Citizens Property Insurance Corporation

Financial Statements

December 31, 2009 and 2008

Citizens Property Insurance Corporation
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December 31, 2009 and 2008

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Independent Auditors' Report

The Board of Governors and Management
Citizens Property Insurance Corporation
Tallahassee, FL

We have audited the accompanying basic financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Citizens' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Property Insurance Corporation as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2010 on our consideration of Citizens Property Insurance Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 11, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental combining statement of net assets, combining statement of revenues, expenses and changes in net assets, and schedule of supplemental revenues, expenses and claim development information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Carr, Riggs & Ingram, L.L.C.

Tallahassee, Florida
April 16, 2010

This discussion provides an assessment by management of the current financial position and results of operations for Citizens Property Insurance Corporation (Citizens or the Company). Management encourages readers to consider the information presented here in conjunction with additional information included in the accompanying financial statements and notes to the financial statements.

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by $4.4 billion, increasing the net asset position.

- The Company's total net assets increased by $748.6 million. This increase is primarily attributable to net income generated as explained below.

- Operating revenues decreased 24% from 2008 to 2009 primarily due to a reduction in the number of policies in force, coupled with a lower average premium.

- Operating expenses were reduced by 33% from 2008 to 2009. As written premiums have decreased, so have certain operating expenses that are percentages of written premiums, such as producer commissions, premium taxes and assessments. In addition, non-catastrophic losses and loss adjustment expenses usually decrease as written premiums decline. The catastrophic losses and loss adjustment expenses incurred decreased significantly due primarily to favorable development related to prior year storms, as compared to negative development in 2008 related to prior year storms.

- Nonoperating expenses decreased from 2008 to 2009 by 86% due largely to an increase in net investment income. The increase in net investment income results from the write-down of certain investments in defaulted Structured Investment Vehicles in 2008.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to Citizens' basic financial statements, which consist of the statements of net assets, statements of revenues, expenses and changes in net assets and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net assets* present information on all of the Company's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Citizens is improving or deteriorating.

Overview of Financial Statements (Continued)

The *statements of revenues, expenses and changes in net assets* present information showing how the Company's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

The *statements of cash flows* present information about the cash receipts and cash payments during the year. The statements show the cash effects of operating, investing and financing transactions during a given period.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 16 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the Company's revenues, expenses and claims development information for the last ten policy years.

Financial Analysis

A summary of Citizens' Statements of Net Assets is presented below:

	2009	2008	% Change
	(in thousands)		
Assets			
Current assets	**$ 6,921,461**	**$ 7,453,317**	(7%)
Capital assets, net	**18,671**	**29,253**	(36%)
Other noncurrent assets	**2,209,771**	**1,234,724**	79%
Total assets	**$ 9,149,903**	**$ 8,717,294**	5%
Liabilities			
Current liabilities	**$ 2,685,319**	**$ 3,938,283**	(32%)
Noncurrent liabilities	**2,017,046**	**1,080,107**	87%
Total liabilities	**4,702,365**	**5,018,390**	(6%)
Net assets			
Invested in capital assets	**18,671**	**29,253**	(36%)
Restricted	**14,409**	**24,044**	(40%)
Unrestricted	**4,414,458**	**3,645,607**	21%
Total net assets	**4,447,538**	**3,698,904**	20%
Total liabilities and net assets	**$ 9,149,903**	**$ 8,717,294**	5%

Assets

As shown above, total assets increased $432.6 million, or 5%, during 2009 primarily due to the increase in cash and invested assets resulting from the $1.65 billion pre-event bond issuance and net income from 2009 offset by the maturity of the $1.5 billion bonds in June 2009 and the $91.6 million debt service payment in March 2009. Certain investments, representing less than 3% of the portfolio are in defaulted Structured Investment Vehicles. Although principal and interest payments are being made, Citizens undertook a thorough analysis of all remaining loan back and structured securities to determine if any other-than-temporary impairment should be recognized in 2009 for GAAP financial statement purposes. After careful consideration, Citizens' management has concluded that pricing fluctuations in 2009 do not appear to qualify as other-than-temporary impairments. Citizens did not recognize any other-than-temporary impairment for the year ended December 31, 2009. However, reductions totaling $294 million were recorded during 2007 and 2008. Full realization of the principal value is not readily determinable.

Current assets include cash, cash equivalents, and short-term investments of $6.5 billion and $6.8 billion for the years ended 2009 and 2008. Long-term investments totaled $1.9 billion and $718

Financial Analysis (Continued)

Assets (Continued)

million for the years ended 2009 and 2008. The increase in invested assets is due to the $1.65 billion bond issuance, net cash flow from 2009 operations, the collection of emergency assessment funds, and Florida Hurricane Catastrophe Fund ("FHCF") reimbursements received during 2009 offset by the maturity of the $1.5 billion bonds and the $91.6 million debt service payment made in 2009.

Capital assets decreased $10.6 million, or 36%, from 2008 to 2009 largely due to the increase in the capitalization threshold for assets purchased during 2008 to $2,500 from $1,000.

Liabilities

Total liabilities decreased $316.0 million, or 6%, during 2009. This decrease is due primarily to a decrease in unearned premiums and loss reserves offset by an increase in long-term debt. During 2008, total liabilities decreased $3.3 billion, or 39%. This decrease is due primarily to the decrease of $4.75 billion in long-term debt relating to the redemption of the Auction Rate Securities offset by the issuance of the $1.75 billion HRA pre-event bond issuance.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, unearned premium and the current portion of long-term debt. Loss and LAE reserves decreased $119.3 million, or 14%, from 2008 to 2009. The decrease in 2009 is attributable to hurricane claims. The increase in 2008 is attributable to non-hurricane claims. As of December 31, 2009, reserves related to the 2004 and 2005 hurricanes were $158 million, as compared to $293 million as of December 31, 2008, $290 million as of December 31, 2007, $212 million as of December 31, 2006 and $1.2 billion as of December 31, 2005. The increase in hurricane claims reserves in 2007 resulted from adverse development related to new and reopened claims as well as legal proceedings with regard to Citizens liability for storm damage. The decrease in 2006 was due to the payout of claims for the storms of 2004 and 2005, coupled with a reduction in ultimate losses based upon the independent actuarial report.

Unpaid losses and LAE reserves not related to hurricanes increased from $249 million as of December 31, 2005 to $376 million as of December 31, 2006 to $435 million as of December 31, 2007 to $568 million as of December 31, 2008 to $584 million as of December 31, 2009. The increase in both 2009 and 2008 is due largely to an increase in frequency and severity of sinkhole, fire, theft and water claims.

Unearned premiums decreased $229.0 million, or 19% from 2008 to 2009, which is primarily due to a reduction in premium written. During 2008 unearned premiums decreased $407.5 million, or 25%, primarily due to a reduction in premium written, coupled with growth in depopulation activity.

Financial Analysis (Continued)

Operating Revenue

A summary of Citizens Statements of Revenues, Expenses and Changes in Net Assets and certain key financial ratios are presented below:

	2009	2008	% Change
	(in thousands)		
Operating revenue:			
Earned premiums	**$ 1,711,429**	**$ 2,256,628**	(24%)
Operating expenses:			
Losses and LAE incurred	**581,129**	**931,636**	(38%)
Other underwriting expenses	**348,343**	**446,954**	(22%)
	929,472	**1,378,590**	(33%)
Operating income	**781,957**	**878,038**	(11%)
Nonoperating revenues	**(33,589)**	**(240,294)**	(86%)
Change in net assets	**$ 748,368**	**$ 637,744**	17%
Policies in force	**1,029,214**	**1,084,237**	(5%)
Underwriting ratios			
Loss and LAE ratio (calendar year)	**34%**	**41%**	(18%)
Expense ratio	**20%**	**19%**	(3%)
Combined ratio	**54%**	**61%**	(11%)

Direct premium written declined 21% to $2.18 billion as of December 31, 2009 compared to$2.77 billion as of December 31, 2008 due primarily to the significant amount of takeout activity in 2008. Approximately 385,000 policies (13% of premiums written) were assumed by takeout companies in 2008 that renewed with the respective takeout company rather than with Citizens during 2009. In addition, wind mitigation credits for Commercial Residential Wind policies did not go in effect until September 2008 and the percent of policies eligible for wind mitigation credits increased in 2009. Therefore the average credit given in 2009 was significantly larger than the average credit given in 2008. Net earned premiums decreased to $1.7 billion at December 31, 2009 as compared to $2.3 billion at December 31, 2008, a decrease of $545.2 million, or 24%. The 2009 in force policy count declined 5% as compared to 2008. In addition, the policies serviced during 2009 decreased 20% as compared to 2008. Policies in

Financial Analysis (Continued)

Operating Revenue (continued)

force decreased 17% during 2008. This decrease in policy count is a result of increased takeout activity in 2008, coupled with a reduction in new business written.

During the regular and special legislative sessions of 2007, Citizens' rate increases that were put into effect January 1, 2007, were rescinded. The pre-2007 rates for personal residential policies remained in effect through December 31, 2009, except for any rates which were lowered. Therefore, there were no rate changes during 2009 or during 2008.

During the 2009 legislative session Citizens' statute was amended to require that beginning on July 15, 2009 and each year thereafter, the corporation must make a recommended actuarially sound rate filing for each personal and commercial line of business it writes, to be effective no earlier than January 1, 2010. In addition, the new law requires that Citizens implement such rate increases so that the rate increase per policyholder does not exceed 10 percent, excluding coverage changes and surcharges.

Under the direction of the new law, Citizens made a series of rate filings beginning in September 2009 for each line of business it writes. The rates for the corporation were approved by the Florida Office of Insurance Regulation in late 2009 and were implemented in January and February of 2010. The rates changes approved for each line of business are as follows: personal residential multiperil: 5.6%; personal residential wind-only: 5.1%; commercial residential multiperil: 10.2%; commercial residential wind-only: 9.4%; commercial nonresidential wind-only: 9.3%.

Premiums ceded to the FHCF totaled $509.2 million and $440.4 million during 2009 and 2008, respectively, and are included in net earned premiums. The increase in FHCF premium is attributed to an overall increase in the FHCF premium rates for both the mandatory and TICL layers. Ceded premiums to private reinsurers were $105.1 million in 2008. The Corporation entered into excess of loss reinsurance agreements with private reinsurers in 2008, but not in 2009, for the HRA.

Ceded premiums to takeout companies decreased $268.39 million, or 73%, during 2009. $100.8 million was ceded to takeout companies during the year ended December 31, 2009 compared to $369.7 million ceded during the same period in 2008. Ceded premiums to takeout companies increased $100.4 million, or 37%, for 2008. $369.7 million was ceded to takeout companies during the year ended December 31, 2008 compared to $269.3 million ceded during the same period in 2007.

Financial Analysis (Continued)

Operating Expenses

Losses and LAE incurred decreased $350.5 million, or 38%, in 2009 as compared to 2008, due mainly to favorable development during 2009 related to prior year storms, increased in-house claims processing as well as a decrease in policy and claim counts offset by an increase in the non-catastrophic claims costs that relate to water, sinkhole and fire claims. The frequency and severity of such claims has increased over time. Losses and LAE incurred increased $48.7 million, or 6%, in 2008 as compared to 2007, due mainly to an increase in the non-catastrophic claims costs that relate to water, sinkhole and fire claims. The frequency and severity of such claims has increased in 2008, as compared to 2007.

Other underwriting expenses decreased $98.6 million, or 22%, in 2009. Certain underwriting expenses such as agent commissions and premium taxes, are determined based on written premiums and will decrease proportionately. During 2009, commission and premium and other tax expenses consisted of 53% and 10% of other underwriting expenses, respectively. During 2008, other underwriting expenses decreased $127 million, or 22%, and commission and premium and other tax expenses consisted of 57% and 12% of other underwriting expenses, respectively.

Administrative and other underwriting expenses include typical administrative costs, professional fees which include servicing carrier fees, and underwriting costs such as inspection fees, and ISO participation fees. Administrative and other expenses increased $3.5 million, or 3%, in 2009 when compared to the same period in 2008. The increase is primarily related to a 6% increase in full time employees and related expenses thereof.

Non-operating Income (Expenses)

Non-operating income/expenses consist mainly of assessment income, net investment income, and interest expense. Non-operating expense decreased $206.7 million, or 86% in 2009 as compared to 2008 which corresponds with the increase in net investment income of $99.1 million, or 844%. The increase in net investment income is due primarily to the increase in overall cash and invested assets as well as pricing of the investments. In 2008, a permanent decline in market value was taken on certain assets, which adversely impacted net investment income that year. In addition, interest expense decreased $47.7 million, or 27%, due primarily to the maturity of the $1.5 billion bonds and the $91.6 million debt service payment during 2009. Interest expense was also higher in 2008 related to the auction rate securities outstanding for the first five months of the year and the financial market conditions which resulted in high yields on that type of structure. Non-operating income decreased $294.0 million, or 597% in 2008 as compared to 2007 which corresponds to the decrease in net investment income of $330.8 million, or 97%. The decrease in net investment income is due primarily to the decline in overall cash and invested assets. Additionally a permanent markdown on investments of $205.2 million was

Financial Analysis (Continued)

Non-operating Income (Expenses) (continued)

recognized in 2008 related to distressed investments purchased on Citizens' behalf by a former money manager. Also, the unrealized losses on certain corporate investments have increased due to widened credit spreads for all corporate issuers, especially financial issuers.

Economic Factors

Citizens' management performs an evaluation of the best sources of pre-event liquidity in advance of each hurricane season. As a governmental entity, Citizens has the ability to issue municipal debt on a taxable or tax-exempt basis. Bond proceeds may be accessed as needed and as permitted by the bond documents. Bank credit lines may also be a component of the pre-event liquidity program. Subsequent to year end 2007, management determined that its 2004, 2006, and 2007 auction rate securities were not providing the best source of liquidity given the increased interest rates required to be paid as a result of the industry-wide market turmoil of late 2007 and early 2008. Consequently, management determined that the best course of action was to redeem these securities and pursue other sources of liquidity. As described in Notes 6 and 9 Citizens issued fixed rate tax-exempt debt and secured bank credit lines in 2008 and 2009 to provide liquidity for the hurricane seasons. The 2010 pre-event liquidity program is discussed in Note 17, Subsequent Events.

Citizens' High Risk Account bond ratings were upgraded from A3 to A2 by Moody's Investor Service, Inc. ("Moody's") on April 4, 2008. In 2009, both Moody's and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") changed the outlook of Citizens' PLA/CLA and HRA ratings to negative from stable. In 2010, Moody's changed the ratings from negative to stable. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007 and S&P, 55 Water Street, New York, New York, 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant.

During 2009, management continued to administer programs designed to reduce the number of polices written by Citizens. Citizens' statutory mission includes providing property insurance to applicants who are in good faith entitled to obtain affordable insurance through the voluntary market but are unable to do so. Citizens' depopulation program is designed to return policies to the voluntary market. Takeout activity decreased in 2009 as compared to 2008. The private market has responded by removing policies from the Personal Lines Account, the Commercial

Financial Analysis (Continued)

Economic Factors (continued)

Lines Account and the High-Risk Account. During 2009, 132,803 PLA policies and 16,842 HRA policies were assumed by private insurers, as compared to 362,964 PLA policies, 601 CLA policies and 21,519 HRA policies assumed during 2008 and 247,923 PLA policies assumed during 2007 and 26,225 PLA policies and 41,628 HRA policies assumed during 2006.

Citizens' enabling legislation and Plan of operations established a process by which Citizens may levy assessments to recover any deficits incurred in a given year. Citizens' determination of the amount of assessment is subject to the verification of the mathematical calculation by the Office of Insurance Regulation. Citizens' ability to assess provides some assurance of its financial stability.

Financial Statements

Citizens Property Insurance Corporation
Statements of Net Assets

	December 31	
	2009	2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,218,519**	$ 4,229,514
Short-term investments	**3,294,534**	2,584,342
Restricted cash and cash equivalents	**14,409**	24,044
Deferred policy acquisition costs	**97,378**	112,182
Investment income due and accrued	**9,686**	9,796
Prepaid reinsurance premiums	**48,285**	137,154
Reinsurance recoverable	**23,511**	37,602
Premiums receivable, net	**120,642**	184,314
Premiums receivable from assuming companies	**4,201**	24,304
Current portion of assessment receivable	**90,296**	110,065
Total current assets	**6,921,461**	7,453,317
Noncurrent assets:		
Long-term investments	**1,872,215**	718,004
Deferred takeout bonus	**1,722**	4,865
Capital assets, net	**18,671**	29,253
Assessment receivable	**332,871**	509,434
Other assets	**2,963**	2,421
Total noncurrent assets	**2,228,442**	1,263,977
Total assets	**$ 9,149,903**	$ 8,717,294

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Assets
(Continued)

	December 31 2009	December 31 2008
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Loss reserves	**$ 605,641**	$ 698,023
Loss adjustment expense reserves	**136,506**	163,442
Unearned premiums	**995,328**	1,224,342
Reinsurance premiums payable	**35,076**	42,122
Advance premiums and suspended cash	**85,536**	87,753
Interest payable	**33,682**	51,627
Taxes and fees payable	**2,822**	4,651
Current portion of long-term debt	**713,113**	1,587,641
Other current liabilities	**77,615**	78,682
Total current liabilities	**2,685,319**	3,938,283
Noncurrent liabilities:		
Long-term debt	**2,017,046**	1,080,107
Total noncurrent liabilities	**2,017,046**	1,080,107
Total liabilities	**4,702,365**	5,018,390
Net assets:		
Invested in capital assets	**18,671**	29,253
Restricted	**14,409**	24,044
Unrestricted	**4,414,458**	3,645,607
Total net assets	**4,447,538**	3,698,904
Total liabilities and net assets	**$ 9,149,903**	$ 8,717,294

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Assets

	Years Ended December 31	
	2009	**2008**
	(In Thousands)	
Operating revenue:		
Premiums earned, net	**$ 1,711,429**	$ 2,256,628
Operating expenses:		
Losses incurred	**498,999**	815,938
Loss adjustment expenses incurred	**82,130**	115,698
Service company fees	**7,410**	9,760
Agent commissions, net	**185,713**	250,858
Taxes and fees	**35,047**	51,691
Processing and other fees	**1,340**	2,372
Other underwriting expenses	**125,922**	122,449
Takeout bonus (income) expense	**(7,089)**	9,824
	929,472	1,378,590
Operating income	**781,957**	878,038
Nonoperating revenues (expenses):		
Net investment income	**110,799**	11,740
Interest expense	**(131,881)**	(179,624)
Assessment income	**-**	-
Line of credit fees and note issuance costs	**(18,009)**	(76,794)
Other income	**5,502**	4,384
Total nonoperating (expenses)	**(33,589)**	(240,294)
Change in net assets	**748,368**	637,744
Net assets, beginning of year	**3,698,904**	3,060,094
Other changes in net assets	**266**	1,066
Net assets, end of year	**$ 4,447,538**	$ 3,698,904

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows

	Years Ended December 31	
	2009	**2008**
	(In Thousands)	
Operating activities		
Premiums collected, net of reinsurance	**$ 1,666,933**	$ 1,827,693
Losses and loss adjustment expenses paid	**(700,447)**	(795,571)
Payments to employees for services	**(64,733)**	(56,455)
Payments for underwriting expenses	**(261,624)**	(323,771)
Other operating receipts (payments)	**-**	-
Net cash provided by operating activities	**640,129**	651,896
Noncapital financing activities		
Debt issuance	**1,663,036**	1,769,880
Debt redemption	**(1,591,580)**	(4,800,000)
Interest paid	**(171,582)**	(174,958)
Assessment income received	**196,332**	217,527
Financing costs paid	**(5,297)**	(1,048)
Net cash (used in) provided by noncapital financing activities	**90,909**	(2,988,599)
Capital and related financing activities		
Capital assets acquired	**(1,747)**	(13,122)
Net cash used in capital and related financing activities	**(1,747)**	(13,122)
Investing activities		
Proceeds from investments sold, matured or repaid	**18,837,185**	24,869,920
Investments acquired	**(18,875,032)**	(25,187,680)
Net investment income received (paid)	**(1,712,074)**	3,598,936
Net cash used in investing activities	**(1,749,921)**	3,281,176
Net (decrease) increase in cash and cash equivalents	**(1,020,630)**	931,351
Cash and cash equivalents:		
Beginning of year	**4,253,558**	3,322,207
End of year	**$ 3,232,928**	$ 4,253,558
Classified as:		
Cash and cash equivalents	**$ 3,218,519**	$ 4,229,514
Restricted cash and cash equivalents	**14,409**	24,044
	$ 3,232,928	$ 4,253,558

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31	
	2009	**2008**
	(In Thousands)	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 787,459**	$ 882,422
Depreciation expense	**12,329**	12,672
Loss on disposal of capital assets	**-**	-
Adjustments to reconcile net cash provided by operating activities:		
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	**14,804**	37,739
Prepaid reinsurance premiums	**88,869**	7,579
Reinsurance recoverable	**14,091**	84,803
Premiums receivable, net	**83,775**	(70,999)
Income tax benefit	**-**	-
Deferred takeout bonus	**3,143**	9,910
Other assets	**(514)**	2,562
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	**(119,318)**	136,065
Unearned premiums	**(229,014)**	(407,536)
Reinsurance premiums payable	**(7,046)**	(226)
Advance premiums and suspended cash	**(2,217)**	(42,782)
Taxes and fees payable	**(1,829)**	(7,205)
Other current liabilities	**(4,669)**	5,826
Other changes in net assets	**266**	1,066
Net cash provided by operating activities	**$ 640,129**	$ 651,896
Noncash supplementary information		
Net unrealized (gain) loss on investments	**$ (17,804)**	$ 32,219

See accompanying notes to financial statements.

NOTE 1 - GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and the necessity of Citizens to provide insurance that was affordable.

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State. Prior to October 1, 2006, the Plan was subject to the approval of the Office.

Citizens is supervised by a Board of Governors (the Board) which consists of eight individuals who reside in the State of Florida. The Governor, the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' president (executive director) and senior managers are engaged by and serve at the pleasure of the Board. The president (executive director) is subject to confirmation by the Florida Senate.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, Citizens is a component unit of the State of Florida and its financial activity is reported in the state's Comprehensive Annual Financial Report by discrete presentation.

NOTE 1 - GENERAL (CONTINUED)

The financial statements presented herein relate solely to the financial position and results of operations of Citizens and are not intended to present the financial position of the State of Florida or the results of its operations or its cash flows.

Citizens has determined that it has no component units that should be included in its separately reported financial statements. However, the Florida Market Assistance Plan (FMAP) is a financially related entity. FMAP is a 501(c)(6) entity created by Section 627.3515, Florida Statutes. FMAP was created for the purpose of assisting in the placement of applicants who are unable to procure property or casualty insurance coverage from authorized insurers when such insurance is otherwise generally available. As provided in FMAP’s enabling legislation, each person serving on the Board of Citizens also serves on the Board of FMAP. In addition, Citizens is required to fund any deficit incurred by FMAP in performing its statutory purpose. Citizens is not required to include FMAP as component unit in its financial statements because FMAP’s total assets and total revenue are not significant to Citizens.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the High-Risk Account. A brief history of each account follows:

Personal Lines Account history - The Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property insurance coverage to qualified risks in the State of Florida (on a statewide basis) to applicants who were in good faith entitled to procure insurance through the private market but were unable to do so. Residential property coverage consists of the types of coverage provided to homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies. The policies provide coverage for all perils covered under a standard residential policy, subject to certain underwriting requirements. Such policies exclude windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account under Citizens.

Commercial Lines Account history **–** The Florida Property and Casualty Joint Underwriting Association (FPCJUA) was activated in early 1994 to provide commercial residential coverage, i.e., coverage for condominium associations, apartment buildings and homeowner associations, to organizations unable to obtain such coverage from a private insurer. During 1995, legislation was enacted to transfer all obligations, rights, assets, and liabilities related to commercial residential coverage from the FPCJUA to the FRPCJUA. The legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. This portion of the FRPCJUA's activities became the Commercial Lines Account under Citizens. In 2006, the FPCJUA was re-activated to provide commercial non-residential wind only coverage. In 2007, legislation was enacted which resulted in the transfer and assumption of the FPCJUA’s commercial non-residential policies by Citizens. These policies were added to the Commercial Lines Account.

NOTE 1 - GENERAL (CONTINUED)

High-Risk Account history – The Florida Windstorm Underwriting Association (FWUA), which was a residual market mechanism for windstorm and hail coverage in select areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High Risk Account under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies and practices of Citizens conform to accounting principles generally accepted in the United States applicable to a proprietary fund of a government unit. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Citizens applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Citizens' has also elected to apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

GASB Statement No. 34 established standards for financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. It requires net assets to be classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. As of December 31, 2009 and 2008, Citizens did not have any outstanding debt that was attributable to capital assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

- Restricted net assets – This component of net assets includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Adoption of New Accounting Standards

On January 1, 2006, Citizens adopted the provisions of FASB Accounting Standards Codification (ASC) No. 740, Accounting for Uncertainty in Income Taxes. As a result of the implementation of ASC No. 740, Citizens has not recognized any respective liability for unrecognized tax benefits as it has no known tax positions that would subject Citizens to any material income tax exposure.

Measurement Focus

The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of Citizens are included in the statement of net assets. The statement of revenues, expenses and changes in net assets presents increases (revenues) and decreases (expenses) in total net assets. The statement of cash flows provides information about how Citizens finances and meets the cash flow needs of its activities.

Cash, Cash Equivalents, and Investments

Cash consists of demand deposits held with financial institutions, various highly liquid money market funds, other short term corporate obligations and agency discount notes. For purposes of the statement of cash flows, highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash.

Investments consist of relatively high credit quality, highly liquid fixed-income securities. Such investments are recorded at market value, which is based on independent quoted market prices. If quoted market prices are not available, broker quotes or an estimation of the current liquidation values is determined through a collaborative process among various pricing experts and sources in the marketplace. Although the estimate reflects an attempt to reasonably reflect stressed circumstances that currently exist, the amount actually realized if the securities were liquidated at any time could be more or less than the estimate. Citizens considers all investments with remaining maturities of one year or less to be short-term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Policy Acquisition Costs

Costs which vary directly with acquiring, renewing and servicing an insurance policy such as net agent commissions, servicing company fees and other taxes and fees (see Note 7) are deferred and recognized over the term of the related policy. Amortization of deferred policy acquisition costs recognized for the years ended December 31, 2009 and 2008 was $239.0 million and $319.8 million, respectively.

Deferred Takeout Bonus

Takeout bonuses incurred in connection with the depopulation of Citizens (see Note 12) are deferred and amortized over the term of the related agreement under which the policy is removed from Citizens, which is generally a three-year period.

Capital Assets

Capital assets are stated at cost less related accumulated depreciation. The capitalization threshold for assets purchased in 2008 was increased to $2,500 from $1,000. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Depreciation expense for fixed assets was $12.3 million and $12.7 million for the years ended December 31, 2009 and 2008.

Loss Reserves and Loss Adjustment Expense Reserves

Liabilities for loss reserves and loss adjustment expense reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. However, no assurance can be given that the ultimate settlement of losses may not vary significantly from the reserves provided. Adjustments, if any, to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. Citizens' does not discount liabilities for loss reserves and loss adjustment expense reserves.

Premiums

Premiums are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period are recorded as unearned premiums.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using estimated annual premiums for each policy and are paid either through an installment plan offered by Citizens or in their entirety at the inception of the policy. An

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums (Continued)

allowance for doubtful accounts is recorded for the estimated uncollectible amounts and was $3.6 million and $7.6 million at December 31, 2009 and 2008, respectively.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer residential and commercial property insurance coverage and to carryout programs for the reduction of new and renewal writings.

Assessments

Citizens assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as receivable in the period approved by the Board and verified by the Office for mathematical accuracy (See Note 15). Assessment receivables are considered to be fully collectible.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include both catastrophic reinsurance purchases and depopulation premiums.

Note Issuance Costs

Note issuance costs incurred in connection with acquiring notes payable (see Note 6) are deferred and amortized over the life of the note agreements.

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market Risk

Citizens' underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 52.82% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach as of December 31, 2009. Approximately 10.59% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties as of December 31, 2009. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. (See Note 15).

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, premiums receivable, and investments. The Company's cash management and investment policies restrict investments by type, credit and issuer, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 31, 2009, management believes the Company had no significant concentrations of credit risk other than those disclosed in Note 3.

Reclassifications

Certain reclassifications have been made to the 2008 amounts to conform to the 2009 presentation.

NOTE 3 - INVESTMENTS

The investment of bond proceeds are required by the bond documents to be held in "permitted investments". Permitted investments generally must be rated in one of the two or three highest rating categories of each of the Rating Agencies, depending on the type of investment. Permitted investments include certificates of deposit, money market funds, U.S. Government or Agency obligations, commercial paper, municipal obligations, corporate securities, investments in the Local Government Investment Pool, investments in the Special Purpose Investment Account, and repurchase agreements collateralized by U.S. Government or Agency obligations.

Citizens' short-term investments include shares held in the Florida State Board of Administration's Florida Prime ("SBA Florida Prime"), formerly known as the Florida State Board of Administration's Local Government Investment Pool ("LGIP"). The entire $48.1 million invested in the SBA Florida Prime at December 31, 2009 is invested in Fund B, which has been frozen from investor withdrawals due to that portfolio's investment in distressed

NOTE 3 - INVESTMENTS (CONTINUED)

illiquid assets. As principal and interest payments are received, Citizens' allocable portion is eligible for withdrawal and such withdrawals have been consistently made. Fund B is accounted for as a fluctuating net asset value pool, which had a market value factor at December 31, 2009 of 0.649. Fund B is not rated by any nationally recognized statistical rating agency. Citizens recognized a decline in value of $30.1 million on its holdings in 2008. Full realization of the principal value of Pool B assets is not readily determinable. Citizens withdrew all monies in Fund A by December 31, 2008.

Citizens has adopted both taxable and tax-exempt investment policies which apply to all funds under its control, including bond proceeds. Such investment policy is at least or more restrictive than the bond documents require. The investment policies provide that a significant portion of Citizens' assets should be in relatively short duration instruments and the majority of Citizens' assets should have a weighted duration consistent with the objectives of maximizing return without exposure to interest rate risk. Citizens may invest in fixed or variable rate instruments that have minimum ratings as specified in the investment policy by one of the Rating Agencies. The minimum ratings differ by security type. Any type of investment security or contract that is not specifically identified in the investment policy is prohibited. All securities in the portfolio should have a maximum maturity of 3 years. The entire portfolio must be convertible into cash within 15 business days to provide prompt payment of potential claims.

- ***Credit Risk Disclosure -*** Credit Risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by one of the three Nationally Recognized Rating Agencies. The table which follows is the Market Value by rating classification as reported by Moody's. (See discussion of rating agencies in "Economic Factors" under "Management's Discussion & Analysis"). This table includes debt securities of the US government and obligations of U.S. government agencies that are explicitly guaranteed, including U.S. Treasury investments as well as corporate bonds.

Rating	**Market Value**
	(in thousands)
A1	$ 246,191
A2	274,745
A3	83,802
AA1	312,581
AA2	188,861
AA3	282,572
AAA	3,146,175
B1	7,778
BAA1	0

NOTE 3 - INVESTMENTS (CONTINUED)

Credit Risk Disclosure (continued)

BAA2		0
MIG1		90,428
P-1		275,795
Not Rated/Rating Withdrawn		255,863
Agency Mortgage Backed Securities		1,958
	$	**5,166,749**

- ***Custodial Risk Credit*** **-** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Citizens would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Citizens had no investments with custodial credit risk as of December 31, 2009 and 2008, respectively. All investments were held by Citizens or its agent in Citizens' name.

- ***Concentration of Credit Risk*** **–** An increased risk of loss occurs as more investments are acquired from one issuer which results in a concentration of credit risk. Citizens does not have any single issuer that exceeded 5% of the investment portfolio.

- ***Interest Rate Risk*** **–** Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Citizen's measures this risk by using the weighted average maturity method. The company's investment policy requires that the weighted average maturity of the portfolio not exceed 90 days. This policy takes interest rate reset dates, primarily related to tax-exempt Variable Rate Demand Notes and Floating Rate Notes, into consideration. The table which follows reflects the weighted average maturity, without consideration of resets, by security type at December 31, 2009. By not considering interest rate reset dates, the weighted average maturity below appears longer in duration than it would if reset dates had been considered.

		Market Value *(in thousands)*	**Weighted Average Maturity**
U.S. Government & Agency	$	3,526,605	2,212 Days
Corporate		1,638,186	402 Days
Mortgage Backed Securities		1,958	1,790 Days
	$	5,166,749	1,638 Days

No other types of investments or securities were held during the year that were sold before year-end.

NOTE 3 - INVESTMENTS (CONTINUED)

- ***Foreign Currency Risk –*** Citizens had no investments with foreign currency risk at December 31, 2009 and 2008, respectively. All investments were dominated in U.S. dollars.

NOTE 4 - FIXED ASSETS

A summary of changes in fixed assets and depreciation for the year ended December 31, 2009 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
	(in thousands)			
Leasehold improvements	$ 7,258	$ 21	$ -	$ 7,279
Furniture and equipment	33,015	1,154	(81)	34,088
Other capital assets	30,907	572	-	31,479
Totals at historical cost	71,180	1,747	(81)	72,846
Less accumulated depreciation for:				
Leasehold improvements	(1,872)	(689)	-	(2,561)
Furniture and equipment	(18,575)	(6,392)	66	(24,901)
Other capital assets	(21,480)	(5,233)	-	(26,713)
	(41,927)	(12,314)	66	(54,175)
	$ 29,253	$ (10,567)	$ (15)	$ 18,671

A summary of changes in fixed assets and depreciation for the year ended December 31, 2008 follows:

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
	(in thousands)			
Leasehold improvements	$ 6,228	$ 1,130	$ (100)	$ 7,258
Furniture and equipment	26,479	6,838	(302)	33,015
Other capital assets	25,753	5,154	-	30,907
Totals at historical cost	58,460	13,122	(402)	71,180
Less accumulated depreciation for:				
Leasehold improvements	(1,241)	(663)	32	(1,872)
Furniture and equipment	(12,587)	(6,262)	274	(18,575)
Other capital assets	(15,830)	(5,650)	-	(21,480)
	(29,658)	(12,575)	306	(41,927)
	$ 28,802	$ 547	$ (96)	$ 29,253

NOTE 5 - LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
	(in thousands)	
Loss reserves and loss adjustment expense reserves, beginning of year	$ 861,465	$ 725,400
Incurred related to:		
Current year	674,431	839,708
Prior years	(93,302)	91,928
Total incurred	581,129	931,636
Paid related to:		
Current year	307,072	413,175
Prior years	393,375	382,396
Total paid	700,447	795,571
Loss reserves and loss adjustment expense reserves, end of year	$ 742,147	$ 861,465

As a result of changes in estimates of insured events in prior years, primarily due to the estimation of costs relating to prior year hurricane claims, the provision for loss and loss adjustment expenses deceased by $93.3 and increased by $91.9 million in 2009 and 2008, respectively.

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by Citizens through its employees and through contracted independent adjusting firms. Citizens tends to rely more heavily on independent adjusting firms for catastrophic events than for non-catastrophic claims. Citizens compensates these firms, depending upon the type or nature of the claims, either on per-day rate or on a graduated fee schedule based on the gross claim amount, consistent with industry standard methods of compensation.

NOTE 6 - BONDS PAYABLE

Series 2004A through 2004I Bonds – During May 2004, Citizens issued $750 million of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates, based on 30-day LIBOR, for generally successive 28-day auction periods. These bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or

NOTE 6 - BONDS PAYABLE (CONTINUED)

Series 2004A through 2004I Bonds (continued)

reimbursements received from the FHCF. No principal payments were made during 2007. The bonds were redeemed in May 2008 after the Auction Rate Securities market collapsed.

Series 2006A1 through 2006A22 Bonds – During July 2006, Citizens issued $3.05 billion of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates for generally successive 7-day and 28-day auction periods. The bonds are secured by pledged revenues which consist of moneys and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. No principal payments were made during 2007. The bonds were redeemed in May 2008 after the Auction Rate Securities market collapsed.

Series 2007A Senior Secured Refunding Bonds - On February 26, 2007 Citizens issued $1.06 billion of tax exempt post event High-Risk Account Senior Secured Refunding Bonds, Series 2007A at a premium of $60.1 million for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the FWUA, a predecessor of Citizens. In order to refund these notes Citizens paid a make whole call premium at the time of refunding, amounting to $181.1 million that was calculated on the current yield of a twelve year treasury note plus 30 basis points. The 2007A bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The bond maturity dates range from March 1, 2008 to March 1, 2017. The principal reduction on these notes was $91.6 million and $50 million during 2009 and 2008, respectively. Outstanding maturities net of unamortized premiums were $953.7 and $1.05 billion, respectively, as of December 31, 2009 and 2008.

Series 2007-1 through 2007-10 Bonds – During July 2007, Citizens issued $950 million of senior secured bonds for the purpose of funding losses in the Personal Lines Account and the Commercial Lines Account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates for generally successive 7-day auction periods. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. No principal payments were made during 2007. The bonds were redeemed in April 2008 after the Auction Rate Securities market collapsed.

Series 2008 Senior Secured Bonds **–** On June 30, 2008 Citizens issued $250 million of High-Risk Account tax-exempt senior secured bonds, Series 2008A-1 and $1.5 billion of High-Risk Account tax-exempt senior secured bonds, Series 2008A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The bonds bear interest ranging from 4.50%

NOTE 6 - BONDS PAYABLE (CONTINUED)

Series 2008A Senior Secured Bonds (continued)

to 5.00% per annum, payable semi-annually on June 1st and December 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The bond maturity dates range from June 1, 2009 to June 1, 2011. The principal reduction on these notes was $1.5 billion and $0 during 2009 and 2008, respectively. Outstanding maturities net of unamortized premiums were $252.1 million and $1.76 billion, respectively, as of December 31, 2009 and 2008.

***Series 2009 Senior Secured Bonds* –** On May 7, 2009 Citizens issued $1.02 billion of High-Risk Account tax-exempt senior secured bonds, Series 2009A-1 and $625 million of High-Risk Account tax-exempt senior secured bonds, Series 2009A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2009A-1 bonds bear interest ranging from 4.00% to 6.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2009A-2 bonds bear interest of 4.50% per annum, payable on May 1, 2010 and on June 1, 2010. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The bond maturity dates range from June 1, 2009 to June 1, 2017. No principal payments were made during 2009. Outstanding maturities net of unamortized premiums were $1.66 billion as of December 31, 2009.

A schedule of debt service requirements, including principal and interest, is as follows:

Year Ending December 31	Principal	Interest	Total
		(in thousands)	
2010	$ 721,160	$ 142,435	$ 863,595
2011	350,995	101,350	452,345
2012	212,485	87,430	299,915
2013	111,530	79,487	191,017
2014	285,275	69,414	354,689
2015-2019	1,135,515	113,210	1,248,725
2020-2024	0	0	0
2025-2029	0	0	0
Total	$ 2,816,960	$ 593,326	$ 3,410,286

Unamortized net premium at December 31, 2009 was $47.5 million.

The total interest expense on the Bonds for the years ended December 31, 2009 and 2008 was $131.9 million and $179.6 million including amortized premium of $21.8 million and $19.8

NOTE 6 - BONDS PAYABLE (CONTINUED)

million, respectively, and is included in interest expense in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Total deferred issuance costs related to all notes was $134.3 million and $147.0 million at December 31, 2009 and 2008 and is included in “Long term debt” in the Statement of Net Assets. Total bond premium related to all notes was $47.5 million and $52.3 million at December 31, 2009 and 2008 and is also included in “Long term debt” in the Statements of Net Assets.

A summary of changes in long-term liabilities for the year ended December 31, 2009 follows (in thousands):

	12/31/2008	Additions	Reductions	12/31/2009	Due within one year
Bonds Payable - Face	$ 2,762,540	$ 1,646,000	$(1,591,580)	$ 2,816,960	$ 721,160
Less Deferred Issuance Costs and Bond Discount/Premium	(94,792)	4,988	3,003	(86,801)	(8,047)
Bonds Payable	$ 2,667,748	$ 1,650,988	$ (1,588,577)	$ 2,730,159	$ 713,113

Interest Rate Swap Agreements – Citizens had no interest rate exchange agreements outstanding at December 31, 2009 and 2008.

NOTE 7 - AGENT COMMISSIONS AND SERVICING COMPANY FEES

Citizens has contracted with various insurance agents licensed in the State of Florida. These agreements provide for commissions to be paid to the agents at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments.

Additionally, Citizens has entered into agreements with two servicing companies to provide certain services. The first servicing company provides underwriting and policy management services. The agreement provides for monthly compensation to the company based on a “Per Transaction Fee” applied to the number of transactions processed in a monthly cycle. During 2009, the servicing agreement was extended through September 30, 2010 on the same (or similar) terms. The second servicing company provides underwriting, policy management,

NOTE 7 - AGENT COMMISSIONS AND SERVICING COMPANY FEES (CONTINUED)

premium collection, claims administration and claims payment services; claim services were eliminated from this agreement beginning February 19, 2008 and this agreement expired on November 15, 2008 (with policy servicing in a run-off stage through the end of the policy periods). This agreement provides for monthly compensation to the company based on a portion decreasing from 15% to 6% of the related policies' net written premium as total net written premium increases. In addition, the agreement provides for the servicing company to receive policy issuance fees, as well as inspection fees. Service company fees included in the Statements of Revenues, Expenses and Changes in Net Assets were $7.4 million and $9.8 million, during 2009 and 2008, respectively.

NOTE 8 - INCOME TAXES

Pursuant to a determination letter received from the Internal Revenue Service, Citizens is exempt from federal income tax as a political subdivision and integral part of the State of Florida and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt.

NOTE 9 - LINE OF CREDIT AGREEMENTS

Effective May 7, 2009, Citizens entered into a $400 million credit agreement (the 2009 PLA/CLA Line of Credit) with a syndication of banks to pay claims and liabilities and expenses related to claims under the Personal and Commercial Lines Accounts. The 2009 Line of Credit is secured by a security interest in anticipation of revenues consisting of FHCF reimbursements and/or regular assessments, including additional surcharges or assessments. The expiration of the agreement is May 6, 2010. Citizens is required to pay an annual Facility Fee of 1.4% on the unused portion of the facility. This rate is based on ratings by Moody's Investor Service, Inc. ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") of A-/A3 or better, on Personal and Commercial Lines Accounts long-term debt. The current PLA/CLA ratings are A2/A+ from Moody's and S&P, respectively. Unused facility fee expense and closing fees associated with this credit agreement were $2.5 million and $0.53 million for the year ended December 31, 2009, respectively. As of December 31, 2009, there were no amounts outstanding under this agreement.

Effective May 15, 2008, Citizens entered into a $1.67 billion credit agreement (the 2008 PLA/CLA Line of Credit) with a syndication of banks to pay claims and liabilities and expenses related to claims under the Personal and Commercial Lines Accounts. The 2008 Line of Credit is secured by a security interest in anticipation of revenues consisting of FHCF reimbursements and/or regular assessments, including additional surcharges or assessments. The expiration of the agreement was May 14, 2009. Citizens was required to pay an annual Facility Fee of .70% on the unused portion of the facility. This rate is based on ratings by Moody's Investor Service, Inc. ("Moody's") and Standard and Poor's Ratings Services, a division of The McGraw-Hill

NOTE 9 - LINE OF CREDIT AGREEMENTS (CONTINUED)

Companies, Inc. ("S&P") of A-/A3 or better, on Personal and Commercial Lines Accounts long-term debt. The current PLA/CLA ratings are A2/A+ from Moody's and S&P, respectively. Unused facility fee expenses associated with this credit agreement were $4.11 million and $4.68 million for the years ended December 31, 2009 and 2008, respectively. Closing fees paid for this credit agreement were $1.85 million for the year ended December 31, 2008.

NOTE 10 - REINSURANCE AGREEMENTS

Citizens participates in the Florida Hurricane Catastrophe Fund (the FHCF). The FHCF will reimburse Citizens a specified percentage of losses incurred relating to a hurricane in Florida if a prescribed retention is reached. Premiums ceded to the FHCF, net of refunds received, totaled $509.2 million and $440.4 million, respectively, during 2009 and 2008 and are included in "Premiums earned" in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. The High-Risk Account is treated for all FHCF purposes as if it were a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the Personal and Commercial Lines Accounts are viewed together for FHCF purposes, as if the two accounts were one and represent a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. The FHCF coverages and retention amounts by account are as follows:

	2009		**2008**	
	Coverage Amounts	**Retention Amounts**	**Coverage Amounts**	**Retention Amounts**
Personal and Commercial Lines Accounts	**$ 2,926 million**	**$ 769 million**	$ 3,478 million	$ 779 million
High-Risk Account	**5,952 million**	**1,564 million**	6,682 million	1,497 million

Citizens did not purchase private reinsurance in 2009. However, Citizens purchased private reinsurance for the High Risk Account in 2008. The private reinsurance will reimburse Citizens a specified percentage of losses incurred relating to hurricanes in Florida if a prescribed retention is reached. Reinsurance is on a per occurrence basis. Premiums ceded to private reinsurers, net of refunds received, totaled $105.1 million during 2008 and are included in "Premiums earned, net" in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. The private reinsurance coverages and retention amounts by account were as follows:

	2008	
	Coverage Amounts	**Retention Amounts**
High-Risk Account	**$ 446 million**	**$ 1,671 million**

NOTE 10 - REINSURANCE AGREEMENTS (CONTINUED)

The effect of reinsurance on premiums written and earned is as follows:

	2009		2008	
	Premiums		Premiums	
	Written	Earned	Written	Earned
	(in thousands)			
Direct	**$ 2,181,283**	**$ 2,410,298**	$ 2,771,846	$ 3,179,382
Ceded	**(610,000)**	**(698,869)**	(915,176)	(922,754)
Net premiums	**$ 1,571,283**	**$ 1,711,429**	$ 1,856,670	$ 2,256,628

Citizens is entitled to $1.1 billion in FHCF reimbursements and to $48.6 million in private reinsurance reimbursements in the High Risk Account related to losses incurred and paid as a result of hurricane Wilma in 2005. Citizens is also entitled to $95.0 million in private reinsurance reimbursement in the Personal Lines Account related to losses incurred and paid as a result of all four hurricanes (Dennis, Katrina, Rita and Wilma) in 2005. The losses incurred and the loss adjustment expenses incurred are presented net of these anticipated recoveries in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. FHCF recoveries of $935.0 million and private reinsurance recoveries of $124.0 million were received as of December 31, 2009.

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. Reinsurance contracts do not relieve Citizens from its obligation to policyholders. Citizens remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements.

Premium ceded above also includes premium ceded to companies that assume policies pursuant to a depopulation program (See Note 12).

NOTE 11 - RETIREMENT PLAN

Deferred Compensation Plan

Citizens sponsors a 457(b)/401(a) defined contribution employee savings plan for qualified employees (the Savings Plan). The Savings Plan qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Citizens matches 100% of each employee's contributions, up to a maximum of 8% of the employee's pretax earnings. Citizens' matching contributions to the Savings Plan were $2.7 million and $2.5 million for the years ended December 31, 2009 and

NOTE 11 - RETIREMENT PLAN (CONTINUED)

Deferred Compensation Plan (continued)

2008, and are included in "Other underwriting expenses" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 12 - DEPOPULATION

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Office, for the reduction of both new and renewal writings. Both of the pre-merger entities, the FRPCJUA and the FWUA, were also authorized to adopt and did enact such programs. However, the FRPCJUA was the only entity authorized to pay bonuses related to such programs. Agreements were entered into with various insurance companies (the Takeout Company or Companies) licensed in the State of Florida to remove policies from the FRPCJUA or the FWUA.

Policies may be removed from Citizens at policy renewal or as part of a bulk assumption (Assumption Agreement). In an assumption, the Takeout Company is responsible for losses occurring from the assumption date through the expiration of the Citizens' policy period (the "assumption period").

During 2009 and 2008, Citizens ceded $100.8 million and $369.7 million in premiums to Takeout Companies pursuant to Assumption Agreements which is included in "Premiums earned, net" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. While Citizens is not liable to cover claims after the assumption (unless it allows the insured to return to Citizens for coverage), Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2009 and 2008, assumed premiums in the amount of $4.2 million and $22.8 million were due from certain Takeout Companies.

Certain agreements provide for a policy takeout bonus of up to 25% of policy premium to be paid to the Takeout Companies. Such takeout bonuses have been placed into escrow bank accounts pursuant to an escrow agreement. After a specific time period, funds placed in escrow will be released to the Takeout Companies in accordance with the policy takeout agreement. During 2009 and 2008, Citizens paid $19.1 million and $8.3 million, respectively, out of escrow (net of certain recoveries). Citizens did not fund escrow in 2009. During 2008, Citizens paid $1.0 million into escrow in accordance with the policy takeout agreements for policies removed in 2007. Citizens did not have a takeout bonus policy in effect for 2009 or 2008 depopulation

NOTE 12 - DEPOPULATION (CONTINUED)

programs. The 2008 funding of escrow was an adjustment for bonus policies removed in 2007. In 2009 and 2008 respectively, 149,645 and 385,084 policies were removed from Citizens pursuant to its depopulation program.

At the end of the applicable time period, Citizens requires the Takeout Companies to have an independent audit of the policies for which they are claiming a bonus to determine if the policy is properly classified and is eligible for payment. Based upon results of that audit, Citizens evaluates the original amounts placed into escrow to determine if the escrow account is over or underfunded. During 2009 and 2008, Citizens paid into escrow $0 for underfunded accounts and received $10.2 million and $1.1 million, respectively, for overfunded accounts. These amounts are included in "Takeout bonus (income) expense" in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

NOTE 13 - OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $7.2 million and $6.9 million for the years ended December 31, 2009 and 2008. At December 31, 2009, future minimum payments under operating leases are as follows (in thousands):

2010	$ 4,187
2011	3,394
2012	2,088
2013	2,141
2014	1,278
2015	623
Total	$ 13,711

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Citizens has been informed that the Securities and Exchange Commission, the Florida Office of Financial Regulation, the State of New York Office of the Attorney General Bureau of Investor Protection and the Texas State Securities Board (collectively, the "Agencies") have opened inquiries or investigations of Citizens' purchase of its own auction rate securities in early 2008. Citizens is voluntarily cooperating with the Agencies and is of the belief that any action, if any, by one or more of the Agencies will not materially affect the financial condition of Citizens.

Citizens is involved in certain litigation and disputes incidental to its operations. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting therefrom, will not have a material adverse effect on the financial condition or results of operations of Citizens.

NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Citizens is also involved in other potentially significant litigation described below. Due to the preliminary nature of this litigation, Citizens has not determined the effect, if any, on the financial condition or results of operations.

A summary of potentially significant litigation follows:

Poe & Associates, L.L.C. ("Associates") v. Citizens. This lawsuit relates to Citizens' June 2006 termination of its agent appointment agreement with Associates, thereby preventing Associates from being able to receive future commissions on policies that Citizens issued to former policyholders of insolvent insurance companies affiliated with Associates and owned by Poe Financial Group, Inc. (See Note 16). Associates seeks significant damages. Its many claims include breach of contract, tortuous interference, equal protection violations, and regulatory taking. Citizens believes it will ultimately prevail on all claims presented.

Schirmer v. Citizens. This is a putative class action although the court has not certified the class. Potential class members are Citizens' policyholders who made wind damage claims. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits.

Everhart, individually and on behalf of all others similarly situated v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who made wind damage claims. At issue is whether Citizens appropriately calculated and paid ordinance and law policy benefits.

Citizens v. San Perdido and Citizens v. Perdido Sun. Citizens is appealing the trial court's ruling that Citizens does not have sovereign immunity for a cause of action of statutory bad faith pursuant to Section 624.155, Florida Statutes. Citizens recently prevailed on this issue in the Florida 5th DCA in *Garfinkel v. Citizens, 2009 WL 4874789 (Fla.App. 5 Dist.).* In the event of a 1st DCA opinion in conflict with the 5th DCA, the issue will be resolved by the Florida Supreme Court.

Risk Management Programs

In addition to claims under the insurance policies it issues, Citizens is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As a state government entity, Citizens has immunity from certain claims. As of the end of 2009, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, and directors and officers' liability. Management continuously reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

NOTE 15 - ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with accounting principles generally accepted in the United States (GAAP), adjusted for certain items.

In the event of a Plan Year Deficit in an Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the "Citizens Policyholder Surcharge") in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premiums. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on Assessable Insurers and Assessable Insureds, each as defined herein. The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 6% of such premium per account.

Regular Assessments are levied on Assessable Insurers, as defined in Section 627.351(6), Florida Statutes, based upon each Assessable Insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on Assessable Insureds, collectively, are based on the ratio of the amount being assessed for an Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

If the deficit in any year in any Account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all Assessable Insurers, Surplus Lines Agents and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the Account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs. The Regular Assessment base excludes Citizens policies (while the Emergency Assessment base includes Citizens policies). Prior to the enactment of the 2007 Legislation, the Regular Assessment base for each Account was only the property lines of business.

The legislature, in Section 44 of 2006 SB 1980, appropriated $715 million to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of $87.2 million and $4.6 million, respectively. The balance of

NOTE 15 - ASSESSMENTS (CONTINUED)

$623.3 million then partially reduced the High Risk Account deficit and Regular Assessment. The remaining $163.1 million High Risk Account Regular Assessment and the $887.5 million Emergency Assessment were approved in 2006. The Emergency Assessment is being collected over a ten year period which commenced July 1, 2007.

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS

In 2006, the Florida Legislature amended Citizens' enabling statute to provide that, if ordered by a court of competent jurisdiction, Citizens could "assume policies or otherwise provide coverage for policyholders of an insurer placed in liquidation under Chapter 631 under such forms, rates, terms, and conditions as the corporation deems appropriate, subject to approval by the Office and ordered by the liquidation court.

Three insurers affiliated with Poe Financial Group, Inc. - Southern Family Insurance Company, Atlantic Preferred Insurance Company, and Florida Preferred Property Insurance Company (the "Poe Insurers") - were placed into liquidation by court order. The Florida Department of Financial Services, Division of Rehabilitation and Liquidation, was named the Receiver of the Poe Insurers. Under the court order and Florida law, coverage with the Poe Insurers ended on July 1, 2006.

A liquidation plan was approved by the Florida Office of Insurance Regulation (OIR) and ordered by the court whereby, effective July 1, 2006, Citizens was to provide transition insurance coverage ("Transition Policies") to eligible policyholders of the Poe Insurers who could not obtain private coverage. Policy claims on losses occurring during the transition period (i.e. from July 1, 2006 until the expiration of the original Poe Insurer policy period), were processed and paid by Citizens. Any losses incurred on policies of the Poe Insurers prior to July 1, 2006 were processed and paid by the Florida Insurance Guaranty Association (FIGA).

Under a 2006 amendment to the statute governing the Florida Hurricane Catastrophe Fund (FHCF), Citizens was able to purchase FHCF coverage for the Transition Policies at a cost of approximately $75.0 million for $1.0 billion of coverage.

Citizens received approximately 308,000 homeowner and 1,700 commercial residential Transition Policies. To assist with the increased business to Citizens, Citizens hired an additional 160 employees who were formerly employees of affiliates of the Poe Insurers in Tampa.

As the Transition Policies expired, policyholders were required to reapply to Citizens for coverage under Citizens policy forms and eligibility requirements. All transition policies had expired by June 30, 2007.

The Unearned Premium due to Citizens for providing the transition coverage was calculated by the Receiver, i.e. the Department of Financial Services, and will be paid by FIGA. Under the Plan of Liquidation, FIGA must pay the unearned premium due to Citizens in six installments

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS (CONTINUED)

over three years. Citizens has received payments of $223.4 million from FIGA through December 2009.

Citizens recorded an estimate of the unearned premium as of July 1, 2006 and a corresponding receivable due from FIGA and recognized an estimate of the earned premium each month thereafter. As of December 31, 2009, the receivable due from FIGA was $0. As of December 31, 2008, the receivable due from FIGA was $61.7 million and is included in "Premiums receivable, net" in the accompanying Statements of Net Assets. This receivable is net of guaranty fund assessments FIGA levied on Citizens in October 2007 and November 2009 of $68.0 million and $22.2 million, respectively. Citizens has also recorded a receivable for the recoupment of these assessments from its policyholders.

NOTE 17 - SUBSEQUENT EVENTS

2010 HRA Senior Secured Bonds

***Series 2010 Senior Secured Bonds* –** On April 6, 2010 Citizens issued $1.55 billion of High-Risk Account tax-exempt senior secured bonds, Series 2010A-1, $500 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-2 (short-term notes) and $350 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2010A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2009A-2 bonds bear interest of 2.00% per annum, payable at their maturity on April 21, 2011. The Series 2009A-3 bonds have a variable interest rate (SIFMA rate plus 1.75%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The bond maturity dates range from April 21, 2011 to June 1, 2017.

NOTE 18 - RESTRICTED CASH

This restriction of cash represents assessments that were, in accordance with the Act, over-collected by the Florida Surplus Lines Servicing Office (FSLSO) from surplus lines insureds with respect to the 2004 Plan Year Deficit. Pursuant to a consent order, the Florida Office of Insurance Regulation, FSLSO and Citizens agreed that this cash would be included in Citizens restricted surplus until such time future regular and emergency assessments would otherwise be payable by surplus lines insureds. As amounts have been approved by FSLSO with respect to regular and emergency assessments for Citizens' 2005 Plan Year deficit, Citizens has transferred these funds to unrestricted surplus.

Supplementary Information

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Assets

	December 31, 2009			
	Combined	**Personal Lines Account**	**Commercial Lines Account**	**High Risk Account**
	(In Thousands)			
Assets				
Current assets:				
Cash and cash equivalents	**$ 3,218,519**	$ 949,325	$ 313,003	$ 1,956,191
Short-term investments	**3,294,534**	1,089,847	533,806	1,670,881
Restricted cash and cash equivalents	**14,409**	-	-	14,409
Deferred policy acquisition costs	**97,378**	33,110	14,709	49,559
Investment income due & accrued	**9,686**	1,855	702	7,129
Prepaid reinsurance premiums	**48,285**	41,577	-	6,708
Reinsurance recoverable	**23,511**	4,375	7,676	11,460
Premiums receivable, net	**120,642**	53,877	6,370	60,395
Premiums receivable from assuming companies	**4,201**	3,791	38	372
Current portion of assessment receivables	**90,296**	17,839	8,075	64,382
Total current assets	**6,921,461**	2,195,596	884,379	3,841,486
Noncurrent assets:				
Long-term investments	**1,872,215**	421,641	316,184	1,134,390
Deferred takeout bonus	**1,722**	1,722	-	-
Capital assets, net	**18,671**	18,671	-	-
Assessment receivables	**332,871**	-	-	332,871
Other assets	**2,963**	2,403	145	415
Inter-account receivable (payable)	**-**	(14,845)	30,499	(15,654)
Total noncurrent assets	**2,228,442**	429,592	346,828	1,452,022
Total assets	**$ 9,149,903**	$ 2,625,188	$ 1,231,207	$ 5,293,508
Liabilities and net assets				
Current liabilities:				
Loss reserves	**$ 605,641**	$ 344,258	$ 119,903	$ 141,480
Loss adjustment expense reserves	**136,506**	95,978	20,572	19,956
Unearned premiums	**995,328**	438,404	104,080	452,844
Reinsurance premiums payable	**35,076**	25,480	-	9,596
Advance premiums and suspended cash	**85,536**	40,181	10,089	35,266
Interest payable	**33,682**	-	-	33,682
Taxes and fees payable	**2,822**	2,012	487	323
Current portion of long-term debt	**713,113**	-	-	713,113
Other current liabilities	**77,615**	60,771	4,974	11,870
Total current liabilities	**2,685,319**	1,007,084	260,105	1,418,130
Noncurrent liabilities:				
Long-term debt	**2,017,046**	-	-	2,017,046
Total liabilities	**4,702,365**	1,007,084	260,105	3,435,176
Net assets:				
Invested in capital assets	**18,671**	18,671	-	-
Restricted	**14,409**	-	-	14,409
Unrestricted	**4,414,458**	1,599,433	971,102	1,843,923
Total net assets	**4,447,538**	1,618,104	971,102	1,858,332
Total liabilities and net assets	**$ 9,149,903**	$ 2,625,188	$ 1,231,207	$ 5,293,508

Citizens Property Insurance Corporation
Supplemental Combining Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31, 2009			
	Combined	**Personal Lines Account**	**Commercial Lines Account**	**High Risk Account**
	(In Thousands)			
Operating revenue:				
Premiums earned	**$ 1,711,429**	$ 746,977	$ 222,350	$ 742,102
Operating expenses:				
Losses incurred	**498,999**	418,317	55,677	25,005
Loss adjustment expenses incurred	**82,130**	62,261	8,458	11,411
Service company fees	**7,410**	6,424	336	650
Agent commissions, net	**185,713**	52,130	31,065	102,518
Taxes and fees	**35,047**	15,185	4,426	15,436
Processing and other fees	**1,340**	-	1,231	109
Other underwriting expenses	**125,922**	63,131	16,785	46,006
Takeout bonus expense	**(7,089)**	(7,089)	-	-
Total operating expenses	**929,472**	610,359	117,978	201,135
Operating income	**781,957**	136,618	104,372	540,967
Nonoperating revenues (expenses):				
Net investment income	**110,799**	40,113	5,163	65,523
Interest expense	**(131,881)**	-	-	(131,881)
Assessment income	**-**	-	-	-
Line of credit fees and note issuance costs	**(18,009)**	(6,736)	(1,974)	(9,299)
Other income and (expenses)	**5,502**	(1,025)	3,651	2,876
Total nonoperating revenues	**(33,589)**	32,352	6,840	(72,781)
Change in net assets	**748,368**	168,970	111,212	468,186
Net assets, beginning of year	**3,698,904**	1,449,134	859,890	1,389,880
Other changes in net assets	**266**	-	-	266
Net assets, end of year	**$ 4,447,538**	$ 1,618,104	$ 971,102	$ 1,858,332

Citizens Property Insurance Corporation
Supplemental Revenues, Expenses, and Claim Development Information
(in Thousands)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net earned premiums and investment revenue	$ 462,207	$ 575,853	$ 754,581	$ 929,691	$ 1,129,092	$ 1,143,973	$ 2,289,760	$ 3,417,277	$ 2,268,368	$ 1,822,227
Unallocated expenses	258,843	254,407	283,265	150,578	191,333	227,795	321,522	569,661	442,570	342,840
Estimated incurred claims and expense, end of policy year	35,855	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583	839,708	674,431
Paid (cumulative) as of:										
End of policy year	19,544	41,602	44,863	123,943	1,145,602	1,005,020	157,640	353,312	413,175	307,072
One year later	27,795	59,874	77,758	200,635	2,952,024	2,114,174	291,045	555,540	622,104	
Two years later	28,941	63,625	82,694	215,997	3,234,575	2,227,283	326,997	625,868		
Three years later	29,830	64,809	85,512	222,743	3,377,401	2,286,765	341,906			
Four years later	30,089	68,315	86,402	224,527	3,459,449	2,328,746				
Five years later	31,186	68,439	86,738	225,999	3,515,881					
Six years later	30,924	68,547	87,041	226,467						
Seven years later	31,032	68,629	87,140							
Eight years later	31,116	68,644								
Nine years later	31,125									
Reestimated incurred claims and expense:										
End of policy year	35,855	64,812	97,373	243,767	2,721,512	2,138,004	339,770	692,583	839,708	674,431
One year later	31,832	67,838	87,937	222,519	3,285,721	2,205,877	354,194	678,130	753,244	
Two years later	31,698	66,654	87,011	227,916	3,539,287	2,374,726	359,950	693,332		
Three years later	30,932	66,564	88,085	227,956	3,546,902	2,406,456	358,122			
Four years later	30,652	69,337	87,365	227,454	3,615,254	2,413,674				
Five years later	31,648	69,269	87,188	228,178	3,588,748					
Six years later	31,487	68,770	87,200	227,770						
Seven years later	31,075	68,684	87,225							
Eight years later	31,134	68,649								
Nine years later	31,125									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(9)	(35)	25	(408)	(26,506)	7,218	(1,828)	15,202	(86,464)	–

Other Reports

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements in Accordance With *Government Auditing Standards*

The Board of Governors
Citizens Property Insurance Corporation

We have audited the basic financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated April 16, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Citizens' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citizens' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Citizens' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects Citizens' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Citizens' financial statements that is more than inconsequential will not be prevented or detected by Citizens' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Citizens' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Citizens' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Citizens in a separate letter dated April 16, 2010.

This report is intended solely for the information and use of the Board of Governors, management and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

Tallahassee, Florida
April 16, 2010