshment of what we call the top risks exercise for Citizens. This is something that is led by the Enterprise Risk Management department, but really reflects the collective assessment of the executive leadership team cross functionally regarding proverbially the top things that keep us up at night as an executive team, and we are here to report to you on our fresh look at that. This was something that by its nature is not siloed, okay, so a little bit of context here. These risks are not related to a specific project. They are not related to a specific operation or activity. We know that much of the day-to-day activity of the Enterprise Risk Management unit at Citizens is focused on mapping the entire galaxy of risks that can affect the sprawling activities of Citizens and sort of putting it into buckets, drawing interrelationships and then determining sort of who should own that risk, relating those risks to the strategic plan and that is typically what we talk to you about in updates. Top risks transcends that by synthesizing risks that have an impact or are pervasive across the entire organization. So by its very nature it is not just a categorization of things that fall into one silo or another, say claims or product or IT. These are the things that when we put a name on these things, these things could pervade the entire organization with a sense of uncertainty. So we have identified six risks and named six risks as top to the organization. These again, are different risks potentially, than a year ago or two years ago, and it is a fresh exercise. Why? As you just heard from President Gilway, the environment around us is changing very rapidly, and we have a forecasting and other sets of activities that try to see around corners and get a handle on how the market is changing, but the Enterprise Risk Management exercises need to keep up with that. So we identified six that we would like you to look through and there is a brief slide deck behind tab four which will help us explain them. First of all, when we map the universe of risks sometimes we are looking at financial risks on a small activity level, sometimes we are looking at strategic risks that relate to the strategic plan, sometimes we are looking at individual operational risks. We spend a lot of time cataloging, but as I said, we have synthesized not only six total risks, but really risks that fall into three buckets, if you will, or categories of how they are being managed. First, there are the risks that are being managed well in our opinion but being monitored very closely, particularly because there could be sudden change in status of the external environment that impacts whether those risks take hold at Citizens. The second is a bucket of managing risks but accepting that there is a level of risk that we cannot eliminate that is irreducible based on the environment particularly as a public entity that Citizens is in. Some things that are outside of our control. The third bucket is risks that we are managing but we are working to establish tools or establish frameworks to further reduce the risks. These are risks where we feel we have some distance to go in achieving all of the possible mitigation that can be achieved for those risks. So in no particular order but separated by category, if you flip to the next page, you will see that we have three top risks that we believe are managed well, but deserve close monitoring or are getting a large set of activities that are associated with monitoring those risks. First is in short form, assessment risk. This is the risk that is primarily mitigated through the extensive process of our risk transfer program. The gist of it is, do we have enough money to pay our claims on time or do we need to turn to all insurance buying Floridians to help us, and that, of course, is a risk not only to Citizens but it is a risk to all of the people in the state of Florida and Florida's economy, particularly those who will directly pay the assessments buying insurance. But as you know and as we talk about at every Board meeting we have many, many current mitigations. We have a pre-event funding program that CFO Montero brings to you every year as necessary. We have investment policies, we have a risk transfer program which quite frankly is unique in the industry, both private and public in terms of its size and in terms of its complexity with the use of insurance linked securities as well as traditional reinsurance. We have a set of internal controls in many business units, including claims to ensure that excessive and inappropriate payments are not made and we have oversight of litigated claims that is designed to reduce the non catastrophe losses and reduce the impact of non-catastrophe claims environments on our surplus. The second risk that we are managing and monitoring through an extensive series of mitigations is

administrative expenses. The gist of this is as you heard from President Gilway and CFO Montero and you can see in the financial statements, we have a numerator and denominator problem right now in our simple math problem at Citizens. We have premium dropping rapidly as depopulation has occurred in the recent past, and as the CFO has explained, we are not a run-off company. When we depopulate we lose that premium immediately through the transfer of unearned premium. So you are lowering the denominator of the expense ratio. And on the numerator side we are lowering our fixed expenses, but it is difficult to keep up with the recent impact of depopulation. So we have scrutinized and we had an extensive discussion about the budget in December. We have scrutinized all of our operational projects, I am sorry, operational processes, our project management approach and existing administrative overhead and fixed expenses. The budget process, itself, is a significant mitigation of that risk. The annual planning process, the forecasting process has been extended to a two-year horizon. The risk transfer program, itself, of course, represents a large expenditure in the budget, and the use of outsourcing on a strategic basis and a targeted basis to sort of allow our peak capacity or our base capacity to dictate both the staffing levels and the outsourcing levels. The third risk that we believe is a significant top risk, but is managed well and undergoing a lot of monitoring, you also just heard about, it is our cyber risk. A cyber risk, again, the gist is we need to protect Citizens' information and the information of our consumers and policyholders from any sort of inappropriate use through a data breach or any other sort of illegal access to information. The current mitigations here once again are extensive. I won't review them all, but the purchase of the cyber liability insurance policy you have heard about, you have heard about the changes in records management protocols. You have heard about the information privacy and security framework from our Director of IT security and you have heard about the incident response plan as well. This is an area where we are aggressively pursuing additional activities to further reduce the risk or additionally mitigate the risk. So once again, we have several IT projects going under what we call our security portfolio. We have an IT security strategic plan and we have other things you have heard about, such as the retirement of legacy systems that could represent a back door. So we have a lot going on and that is why it is in the third bucket. We are trying to increase our level of maturity, I am sorry, in the first bucket that is why we are trying to increase our level of maturity in monitoring that risk. The second category of top risk is a risk where we are managing but accepting a certain level of risk that is outside of our control, and that is the reputation area. Reputation risk is a very broad topic. It is a term of art in ERM. It is used in the private sector as well. In our case at Citizens it really takes a unique form which would be negative public perceptions that could develop of Citizens as a result of decisions we make or things we do, primarily related to our core insurance business, but not exclusively. When policyholders must pay higher rates or face a change in their insurance product some of them can react in ways that create a negative public perception. Public interest groups and so on can get involved. So the mitigations for reputation risks are primarily avenues of communication. And as you have heard at recent meetings we have multiple avenues of communication open. We have a robust media liaison program. We work closely on the legislative side and you will hear a consumer services update as well as a legislative update tomorrow. We have got an extensive social media campaign underway as many of you know, and we have entered a new mitigation phase with a Call Citizens First campaign. This is being just rolled out now and it includes policyholder ID cards, it includes a mass communications through the media, it includes the establishment, I should say the modernization of the external website, includes things even like refrigerator magnets. So we are mitigating what we can but accepting that we will never be able to get down to a target level of near zero on public reputation risk. Finally, there are two areas where we feel these are top risks, but we are focusing directly on risk mitigation and are aggressively pursuing a ramp up, getting up the maturity curve through establishing additional mitigations. The first is the business continuity area. Business continuity is simply the gist of this is simply a lack of mature business continuity programs and interlinking that or interlocking that with a disaster recovery program in a technology side could result in Citizens being unable to

provide services to policyholders as they expect in the event of any kind of business disruption. So this is agnostic to whether it is a natural disaster, a civil disaster or even a social disaster. We have significant current mitigations in the form of our business continuity framework and our business continuity management plan. We have recently undertaken a new mitigation in terms of hiring a key individual, a business continuity manager who is conducting a current assessment of the program to prioritize further activities in this area, and we have some activities upcoming in business continuity. We want to do a business continuity table top exercise this year that is corporate wide, and integrated into a corporate recovery strategy. We also have an implementation and testing of a disaster recovery strategy. Finally, we have some IT items that you have heard about such as moving and co-locating our disaster recovery data center in a tier one fashion so that our data center is secure as it can possibly be, and secure in particular from natural disasters. The last risk where we are aggressively undertaking mitigations is we have described this as claims trends affecting rate adequacy. It is a little bit of an unusual, a little bit of an awkward explanation, I guess, in that it doesn't coalesce to one or two words. But this is simply identifying and communicating claims loss trends in a timely manner so that we can be proactive in heading things off before they impact the finances of Citizens and the rate adequacy of Citizens. So in the past it might have been something like the emerging risk of sinkhole losses. Today as you have heard from President Gilway and you will hear more about during the Actuarial and Underwriting Committee meeting, the issue is non weather losses, particularly caused by water as the stated peril, but these are non-catastrophe losses that are quite simply exploding in both frequency and severity in our current book. The current mitigations are fairly simple. We have a claims work group that works with product development as well as actuarial services to coordinate claims changes with product changes, policy language changes and once a year our rate filing cycle. But we have upcoming activities some of which we will be bringing to you later this afternoon in the Actuarial and Underwriting Committee. We are building out a series of product filings. We are trying to work with the Office of Insurance Regulation to reposition our product so that abusive claims are targeted while legitimate claims are protected and while consumers are protected, even consumers that don't know much about their insurance policy, and may or may not understand the reporting requirements. We have a second phase we would like to talk to you about in this later committee meeting which is a second phase of product changes specifically to support our manage repair program that is going into place should you approve the solicitations at the Board meeting. We feel like there is a lot we can do on our own to mitigate claims trends affecting rate adequacy and that is why it is in the third bucket as opposed to the second bucket where we would simply accept the risk. But all in all that is a brief description of the six top risks that we have identified and refreshed within the past few months as the set of things that keep us up at night. This is a good place to stop for any questions.

CHAIRMAN COCUY: Committee members, are there any questions? Governor Brown?

GOVERNOR BROWN: Not from me, thank you, we reviewed this yesterday, thank you.

GOVERNOR HENDERSON: John, a couple of boards I am on deeply involved in this process is really well done. I think it really paints a good picture about the task at hand with it, and really applaud the effort to keep this in front of us in terms of those challenges we have. Certainly I guess the claim trends there I guess we can call them, what you want to call it, there is simply an unintended consequences about policy language that seems to change over time based upon the interpretation by courts or wherever, and we really have no idea about the ultimate cost of our product out there given that uncertainty. So I think that risk is well placed. And the other one is the ability to follow in place where there is a storm and many of the take-out companies, whether or not they would have the financial ability to go forward given severe financial loss that we are able to stay in place and provide coverage; the state can continue to move forward, not have the impact it really had in '04, '05, and back in the '90s and back in the '80s, where there is a significant

economic activity that alters because the insurance market is trying to adjust to the cost of storms, and I think we can play a significant role in helping to stabilize that market. It was well done.

MR. ROLLINS: On a serious note you will notice that our – no longer on this list is our top risk associated with ability to respond to a catastrophe and I think we have taken that off the list because it reflects the build out and the level of maturity we have and we are confident in our catastrophe response. And while we have many tools at our disposal and this Board has been incredibly supportive in letting us build out those tools over the past few years I think you are raising a very interesting and legitimate concern because the entire industry, Citizens, private industry and a very, very large ecosystem of vendors will all have to coordinate and respond when, not if, Florida is hit by another significant weather event. And I think it was General George Patton at least it was attributed to him that says your battle plan never survives first contact with the enemy. I prefer the Mike Tyson version which is he was asked after a fight how did you defeat your opponent's game plan and he looked at the boxing reporter and said, well, everybody has a plan until they get punched in the face. So we will get punched in the face by Mother Nature once again, and Citizens believes we are as ready to respond as we can be, but it is going to be a Herculean effort.

GOVERNOR HENDERSON: Thank you.

CHAIRMAN COCUY: I just want to know where I can get a refrigerator magnet.

MR. ROLLINS: I will refer you to Christine Ashburn, since she is not in the audience yet, I will refer you to her and give her a homework assignment.

CHAIRMAN COCUY: Thank you, John, appreciate it.

MR. ROLLINS: Thank you that concludes my report.

CHAIRMAN COCUY: The last item in our agenda is the complaint management statistics, which is really more receive and file, there isn't anything significant there to report on. Just a couple of things, unless anybody has any questions we will just receive and file that report. Is there any other new business for the good of the order? Governor Brown?

GOVERNOR BROWN: No, thank you.

CHAIRMAN COCUY: Governor Henderson?

GOVERNOR HENDERSON: None here, thank you.

CHAIRMAN COCUY: With that, I will adjourn the meeting. Thank you very much.

(Whereupon, the proceedings were adjourned.)