

# **Citizens Property Insurance Corporation**

---

**Statutory-Basis Financial Statements  
and Supplementary Information**

**Years Ended December 31, 2019 and 2018**

## Table of Contents

|   |    |
|---|----|
| <b>Independent Auditors' Report</b> .....   | 1  |
| <b>Financial Statements:</b>  |    |
| Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus .....                                  | 3  |
| Statutory-Basis Statements of Operations .....  | 4  |
| Statutory-Basis Statements of Changes in Accumulated Surplus .....  | 5  |
| Statutory-Basis Statements of Cash Flows .....  | 6  |
| Notes to Statutory-Basis Financial Statements .....   | 7  |
| <b>Supplementary Information:</b>   |    |
| Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus by Account..... | 29 |
| Supplemental Combining Statutory-Basis Statements of Operations by Account.....   | 30 |
| Summary Investment Schedule .....   | 31 |
| Supplemental Schedule of Investment Risks Interrogatories.....  | 32 |

## Independent Auditors' Report

Audit Committee  
Citizens Property Insurance Corporation  
Tallahassee, Florida

We have audited the accompanying statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory-basis statements of admitted assets, liabilities and accumulated surplus as of December 31, 2019 and 2018, and the related statutory-basis statements of operations, changes in accumulated surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

### ***Management's Responsibility for the Statutory-Basis Financial Statements***

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the statutory accounting practices prescribed or permitted by the Florida Department of Financial Services, Office of Insurance Regulation (the Office); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory-basis financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory-basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America***

As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by Citizens in accordance with the statutory accounting principles prescribed or permitted by the Office, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Office. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are described in Note 14.

***Adverse Opinion on Accounting Principles Generally Accepted in the United States of America***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, the statutory-basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Citizens as of December 31, 2019 and 2018 or the results of its operations or its cash flows for the years then ended.

***Opinion on Statutory-Basis of Accounting***

In our opinion, the statutory-basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus of Citizens as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with statutory accounting principles prescribed or permitted by the Office.

***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus by Account, Supplemental Combining Statutory-Basis Statements of Operations by Account, Summary Investment Schedule, and the Supplemental Investment Risks Interrogatories (collectively, “Supplementary Information”) on pages 29 through 36 as of and for the year ended December 31, 2019, are presented for purposes of additional analysis and are not required as part of the basic statutory-basis financial statements. This additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic statutory-basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic statutory-basis financial statements or to the basic statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the “Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America” paragraph, it is inappropriate to and we do not express an opinion on the Supplementary Information in accordance with accounting principles generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic statutory-basis financial statements as a whole, in accordance with statutory accounting principles prescribed or permitted by the Office.

*Dixon Hughes Goodman LLP*

Charlotte, North Carolina  
May 15, 2020

**Citizens Property Insurance Corporation**  
**Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus**  
**December 31, 2019 and 2018**  
**(Dollars in thousands)**

|  | <u>2019</u>                | <u>2018</u>                |
|--|----------------------------|----------------------------|
| <b>ADMITTED ASSETS</b>   |                            |                            |
| Cash and invested assets:  |                            |                            |
| Bonds  | \$ 8,113,871               | \$ 8,492,376               |
| Cash, cash equivalents, and short-term investments                     | <u>741,767</u>             | <u>758,360</u>             |
| Total cash and invested assets   | <b>8,855,638</b>           | 9,250,736                  |
| Investment income due and accrued, net                                 | 61,455                     | 67,880                     |
| Premiums receivable, net   | 69,096                     | 66,346                     |
| Reinsurance recoverable on paid losses and<br>loss adjustment expenses | 97,759                     | 5,988                      |
| Other receivables under reinsurance contracts, net                     | 2,318                      | 1,178                      |
| Other assets   | <u>24,205</u>              | <u>2,605</u>               |
| Total admitted assets  | <u><b>\$ 9,110,471</b></u> | <u><b>\$ 9,394,733</b></u> |
| <b>LIABILITIES AND ACCUMULATED SURPLUS</b>                             |                            |                            |
| Liabilities:   |                            |                            |
| Loss reserves, net   | \$ 393,658                 | \$ 378,951                 |
| Loss adjustment expense reserves, net                                  | 307,917                    | 360,844                    |
| Retroactive reinsurance ceded  | (1,190)                    | (1,422)                    |
| Unearned premiums, net   | 446,486                    | 423,572                    |
| Reserve for future assessments   | 140,806                    | 141,655                    |
| Reinsurance payable  | 43,564                     | 45,738                     |
| Provision for reinsurance  | 75                         | 1,173                      |
| Bonds payable  | 1,350,003                  | 1,705,261                  |
| Interest payable   | 5,411                      | 6,801                      |
| Advance premiums and suspended cash                                    | 18,433                     | 19,272                     |
| Return premiums payable  | 4,486                      | 2,335                      |
| Taxes and fees payable (receivable)                                    | 114                        | (329)                      |
| Other liabilities  | <u>82,775</u>              | <u>80,153</u>              |
| Total liabilities  | <u><b>2,792,538</b></u>    | <u><b>3,164,004</b></u>    |
| Accumulated surplus:   |                            |                            |
| Restricted   | 8,534                      | 8,381                      |
| Unrestricted   | <u>6,309,399</u>           | <u>6,222,348</u>           |
| Total accumulated surplus  | <u><b>6,317,933</b></u>    | <u><b>6,230,729</b></u>    |
| Total liabilities and accumulated surplus                              | <u><b>\$ 9,110,471</b></u> | <u><b>\$ 9,394,733</b></u> |

See accompanying notes to the statutory-basis financial statements.

**Citizens Property Insurance Corporation**  
**Statutory-Basis Statements of Operations**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

|                                       | <u>2019</u>             | <u>2018</u>                |
|---------------------------------------|-------------------------|----------------------------|
| Underwriting income:                  |                         |                            |
| Net premiums earned                   | <u>\$ 616,075</u>       | <u>\$ 622,975</u>          |
| Underwriting expenses:                |                         |                            |
| Net losses incurred                   | 331,849                 | 466,995                    |
| Net loss adjustment expenses incurred | 168,112                 | 222,718                    |
| Other underwriting expenses incurred  | <u>213,173</u>          | <u>213,960</u>             |
| Total underwriting expenses           | <u>713,134</u>          | <u>903,673</u>             |
| Net underwriting loss                 | <u>(97,059)</u>         | <u>(280,698)</u>           |
| Investment income:                    |                         |                            |
| Net interest income                   | 225,622                 | 221,727                    |
| Net realized capital gains (losses)   | 6,825                   | (23,929)                   |
| Net interest expense                  | <u>(51,621)</u>         | <u>(63,571)</u>            |
| Total net investment income           | <u>180,826</u>          | <u>134,227</u>             |
| Other income (expense):               | <u>2,562</u>            | <u>(4,879)</u>             |
| Net income (loss)                     | <u><u>\$ 86,329</u></u> | <u><u>\$ (151,350)</u></u> |

**Citizens Property Insurance Corporation**  
**Statutory-Basis Statements of Changes in Accumulated Surplus**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

|                                     | <b>Restricted</b> | <b>Unrestricted</b> | <b>Total<br/>Accumulated<br/>Surplus</b> |
|-------------------------------------|-------------------|---------------------|--|
| Balance at December 31, 2017        | \$ 8,243          | \$ 6,351,057        | \$ 6,359,300                             |
| Net loss                            | -                 | (151,350)           | (151,350)                                |
| Change in nonadmitted assets        | -                 | 6,684               | 6,684                                    |
| Net assessments advanced from FLSO  | 138               | -                   | 138                                      |
| Change in provision for reinsurance | -                 | 16,107              | 16,107                                   |
| Other                               | -                 | (150)               | (150)                                    |
| Balance at December 31, 2018        | 8,381             | 6,222,348           | 6,230,729                                |
| Net income                          | -                 | 86,329              | 86,329                                   |
| Change in nonadmitted assets        | -                 | (311)               | (311)                                    |
| Net assessments advanced from FLSO  | 153               | -                   | 153                                      |
| Change in provision for reinsurance | -                 | 1,098               | 1,098                                    |
| Other                               | -                 | (65)                | (65)                                     |
| Balance at December 31, 2019        | <u>\$ 8,534</u>   | <u>\$ 6,309,399</u> | <u>\$ 6,317,933</u>                      |

See accompanying notes to the statutory-basis financial statements.

**Citizens Property Insurance Corporation**  
**Statutory-Basis Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

|  | <b>2019</b>              | <b>2018</b>              |
|--|--------------------------|--------------------------|
| Operating activities:  |                          |                          |
| Premiums collected, net of reinsurance                             | \$ 631,648               | \$ 615,131               |
| Loss and loss adjustment expenses paid                             | (631,613)                | (1,125,105)              |
| Underwriting expenses paid   | (212,953)                | (202,387)                |
| Net investment income received                                     | 196,807                  | 186,942                  |
| Other income received (paid)                                       | 2,561                    | (54)                     |
| Net cash used in operating activities                              | <u>(13,550)</u>          | <u>(525,473)</u>         |
| Investing activities:  |                          |                          |
| Proceeds from investments sold, matured or repaid                  | 2,828,342                | 2,711,857                |
| Investments acquired   | <u>(2,500,326)</u>       | <u>(2,395,689)</u>       |
| Net cash provided by investing activities                          | <u>328,016</u>           | <u>316,168</u>           |
| Financing and miscellaneous activities:                            |                          |                          |
| Borrowed funds repaid  | (335,000)                | (255,000)                |
| Assessments paid   | -                        | (2,085)                  |
| Other cash received (paid)   | <u>3,941</u>             | <u>(3,006)</u>           |
| Net cash used in financing and miscellaneous activities            | <u>(331,059)</u>         | <u>(260,091)</u>         |
| Net decrease in cash, cash equivalents, and short-term investments | (16,593)                 | (469,396)                |
| Cash, cash equivalents, and short-term investments:                |                          |                          |
| Beginning of year  | <u>758,360</u>           | <u>1,227,756</u>         |
| End of year  | <u><u>\$ 741,767</u></u> | <u><u>\$ 758,360</u></u> |



## **Notes to Statutory Basis Financial Statements**

### **1. Organization and Description of the Company**

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. This legislation was enacted such 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 (FRPCJUA) and the Florida Windstorm Underwriting Association (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 Department of Financial Services, Office of Insurance Regulation (the Office). Likewise, Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida. 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.

Citizens operates pursuant to a Plan of Operation (the Plan), under the Act, 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 of Florida.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and 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 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 and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

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 Coastal Account (collectively, the Accounts). A brief history of each account follows:

**Personal Lines Account History** - The 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 for 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 may exclude windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account (PLA) 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 (CLA) 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 CLA.

**Coastal Account History** - The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State of Florida, 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 of Florida. 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 (HRA) under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the HRA. Pursuant to legislative changes during 2011, the HRA was renamed the Coastal Account.

## **2. Basis of Presentation**

Citizens prepares its statutory-basis financial statements in conformity with Florida statutes and accounting rules prescribed by the Office for insurance companies domiciled in the State of Florida. The statutory-basis financial statements have been prepared in conformity with the Statutory Accounting Principles (SAP) of the National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office, as described below.

SAP is a comprehensive basis of accounting other than accounting principles general accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The significant SAP which differ from GAAP are as follows:

Certain assets are defined under SAP as "nonadmitted." These include furniture and equipment, leasehold improvements, certain prepaid assets, certain computer software, investments over prescribed limits and receivables in the course of collection with balances more than 90 days past due. The net change in such nonadmitted assets during the year is charged or credited directly to accumulated surplus. Conversely, GAAP includes these as assets net of any applicable valuation allowance.

Investments in bonds are reported at amortized cost or fair value based on their NAIC rating; for GAAP, these investments would be reported at fair value with unrealized holding gains and losses reported in the statement of operations.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

All single class and multi-class mortgage-backed/asset-backed securities, such as collateralized mortgage obligations (CMOs), when it is determined that a decline in fair value is other-than-temporary, the amortized cost basis is written down to the present value of future cash flows. The difference between the amortized cost basis and the present value of future cash flows is recognized as a realized loss in the statutory-basis statements of operations. For GAAP, all securities held representing beneficial interests in securitized assets, such as CMOs, mortgage-backed securities and other asset-backed securities, excluding high credit quality securities, are written down to fair value if the decline is determined to be other-than-temporary.

Cash, cash equivalents, and short-term investments in the statutory-basis statements of admitted assets, liabilities and accumulated surplus and cash flows represent cash balances and investments with original maturities of one year or less at the date of acquisition. Under GAAP, the corresponding caption of cash and cash equivalents would include cash balances and investments with original maturities of three months or less at the date of acquisition. Also under GAAP, short-term investments are disclosed separately from cash and cash equivalents. The statutory-basis statements of cash flows does not classify cash flows consistent with GAAP.

Certain other reported amounts in the statutory-basis financial statements prepared on the basis of SAP are classified or presented differently than they would be under GAAP. Statutory requirements include that the statutory-basis financial statements of Citizens be filed with state regulatory authorities. Accordingly, the statutory-basis financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to Citizens are not included in the notes to statutory-basis financial statements.

Differences between Florida prescribed practices and SAP which affect Citizens are provided in Section 625.305, Florida Statutes. This statute provides limitations on the admission of invested assets as a percentage of total admitted assets, for securities with ratings of 5 and 6 as issued by the Securities Valuation Office (SVO) or equivalent rating agency, among other limitations not applicable to Citizens. Measurement for nonadmitted invested assets under this prescribed practice is performed separately for each of Citizens' Accounts. The effect of the prescribed practice on accumulated surplus is provided below. There is no effect on net income as a result of the prescribed practice.

| <b>Description</b>                             | <b>State</b> | <b>2019</b>         | <b>2018</b>         |
|--|--------------|---------------------|---------------------|
| Accumulated surplus, state basis               | FL           | \$ 6,317,933        | \$ 6,230,729        |
| Effect of state prescribed practices           |              |                     |                     |
| F.S. 625.305(4) d. Nonadmitted Invested Assets | FL           | -                   | (657)               |
| Accumulated surplus, SAP basis                 |              | <u>\$ 6,317,933</u> | <u>\$ 6,231,386</u> |

Citizens has no permitted practices for the year ended December 31, 2019.

### **3. Significant Accounting Policies**

#### ***Use of Estimates***

The preparation of the statutory-basis financial statements in accordance with SAP 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 statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

***Bonds***

Bonds, which consist solely of debt securities, are recorded at admitted asset values, as prescribed by the NAIC's valuation procedures and are rated in accordance with current NAIC guidelines.

Bonds designated by the SVO or equivalent as 1 or 2 are reported at amortized cost. Bonds designated as 3 through 6 are reported at the lower of amortized cost or fair value. Debt securities not backed by other loans are stated at amortized cost using the interest method. Loan-backed debt securities and structured securities are stated at amortized cost using the interest method and adjusted retrospectively. Prepayment assumptions were obtained from broker dealer values. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities.

Declines in the estimated fair value of bonds below amortized cost are evaluated for other-than-temporary impairment (OTTI) losses on a regular basis. Impairment losses for declines in the estimated fair value of bonds below amortized cost attributable to issuer-specific events are evaluated based upon all relevant facts and circumstances for each investment and are recognized when appropriate in accordance with SAP and related guidance. In determining OTTI, Citizens considers many factors, including (1) the length of time and extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions; (4) the present value of the expected future cash flows associated with the debt security compared to its carrying value; and (5) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery, which may be maturity. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment, and is based on the information available at a point in time. Citizens records an impairment charge to the extent that the amortized cost exceeds the estimated fair value of the securities and the decline in value is determined to be other than temporary. Citizens recognizes OTTI losses on its loan-backed and structured securities measured as the difference between amortized cost and estimated present value of projected future cash flows. OTTI charges are recognized in net realized capital gains (losses).

***Cash, Cash Equivalents, and Short-term Investments***

Cash and cash equivalents consists of money market mutual funds and highly liquid investments with remaining maturities of three months or less at the date of purchase. Short-term investments are investments with remaining maturities of one year or less at the date of purchase (excluding those investments classified as cash) and are generally recorded at cost.

Short-term investments include amounts invested in commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency short-term notes.

***Net Investment Income***

Net investment income includes interest income, amortization and accretion, realized gains and losses on sales or maturity of investments that are recognized on the specific identification basis, and interest expense. Gains and losses from call redemptions and repayments are charged or credited to investment income. Net investment income also includes bond interest, bond expenses and investment expenses. Interest is recognized on the accrual basis and uncollected interest is recorded in investment income due and accrued in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. Accrual of income is suspended for bonds that are in default or when the receipt of interest payments is in doubt.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

***Furniture, Fixtures and Equipment***

Furniture, fixtures and equipment are depreciated using the straight-line method over the assets' estimated useful life. The estimated useful lives, by asset class, are as follows:

|   |          |
|---|----------|
| Electronic data processing (EDP) equipment: | 3 years  |
| Office equipment and automobiles:           | 5 years  |
| Furniture and equipment:                    | 7 years  |
| Leasehold improvements:                     | 10 years |

The cost and accumulated depreciation for EDP equipment was \$33,671 and \$32,153 at December 31, 2019, and \$33,030 and \$30,445 at December 31, 2018, respectively.

Depreciation and amortization expense was \$2,792 and \$3,908 for the years ended December 31, 2019 and 2018, respectively, and is included in other underwriting expenses incurred on the accompanying statutory-basis statements of operations. Nonadmitted balances for fixed assets, excluding EDP equipment, at December 31, 2019 and 2018 were \$2,336 and \$3,337, respectively. Net admitted EDP equipment of \$1,518 and \$2,585 at December 31, 2019 and 2018, is included in other admitted assets on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

***Loss Reserves and Loss Adjustment Expense Reserves***

Liabilities for loss reserves and loss adjustment expense (LAE) reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations for incurred but not reported reserves, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and LAE incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses and LAE. However, the ultimate settlement of losses may vary significantly from the reserves provided. Adjustments 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 LAE reserves. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified, if necessary.

In the event of loss recoveries through reinsurance agreements, loss and LAE reserves are reported net of reinsurance amounts recoverable for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Salvage and subrogation recoveries are not recorded until cash is received.

***Premiums***

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata method over the policy period. The portion of premiums not earned at the end of the reporting period are recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as advance premiums. Premiums collected in excess of amounts due are reported as return premiums payable. Amounts incurred for ceded reinsurance premiums are deducted from written, earned and unearned premiums. Funds collected that are not readily identifiable with a Citizens' policy, primarily as a result of depopulation, are temporarily recorded as suspended cash until such time as the funds can be settled or returned by Citizens.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

If anticipated losses, LAE, commissions and other acquisition costs exceed recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability for the deficiency. Citizens anticipates investment income as a factor in the premium deficiency calculation. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with how policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, premium deficiency calculations are performed for each Account separately. At December 31, 2019 and 2018, management determined that no premium deficiency reserve was required.

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. Citizens nonadmits assets due from insureds for which a portion of the receivable is more than 90 days past due. Premiums receivable are charged to bad debt expense in the period determined uncollectible.

Recoveries received on amounts previously charged off are credited to bad debt expense in the period received. As of December 31, 2019 and 2018, nonadmitted premiums receivable totaled \$1,203 and \$451 respectively.

Premium revenues and associated policy fees and inspection fees are recognized in accordance with the rates, rules, and forms as filed with the Office. Associated policy fees and inspection fees are included within other income.

***Underwriting Expenses***

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred.

***Guaranty Fund and Other Assessments***

Citizens is subject to assessments by the Florida Insurance Guaranty Association (FIGA). For the property lines of insurance, FIGA collects assessments from solvent insurance companies operating in Florida to cover the costs resulting from insolvency or rehabilitation of other insurance companies. Assessments are charged to expense and a liability is accrued when Citizens is notified that an assessment will be levied. After paying the FIGA assessment, Citizens recoups the assessment from its own insureds. Citizens records a receivable and recognizes revenue for the amount of policy surcharges that are expected to be received to recoup any assessment levied by FIGA. Collections in excess of the original assessment are reported as assessments payable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus until remitted to FIGA. Uncollected balances associated with FIGA assessments are reported as assessments receivable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

Citizens is also required to assess insurers and insureds in Florida for deficits incurred by 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 the Office and levied by Citizens (see Note 15). Assessment receivables are considered to be fully collectible. Under the Plan, amounts collected in excess of the calculated assessment are carried as a liability on the statutory-basis statements of admitted assets, liabilities and accumulated surplus as reserve for future assessments until such time as their permitted use is determined by the Board in accordance with the Plan.

***Reinsurance***

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses and LAE are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance premiums are recorded as premiums ceded and are amortized over the life of the Atlantic hurricane season, from June 1 to November 30, for which the premiums apply. Premiums ceded include Florida Hurricane Catastrophe Fund (FHCF), private catastrophe reinsurance purchases and depopulation premiums.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

Other receivables under reinsurance contracts represent amounts receivable from reinsurers on depopulation premiums. Reinsurance premiums payable represents amounts due to the FHCF, private reinsurers, and as a result of depopulation, which is presented as a liability. For multi-year treaties, ceded reinsurance is incurred in the treaty year in proportion to the coverage provided and amortized over the life of the hurricane season. Amounts unpaid for the current treaty year are recorded as reinsurance payable under the terms of the treaty.

Retroactive reinsurance ceded on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus represents ceded losses and loss adjustment expenses associated with a 100% quota-share reinsurance agreement that qualified for retroactive treatment in accordance with SSAP No. 62R, *Property and Casualty Reinsurance* (SSAP No. 62R). All policies ceded under the agreement were fully earned as of December 31, 2019 and 2018. Changes in retroactive reinsurance reserves are recognized on the accompanying statutory-basis statements of operations within other income.

In accordance with SSAP No. 62R, a provision for reinsurance is established to offset credit taken in various balance sheet accounts for reinsurance ceded to unauthorized reinsurers in excess of collateral held by the Company.

***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. No federal or state income tax was incurred during 2019 or 2018.

***Significant Concentrations of Risks***

Citizens has geographic exposure to catastrophic losses. Catastrophes can be caused by various events including, but not limited to, hurricanes, windstorms, hail and fire. The occurrence and severity of catastrophes are inherently unpredictable. Citizens attempts to mitigate its exposure to losses from catastrophes by purchasing catastrophe reinsurance coverage. Catastrophes, depending on their path and severity, could result in losses exceeding Citizens' reinsurance protection, and could have a material adverse effect on Citizens' financial condition and results of operations.

Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, investing surplus cash in highly rated money market funds, adhering to an investment strategy that emphasizes preservation of principal, and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities. Citizens reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and has the contractual right to obtain letters of credit from any unauthorized reinsurer and certified reinsurer. As of December 31, 2019, management believes Citizens had no significant concentrations of credit risk.

Citizens is exposed to interest rate risk, which is the risk that interest rates will change and cause a decrease in the value of fixed-rate investments. Citizens mitigates this risk by attempting to match the maturity schedule of its assets with the expected payout of its liabilities.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

***Components of Unrestricted Surplus***

Unrestricted surplus for the years ended December 31 was charged with the following items:

|                                   | <u>2019</u>        | <u>2018</u>        |
|-----------------------------------|--------------------|--------------------|
| Nonadmitted assets:               |                    |                    |
| Premiums receivable               | \$ (1,203)         | \$ (451)           |
| Furniture, fixtures and equipment | (2,336)            | (3,337)            |
| Prepaid expenses                  | (7,804)            | (6,571)            |
| Other assets                      | <u>(623)</u>       | <u>(1,296)</u>     |
| Total nonadmitted assets          | <u>\$ (11,966)</u> | <u>\$ (11,655)</u> |
| Provision for reinsurance         | <u>\$ 75</u>       | <u>\$ 1,173</u>    |
| Other                             | <u>\$ (121)</u>    | <u>\$ (186)</u>    |

**4. Fair Value Measurements**

Citizens' estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance under SSAP No. 100R, *Fair Value*. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.
- Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement, and includes broker quotes which are non-binding.



**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

The following tables reflect the carrying values and estimated fair values of all admitted assets and liabilities that are financial instruments at December 31, 2019 and 2018. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

| <b>2019</b>  |                       |                             |                     |                     |                |
|--|-----------------------|-----------------------------|---------------------|---------------------|----------------|
|  | <b>Carrying Value</b> | <b>Estimated Fair Value</b> | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b> |
| Financial assets:                                  |                       |                             |                     |                     |                |
| Bonds  | \$ 8,113,871          | \$ 8,308,866                | \$ 1,629,040        | \$ 6,679,826        | \$ -           |
| Cash, cash equivalents, and short-term investments | 741,767               | 741,875                     | 713,426             | 28,449              | -              |
| Investment income due and accrued, net             | <u>61,455</u>         | <u>61,455</u>               | <u>-</u>            | <u>61,455</u>       | <u>-</u>       |
| Total financial assets                             | <u>\$ 8,917,093</u>   | <u>\$ 9,112,196</u>         | <u>\$ 2,342,466</u> | <u>\$ 6,769,730</u> | <u>\$ -</u>    |
| Financial liabilities:                             |                       |                             |                     |                     |                |
| Bonds payable                                      | \$ 1,350,003          | \$ 1,396,843                | \$ -                | \$ 1,396,843        | \$ -           |
| Interest payable                                   | <u>5,411</u>          | <u>5,411</u>                | <u>-</u>            | <u>5,411</u>        | <u>-</u>       |
| Total financial liabilities                        | <u>\$ 1,355,414</u>   | <u>\$ 1,402,254</u>         | <u>\$ -</u>         | <u>\$ 1,402,254</u> | <u>\$ -</u>    |
| <b>2018</b>  |                       |                             |                     |                     |                |
|  | <b>Carrying Value</b> | <b>Estimated Fair Value</b> | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b> |
| Financial assets:                                  |                       |                             |                     |                     |                |
| Bonds  | \$ 8,492,376          | \$ 8,309,415                | \$ 1,410,405        | \$ 6,899,010        | \$ -           |
| Cash, cash equivalents, and short-term investments | 758,360               | 761,103                     | 595,993             | 165,110             | -              |
| Investment income due and accrued, net             | <u>67,880</u>         | <u>67,880</u>               | <u>-</u>            | <u>67,880</u>       | <u>-</u>       |
| Total financial assets                             | <u>\$ 9,318,616</u>   | <u>\$ 9,138,398</u>         | <u>\$ 2,006,398</u> | <u>\$ 7,132,000</u> | <u>\$ -</u>    |
| Financial liabilities:                             |                       |                             |                     |                     |                |
| Bonds payable                                      | \$ 1,705,261          | \$ 1,748,923                | \$ -                | \$ 1,748,923        | \$ -           |
| Interest payable                                   | <u>6,801</u>          | <u>6,801</u>                | <u>-</u>            | <u>6,801</u>        | <u>-</u>       |
| Total financial liabilities                        | <u>\$ 1,712,062</u>   | <u>\$ 1,755,724</u>         | <u>\$ -</u>         | <u>\$ 1,755,724</u> | <u>\$ -</u>    |

The following describe fair value methodologies that may not be indicative of net realizable value or reflective of future fair values. Furthermore, Citizens believes different methodologies or assumptions used to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

***Bonds and Short-Term Investments***

When available, the estimated fair values are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 1 and are the most liquid of Citizens' securities holdings, and valuation of these securities does not involve management's judgment.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or which cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation and cannot be supported by reference or market activity. Even though these inputs are unobservable, Citizens believes they are consistent with those which other market participants would use when pricing such securities and are considered appropriate, given the circumstances. Generally, these investments are classified as Level 3.

***Cash and Cash Equivalents***

The estimated fair value approximates carrying value and are classified as Level 1, given the nature of cash.

***Investment Income Due and Accrued and Interest Payable***

The estimated fair value is determined based on significant observable inputs. These amounts are generally classified as Level 2.

***Bonds Payable***

Citizens' bonds trade on the bond market. The estimated fair value is based on trading activity and closing market prices on December 31.

At the end of each reporting period, Citizens evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3. No transfers were made between financial instrument levels during the year end December 31, 2019 and 2018.

## **5. Investments**

### ***Investment Policy and Impairment***

Citizens' invested assets are governed by five investment policies, three for taxable operating funds and two for tax-exempt bond proceeds:

- Liquidity Fund (Taxable): generally this policy governs the investment of funds and surplus that, in addition to internally managed cash, are the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- Liquidity Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- Claims-Paying Fund (Taxable): generally this policy governs the investment of funds used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments are deposited in this fund.
- Claims-Paying Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.
- Claims-Paying Long Duration Fund (Taxable): generally this policy governs the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Funds and Claims-Paying Funds.

During the year ended December 31, 2019, Citizens recognized \$12,801 of other-than-temporary impairments on the basis of Citizens' intent to sell the securities. These securities were sold prior to the year ended December 31, 2019 and are included in net realized capital gains (losses) in the statutory-basis statements of operations. Citizens did not recognize any other-than-temporary impairments for the year ended December 31, 2018. Citizens evaluates external indicators, such as issuer credit ratings along with the extent and duration of declines, and internal indicators such as ability and intent with respect to retention of impaired securities in determining whether declines in market value are temporary or other-than-temporary.

The investment policies require any repurchase agreement be collateralized to at least 102% with U.S. Government or Agency securities, excluding mortgage-backed securities. Repurchase agreements shall not represent more than 15% of the portfolio's amortized cost and must have a maximum maturity of 30 days or less. Reverse repurchase agreements and securities lending are not permitted investments. Citizens had no investments in agency repurchase agreements as of December 31, 2019 and 2018.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

**Bonds**

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2019 were as follows:

|   | <u>Carrying<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
| Bonds:  |                           |                                       |  |                                     |
| U.S. Treasury and U.S. government securities                  | \$ 1,608,293              | \$ 23,746                             | \$ (2,999)                             | \$ 1,629,040                        |
| All other government  | 11,093                    | 58                                    | (12)                                   | 11,139                              |
| States, territories and possessions                           | 202,212                   | 2,706                                 | (383)                                  | 204,535                             |
| Political subdivisions of states, territories and possessions | 266,098                   | 4,309                                 | (821)                                  | 269,586                             |
| Special revenue   | 1,422,506                 | 19,441                                | (3,109)                                | 1,438,838                           |
| Industrial and miscellaneous                                  | 4,307,987                 | 145,934                               | (823)                                  | 4,453,098                           |
| Mortgage-backed securities                                    | <u>295,682</u>            | <u>7,489</u>                          | <u>(541)</u>                           | <u>302,630</u>                      |
| Total admitted bonds  | <u>\$ 8,113,871</u>       | <u>\$ 203,683</u>                     | <u>\$ (8,688)</u>                      | <u>\$ 8,308,866</u>                 |

The carrying value, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2018 were as follows:

|   | <u>Carrying<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
| Bonds:  |                           |                                       |  |                                     |
| U.S. Treasury and U.S. government securities                  | \$ 1,434,470              | \$ 4,266                              | \$ (28,331)                            | \$ 1,410,405                        |
| All other government  | 12,559                    | -                                     | (260)                                  | 12,299                              |
| States, territories and possessions                           | 210,374                   | 124                                   | (2,123)                                | 208,375                             |
| Political subdivisions of states, territories and possessions | 314,084                   | 681                                   | (2,331)                                | 312,434                             |
| Special revenue   | 1,743,512                 | 2,156                                 | (21,857)                               | 1,723,811                           |
| Industrial and miscellaneous                                  | 4,454,554                 | 13,799                                | (142,779)                              | 4,325,574                           |
| Mortgage-backed securities                                    | <u>322,905</u>            | <u>163</u>                            | <u>(6,551)</u>                         | <u>316,517</u>                      |
| Total bonds   | \$ 8,492,458              | \$ 21,189                             | \$ (204,232)                           | \$ 8,309,415                        |
| Nonadmitted bonds under prescribed practice                   | <u>(82)</u>               |                                       |  |                                     |
| Admitted bonds  | <u>\$ 8,492,376</u>       |                                       |  |                                     |

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

The unrealized loss position of bonds at December 31, 2019 was as follows:

|   | <u>Less than 12 months</u>          |                                      | <u>More than 12 months</u>          |                                      | <u>Total</u>                        |                                      |
|---|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|   | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> |
| Bonds:  |                                     |                                      |                                     |                                      |                                     |                                      |
| U.S. Treasury and U.S.<br>government securities                     | \$ 103,959                          | \$ (1,431)                           | \$ 362,334                          | \$ (1,569)                           | \$ 466,293                          | \$ (2,999)                           |
| All other government<br>States, territories and<br>possessions      | -                                   | -                                    | 3,002                               | (12)                                 | 3,002                               | (12)                                 |
| Political subdivisions<br>of states, territories<br>and possessions | 35,627                              | (361)                                | 6,277                               | (22)                                 | 41,904                              | (383)                                |
| Special revenue   | 26,725                              | (762)                                | 40,927                              | (58)                                 | 67,652                              | (821)                                |
| Industrial and<br>miscellaneous                                     | 89,110                              | (1,338)                              | 271,058                             | (1,771)                              | 360,168                             | (3,109)                              |
| Mortgage-backed<br>securities                                       | 90,777                              | (375)                                | 197,963                             | (448)                                | 288,740                             | (823)                                |
|   | <u>5,674</u>                        | <u>(167)</u>                         | <u>39,196</u>                       | <u>(374)</u>                         | <u>44,870</u>                       | <u>(541)</u>                         |
| Total   | <u>\$ 351,872</u>                   | <u>\$ (4,434)</u>                    | <u>\$ 920,757</u>                   | <u>\$ (4,254)</u>                    | <u>\$ 1,272,629</u>                 | <u>\$ (8,688)</u>                    |

The unrealized loss position of bonds at December 31, 2018 was as follows:

|   | <u>Less than 12 months</u>          |                                      | <u>More than 12 months</u>          |                                      | <u>Total</u>                        |                                      |
|---|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|
|   | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> | <u>Estimated<br/>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Loss</u> |
| Bonds:  |                                     |                                      |                                     |                                      |                                     |                                      |
| U.S. Treasury and U.S.<br>government securities                     | \$ 92,937                           | \$ (931)                             | \$ 1,059,776                        | \$ (27,400)                          | \$ 1,152,713                        | \$ (28,331)                          |
| All other government<br>States, territories and<br>possessions      | -                                   | -                                    | 12,299                              | (260)                                | 12,299                              | (260)                                |
| Political subdivisions<br>of states, territories<br>and possessions | 26,269                              | (233)                                | 145,683                             | (1,890)                              | 171,952                             | (2,123)                              |
| Special revenue   | 28,847                              | (69)                                 | 205,478                             | (2,262)                              | 234,325                             | (2,331)                              |
| Industrial and<br>miscellaneous                                     | 123,682                             | (1,009)                              | 1,192,764                           | (20,848)                             | 1,316,446                           | (21,857)                             |
| Mortgage-backed<br>securities                                       | 1,659,021                           | (42,930)                             | 2,324,788                           | (99,849)                             | 3,983,809                           | (142,779)                            |
|   | <u>136,303</u>                      | <u>(2,208)</u>                       | <u>158,531</u>                      | <u>(4,343)</u>                       | <u>294,834</u>                      | <u>(6,551)</u>                       |
| Total   | <u>\$ 2,067,059</u>                 | <u>\$ (47,380)</u>                   | <u>\$ 5,099,319</u>                 | <u>\$ (156,852)</u>                  | <u>\$ 7,166,378</u>                 | <u>\$ (204,232)</u>                  |

There were 522 and 2,530 bond holdings in an unrealized loss position for more than 12 months at December 31, 2019 and 2018, respectively.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

Citizens believes there were no fundamental issues such as credit losses or other factors with respect to any of its bond securities that are in an unrealized loss position. The unrealized losses on bonds were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the bonds. Citizens evaluates U.S. government, corporate, and state and municipal bonds based upon factors such as expected cash flows and the financial condition, and near-term and long-term prospects of the issuer, and evaluates mortgage-backed securities and asset-backed securities based on actual and projected cash flows after considering such factors as the quality of the underlying collateral, expected prepayment speeds, current and forecasted severity, consideration of the payment terms of the underlying assets, and payment priority of the security. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because Citizens has the ability and intent to hold its bond securities until a market price recovery or maturity, Citizens does not consider any of its bonds to be other than temporarily impaired at December 31, 2019 and 2018.

Proceeds from maturities and sales of bonds during 2019 were \$2,862,578 with gross realized gains of \$26,719 and gross realized losses of \$13,517 and during 2018 were \$2,709,571 with gross realized gains of \$3,528 and gross realized losses of \$29,744. Investment dispositions and purchases are measured and recorded in the financial statements using the trade date, which may differ from the date on which settlement of the trade activity occurs. Proceeds related to (losses) gains on cash, cash equivalents, and short-term investments during 2019 and 2018 were \$(6,377) and \$2,287 respectively.

The carrying value and estimated fair value of securities at December 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

|                            | <u>Carrying<br/>Value</u> | <u>Estimated<br/>Fair Value</u> |
|----------------------------|---------------------------|---------------------------------|
| Maturity:                  |                           |                                 |
| In 2020                    | \$ 777,315                | \$ 778,548                      |
| 2021 - 2024                | 3,457,978                 | 3,502,011                       |
| 2025 - 2029                | 2,953,803                 | 3,078,581                       |
| After 2029                 | 629,093                   | 647,096                         |
| Mortgage-backed securities | <u>295,682</u>            | <u>302,630</u>                  |
| Total                      | <u>\$ 8,113,871</u>       | <u>\$ 8,308,866</u>             |

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

Sources and uses of net investment income for the years ended December 31, were as follows:

|  | <u>2019</u>              | <u>2018</u>       |
|--|--------------------------|-------------------|
| Gross interest income:                                     |                          |                   |
| Bonds  | \$ 209,780               | \$ 205,125        |
| Cash, cash equivalents, and short-term investments         | <u>20,322</u>            | <u>21,091</u>     |
| Total gross interest income                                | <b>230,102</b>           | 226,216           |
| Investment expenses  | <u>(4,480)</u>           | (4,489)           |
| Net interest income  | <u><b>225,622</b></u>    | <u>221,727</u>    |
| Net realized gain (loss) on sales of invested assets:      |                          |                   |
| Bonds  | <b>13,202</b>            | (26,216)          |
| Cash, cash equivalents, and short-term investments         | <u>(6,377)</u>           | <u>2,287</u>      |
| Total net realized gain (loss) on sales of invested assets | <b>6,825</b>             | (23,929)          |
| Net realized capital gains (losses)                        | <u><b>6,825</b></u>      | <u>(23,929)</u>   |
| Interest expense:  |                          |                   |
| Bond interest  | <u>(51,621)</u>          | (63,571)          |
| Net investment income                                      | <u><b>\$ 180,826</b></u> | <u>\$ 134,227</u> |

For the year ended December 31, 2019, sixty-six securities were called, seventeen of which included prepayment penalties or acceleration fees of \$191 and is included in net interest income.

***Restricted Assets***

Restricted assets (including pledged assets) are summarized as follows by restricted asset category:

| Restricted Asset Category                              | <u>Gross Restricted</u>        |                              |                            | Total Current Year Admitted | <u>Percentage</u>                       |   |
|--|--------------------------------|------------------------------|----------------------------|-----------------------------|---|---|
|  | <u>Total from Current Year</u> | <u>Total from Prior Year</u> | <u>Increase (Decrease)</u> |                             | <u>Gross Restricted to Total Assets</u> | <u>Admitted Restricted to Total Admitted Assets</u> |
| Pledged as collateral not captured in other categories | \$ 244,340                     | \$ 279,022                   | \$ (34,682)                | \$ 244,340                  | 2.7%                                    | 2.7%  |
| Other restricted assets                                | <u>8,534</u>                   | <u>8,381</u>                 | <u>153</u>                 | <u>8,534</u>                | <u>0.1%</u>                             | <u>0.1%</u>   |
| Total restricted assets                                | <u><b>\$ 252,874</b></u>       | <u><b>\$ 287,403</b></u>     | <u><b>\$ (34,529)</b></u>  | <u><b>\$ 252,874</b></u>    | <u><b>2.8%</b></u>                      | <u><b>2.8%</b></u>                                  |

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

Restricted assets pledged as collateral above consist of debt sinking funds on deposit with Citizens' Indenture Trustee for the purpose of funding principal and interest obligations associated with outstanding bonds payable. Other restricted assets consist of assessments that were 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 Office, 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.

## **6. Liability for Loss Reserves and Loss Adjustment Expense Reserves**

Activity in the liability for loss and LAE reserves for December 31 was as follows:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Direct loss and loss adjustment expense reserves, beginning of year | \$ 1,346,141        | \$ 1,834,388        |
| Less reinsurance recoverables on reserves                           | <u>(606,348)</u>    | <u>(661,854)</u>    |
| Net loss and loss adjustment expense reserves, beginning of year    | 739,793             | 1,172,534           |
| Incurred related to:  |                     |                     |
| Current accident year   | 405,139             | 553,500             |
| Prior accident years  | <u>94,822</u>       | <u>136,211</u>      |
| Total incurred  | <u>499,961</u>      | <u>689,711</u>      |
| Paid related to:  |                     |                     |
| Current accident year   | (168,707)           | (249,824)           |
| Prior accident years  | <u>(369,472)</u>    | <u>(872,628)</u>    |
| Total paid  | <u>(538,179)</u>    | <u>(1,122,452)</u>  |
| Net loss and loss adjustment expense reserves, end of year          | 701,575             | 739,793             |
| Add reinsurance recoverables on reserves                            | <u>306,677</u>      | <u>606,348</u>      |
| Gross Balance at end of year  | <u>\$ 1,008,252</u> | <u>\$ 1,346,141</u> |

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by approximately \$94,822 and \$136,211 net of reinsurance, in 2019 and 2018, respectively. Increases in overall projected claims counts and loss severity of claims from Hurricane Irma contributed most significantly to the overall increase in the provision for loss and LAE reserves of \$94,822 during 2019. These adjustments are the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There can be no assurance that the ultimate settlement of losses will not vary significantly from the recorded provision for losses and LAE. However, management believes the provision for losses and LAE is adequate to cover the cost of unpaid claims incurred. During 2019 and 2018, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$390,150 and \$86,620 respectively.

For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Irma were \$2,160,170 and \$1,915,425, respectively, excluding recorded anticipated reinsurance recoveries of \$879,778 and \$697,284, respectively. For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Michael were \$149,861 and \$151,726, respectively, with no anticipated reinsurance recoveries.



**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

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 compensates independent adjusting firms, depending upon the type or nature of the claims, either on a per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as LAE.

## **7. Reinsurance Agreements**

Citizens has entered into various contracts with reinsurers for the purpose of reducing its net exposure to qualifying losses should such losses occur. These contracts provide for the recovery of amounts above specified retention levels, subject to contractual limits, under per occurrence and aggregate catastrophe excess of loss arrangements. Reinsurance coverage is purchased separately for the Coastal Account and combined for the PLA and CLA. As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF as respects the Coastal Account is measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was \$1,033,202 and \$979,560 in the Coastal Account and PLA and CLA, respectively, for 2019, and \$1,121,535 and \$1,078,781 in the Coastal Account and PLA and CLA, respectively, for 2018. Reinsurance coverage purchased in the Coastal Account and PLA through traditional and capital markets totaled \$1,272,855 and \$175,500 for 2019, respectively, and \$1,422,960 and \$0 for 2018, respectively. At December 31, 2019, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$550,000 for directly-written insurance risks by Citizens at an attachment level of \$1,395,000.

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

|                             | <b>2019</b>       |                   | <b>2018</b>       |                   |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
|                             | <b>Written</b>    | <b>Earned</b>     | <b>Written</b>    | <b>Earned</b>     |
| Direct premiums             | \$ 876,558        | \$ 860,795        | \$ 868,417        | \$ 884,755        |
| FHCF ceded premiums         | (133,602)         | (133,602)         | (146,151)         | (146,151)         |
| Private ceded premiums      | (94,639)          | (94,639)          | (88,409)          | (88,409)          |
| Depopulation ceded premiums | (9,328)           | (16,479)          | (17,896)          | (27,220)          |
| Net premiums                | <u>\$ 639,989</u> | <u>\$ 616,075</u> | <u>\$ 615,961</u> | <u>\$ 622,975</u> |

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 11). Ceded losses and LAE incurred were \$182,250 and \$36,215 during 2019 and 2018, respectively. Unearned premiums on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus are net of ceded unearned premiums on depopulation contracts of \$4,048 and \$11,199 at December 31, 2019 and 2018, respectively. There were no ceded unearned premiums with respect to the FHCF or traditional and capital markets reinsurance agreements at December 31, 2019 and 2018.

Amounts recoverable from reinsurers on unpaid losses and LAE are estimated based on the allocation of estimated unpaid losses and LAE among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and LAE. FHCF and private 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. As of December 31, 2019, Citizens reported a net recoverable due from FHCF in the amount of \$353,809, or approximately 5.6% of accumulated surplus. As of December 31, 2018, Citizens reported a net recoverable due from FHCF in the amount of \$481,656, or approximately 7.7% of accumulated surplus. FHCF net recoverable amounts at December 31, 2019 and 2018 are comprised of ceded loss and LAE reserves for claims arising from Hurricane Irma.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

As of December 31, 2019 and 2018, Citizens recorded a provision for reinsurance as a liability with a corresponding charge to surplus in the amount of \$75 and \$1,173, respectively, on the statutory-basis statements of admitted assets, liabilities and accumulated surplus as a result of uncollateralized net recoverable balances arising due to anticipated losses and LAE attributed to Hurricane Irma. For 2019, the provision for reinsurance includes \$32 and \$43 for unauthorized and certified reinsurers, respectively. For 2018, the provision for reinsurance includes \$187 and \$986 for unauthorized and certified reinsurers, respectively. Citizens does not believe there to be significant credit risk associated with net recoverable balances under its reinsurance program.

## 8. Bonds Payable

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular, and emergency assessments, and/or reimbursements received from the FHCF. The following table provides pertinent information regarding each issuance of the Senior Secured Bonds:

| Bond Issue  | Issuance Date | Face Value          | Carrying Value      | Stated Interest Rate | Current Year Principal Paid | Current Year Interest Paid |
|---|---------------|---------------------|---------------------|----------------------|-----------------------------|----------------------------|
| Series 2011A-1 Senior Secured Bonds (Pre-event HRA)     | Jul 14, 2011  | \$ 175,000          | 175,137             | 3.000% - 5.000%      | \$ 175,000                  | \$ 12,938                  |
| Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA) | Jun 21, 2012  | 480,000             | 488,434             | 3.000% - 5.000%      | 160,000                     | 27,931                     |
| Series 2015A-1 Senior Secured Bonds (Pre-event Coastal) | Jun 2, 2015   | <u>650,000</u>      | <u>686,432</u>      | 3.000% - 5.000%      | <u>-</u>                    | <u>32,400</u>              |
| Total   |               | <u>\$ 1,305,000</u> | <u>\$ 1,350,003</u> |                      | <u>\$ 335,000</u>           | <u>\$ 73,269</u>           |

Interest expense includes net amortization for and accretion of premiums and discounts of \$20,258 and \$23,313 for the years ended December 31, 2019 and 2018, respectively. Net unamortized premium at December 31, 2019 and 2018 was \$45,003 and \$65,261 respectively.

A schedule of bond maturities is as follows:

| Years ended December 31, | 2011A-1 Bonds     | 2012A-1 Bonds     | 2015A-1 Bonds     | Total               |
|--------------------------|-------------------|-------------------|-------------------|---------------------|
| 2020                     | 175,000           | 160,000           | 150,000           | 485,000             |
| 2021                     | -                 | 160,000           | -                 | 160,000             |
| 2022                     | -                 | 160,000           | 225,000           | 385,000             |
| 2023                     | -                 | -                 | -                 | -                   |
| 2024                     | -                 | -                 | -                 | -                   |
| After                    | <u>-</u>          | <u>-</u>          | <u>275,000</u>    | <u>275,000</u>      |
|                          | <u>\$ 175,000</u> | <u>\$ 480,000</u> | <u>\$ 650,000</u> | <u>\$ 1,305,000</u> |

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

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

| Years ended December 31, | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------------|---------------------|-------------------|---------------------|
| 2020                     | 485,000             | 50,904            | 535,904             |
| 2021                     | 160,000             | 36,217            | 196,217             |
| 2022                     | 385,000             | 21,722            | 406,722             |
| 2023                     | -                   | 13,750            | 13,750              |
| 2024                     | -                   | 13,750            | 13,750              |
| After                    | <u>275,000</u>      | <u>5,729</u>      | <u>280,729</u>      |
|                          | <u>\$ 1,305,000</u> | <u>\$ 142,072</u> | <u>\$ 1,447,072</u> |

## **9. Retirement 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 \$5,684 and \$5,731 for the years ended December 31, 2019 and 2018, respectively.

## **10. 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. Agent commissions included in other underwriting expenses incurred were \$65,155 and \$65,113 during 2019 and 2018, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide 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. These services are for both Citizens' Commercial Lines and Personal Lines business. The amount per transaction ranges from \$7.25 to \$66.00 (dollars), depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$2,187 and \$1,758 during 2019 and 2018, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

## **11. 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. Policies may be removed from Citizens at policy renewal or as part of a bulk assumption. In an assumption, the assuming insurer (Takeout Company) is responsible for losses occurring from the assumption date through the expiration of the Citizens policy period (the assumption period). Subsequent to the assumption period, the Takeout Company will write the policy directly. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the Takeout Company, for the purpose of clarifying that FIGA is liable for assumption period losses occurring during the assumption period if a Takeout Company were liquidated and unable to meet its obligation to policyholders.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

During 2019 and 2018, Citizens recognized ceded written premiums of \$9,328 and \$17,896, respectively, as a result of depopulation.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption, 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, 2019 and 2018, net assumed premiums receivable in the amount of \$2,318 and \$1,178 respectively, were due from certain Takeout Companies and are reported as other receivables under reinsurance contracts in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. In addition, premiums due to Takeout Companies of \$147 and \$7,304, at December 31, 2019 and 2018, respectively, are included in reinsurance payable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

## **12. Operating Leases**

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7,168 and \$7,836 for the years ended December 31, 2019 and 2018, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions and there have been no early terminations of existing leases.

Future minimum payments under operating leases are as follows:

|       |    |               |
|-------|----|---------------|
| 2020  | \$ | 5,206         |
| 2021  |    | 5,294         |
| 2022  |    | 5,423         |
| 2023  |    | 5,554         |
| 2024  |    | 5,620         |
| After |    | <u>8,684</u>  |
| Total | \$ | <u>35,781</u> |

## **13. Commitments and Contingencies**

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 there from, will not have a material adverse effect on the financial condition or results of operations of Citizens.

### ***Multi-Year Reinsurance Treaties***

Citizens is party to reinsurance arrangements that provide coverage into 2020, including traditional aggregate catastrophic excess of loss agreements as well as aggregate catastrophe bonds placed in the capital markets. Premiums ceded under multi-year contracts are determined before each contractual reset period and are based upon defined risk parameters within the contracts that may result in increases or decreases to premiums ceded. Such adjustments to premiums ceded are included in the treaty year to which they apply.

### ***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.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

For the years ending December 31, 2019 and 2018, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach 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.

#### **14. Reconciliation of SAP to GAAP**

A reconciliation of Citizens' 2019 and 2018 statutory-basis net income (loss) and accumulated surplus to GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position, respectively, is as follows:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Net income (loss) - statutory basis                 | \$ 86,329           | \$ (151,350)        |
| Adjustments:  |                     |                     |
| Change in allowance for doubtful accounts           | (752)               | 6,456               |
| Change in FIGA assessment income                    | (1)                 | (10)                |
| Change in other income                              | 1                   | 10                  |
| Change in net unrealized gain (loss) on investments | <u>376,042</u>      | <u>(131,917)</u>    |
| Change in net position - GAAP basis                 | <u>\$ 461,619</u>   | <u>\$ (276,811)</u> |
|   |                     |                     |
| Accumulated surplus - statutory basis               | \$ 6,317,933        | \$ 6,230,729        |
| Adjustments:  |                     |                     |
| Nonadmitted assets, net of allowance                | 10,764              | 11,203              |
| Provision for reinsurance                           | 75                  | 1,173               |
| Net unrealized gain (loss) on investments           | <u>195,103</u>      | <u>(180,872)</u>    |
| Net position - GAAP basis                           | <u>\$ 6,523,875</u> | <u>\$ 6,062,233</u> |

#### **15. Assessments and Other Regulatory Matters**

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 levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GASB, adjusted for certain items.

In the event of a Plan Year Deficit in any 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 is treated as failure to pay premium.

If the Citizens Policyholder Surcharge is insufficient to eliminate a deficit in the Coastal account, Citizens would then levy a "Regular Assessment" on assessable insurers, as defined in Section 627.351(6), Florida Statutes. The assessment is 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, and is applied as a uniform percentage of up to 2% of subject premiums. The Regular Assessment is not available for deficits within the PLA or CLA.

**Citizens Property Insurance Corporation**  
**Notes to Statutory-Basis Financial Statements**  
**(Dollars in thousands)**

---

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, in addition to the Regular Assessment being limited to the Coastal account only.

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.

In November 2012, Citizens received notice of an assessment from the FIGA totaling \$27,759. Amounts recouped from policyholders relating to this assessment were \$1 and \$154 during 2019 and 2018, respectively. As of December 31, 2017, Citizens reported an over-collection in the amount of \$152 as assessments payable on the statutory-basis statements of admitted assets, liabilities and accumulated surplus. Citizens discontinued collections effective March 1, 2018 and settled the net over-collection in May 2018 with FIGA pursuant to Section 631.57(3)(f), Florida Statutes, and filed a final reconciliation with the Office.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten-year period commencing July 1, 2007. As of December 31, 2019 and 2018, collections in excess of the Emergency Assessment were \$140,806 and \$141,655, respectively. These balances are reported as the reserve for future assessments on the statutory-basis statements of admitted assets, liabilities and accumulated surplus until such time as the Board approves a change to direct these excess collections to be used for any lawful purpose available within the Plan.

In November of 2019, approximately 20,200 policies were written within the PLA to accommodate the placement of policies and provide coverage to policyholders as a result of a private market carrier discontinuing operations. As of December 31, 2019, approximately 18,000 of these policies remained inforce.

## **16. Subsequent Events**

Subsequent events have been considered through May 15, 2020, the date of issuance of these statutory-basis financial statements. On January 10, 2020, Citizens exercised an optional redemption of Series 2015A-1 Senior Secured pre-event fixed-rate bonds at par value for \$150 million with an original maturity of June 1, 2020. Citizens recognized a gain of \$1,519 as a result of the redemption due to the carrying value of the bonds exceeding the optional redemption price at execution.

In December 2019, a coronavirus (COVID-19) was reported in China and in March 2020 the World Health Organization declared it a pandemic. This contagious disease outbreak has continued to spread across the globe and is impacting worldwide economic activity and financial markets. On March 9, 2020, the Governor of Florida declared a state of emergency in order to receive federal funding for the state as did many other states. As a result, there is a risk and uncertainty surrounding the impact this pandemic might have on the Company.

There were no other events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

## ***Supplementary Information***

**Citizens Property Insurance Corporation**  
**Supplemental Combining Statutory-Basis Statements of Admitted Assets, Liabilities**  
**and Accumulated Surplus by Account**  
**December 31, 2019**  
**(Dollars in thousands)**

|  | <u>Combined</u>     | <u>Personal<br/>Lines<br/>Account</u> | <u>Commercial<br/>Lines<br/>Account</u> | <u>Coastal<br/>Account</u> |
|--|---------------------|---------------------------------------|---|----------------------------|
| <b>ADMITTED ASSETS</b>   |                     |                                       |   |                            |
| Cash and invested assets:  |                     |                                       |   |                            |
| Bonds  | \$ 8,113,871        | \$ 2,690,115                          | \$ 1,700,886                            | \$ 3,722,870               |
| Cash, cash equivalents,<br>and short-term investments                  | <u>741,767</u>      | <u>241,216</u>                        | <u>204,612</u>                          | <u>295,939</u>             |
| Total cash and invested assets   | 8,855,638           | 2,931,331                             | 1,905,498                               | 4,018,809                  |
| Investment income due and accrued, net                                 | 61,455              | 19,787                                | 13,544                                  | 28,124                     |
| Premiums receivable, net   | 69,096              | 44,330                                | 723                                     | 24,043                     |
| Reinsurance recoverable on paid losses and<br>loss adjustment expenses | 97,759              | 49,608                                | -                                       | 48,151                     |
| Other receivables under reinsurance contracts, net                     | 2,318               | 1,686                                 | 2                                       | 630                        |
| Other admitted assets  | 24,205              | 11,633                                | 3,827                                   | 8,745                      |
| Inter-account receivable (payable)                                     | <u>-</u>            | <u>(4,141)</u>                        | <u>1,090</u>                            | <u>3,051</u>               |
| Total admitted assets  | <u>\$ 9,110,471</u> | <u>\$ 3,054,234</u>                   | <u>\$ 1,924,684</u>                     | <u>\$ 4,131,553</u>        |
| <b>LIABILITIES AND ACCUMULATED SURPLUS</b>                             |                     |                                       |   |                            |
| Liabilities:   |                     |                                       |   |                            |
| Loss reserves, net   | \$ 393,658          | \$ 263,051                            | \$ 42,815                               | \$ 87,792                  |
| Loss adjustment expense reserves, net                                  | 307,917             | 242,434                               | 10,709                                  | 54,774                     |
| Retroactive reinsurance ceded  | (1,190)             | (1,096)                               | -                                       | (94)                       |
| Unearned premiums, net   | 446,486             | 287,841                               | 5,801                                   | 152,844                    |
| Reserve for future assessments   | 140,806             | -                                     | -                                       | 140,806                    |
| Reinsurance payable  | 43,564              | 8,936                                 | -                                       | 34,628                     |
| Provision for reinsurance  | 75                  | -                                     | -                                       | 75                         |
| Bonds payable  | 1,350,003           | 421,812                               | 66,622                                  | 861,569                    |
| Interest payable   | 5,411               | 1,722                                 | 272                                     | 3,417                      |
| Advance premiums and suspended cash                                    | 18,433              | 10,729                                | 333                                     | 7,371                      |
| Return premiums payable  | 4,486               | 3,108                                 | 21                                      | 1,357                      |
| Taxes and fees payable (receivable)                                    | 114                 | 515                                   | 20                                      | (421)                      |
| Other liabilities  | <u>82,775</u>       | <u>67,286</u>                         | <u>1,584</u>                            | <u>13,905</u>              |
| Total liabilities  | <u>2,792,538</u>    | <u>1,306,338</u>                      | <u>128,177</u>                          | <u>1,358,023</u>           |
| Accumulated surplus:   |                     |                                       |   |                            |
| Restricted   | 8,534               | -                                     | -                                       | 8,534                      |
| Unrestricted   | <u>6,309,399</u>    | <u>1,747,896</u>                      | <u>1,796,507</u>                        | <u>2,764,996</u>           |
| Total accumulated surplus  | <u>6,317,933</u>    | <u>1,747,896</u>                      | <u>1,796,507</u>                        | <u>2,773,530</u>           |
| Total liabilities and accumulated surplus                              | <u>\$ 9,110,471</u> | <u>\$ 3,054,234</u>                   | <u>\$ 1,924,684</u>                     | <u>\$ 4,131,553</u>        |



**Citizens Property Insurance Corporation**  
**Supplemental Combining Statutory-Basis Statements of Operations by Account**  
**Year Ended December 31, 2019**  
**(Dollars in thousands)**

|                                       | <u>Combined</u>   | <u>Personal<br/>Lines<br/>Account</u> | <u>Commercial<br/>Lines<br/>Account</u> | <u>Coastal<br/>Account</u> |
|---------------------------------------|-------------------|---------------------------------------|---|----------------------------|
| Underwriting income:                  |                   |                                       |   |                            |
| Net premiums earned                   | <u>\$ 616,075</u> | <u>\$ 443,643</u>                     | <u>\$ 10,477</u>                        | <u>\$ 161,955</u>          |
| Underwriting expenses:                |                   |                                       |   |                            |
| Net losses incurred                   | 331,849           | 236,326                               | 7,601                                   | 87,922                     |
| Net loss adjustment expenses incurred | 168,112           | 150,581                               | 3,722                                   | 13,809                     |
| Other underwriting expenses incurred  | <u>213,173</u>    | <u>134,037</u>                        | <u>3,338</u>                            | <u>75,798</u>              |
| Total underwriting expense            | <u>713,134</u>    | <u>520,944</u>                        | <u>14,661</u>                           | <u>177,529</u>             |
| Net underwriting loss                 | <u>(97,059)</u>   | <u>(77,301)</u>                       | <u>(4,184)</u>                          | <u>(15,574)</u>            |
| Investment income:                    |                   |                                       |   |                            |
| Net interest income                   | 225,622           | 76,472                                | 50,746                                  | 98,404                     |
| Net realized capital gains (losses)   | 6,825             | 9,230                                 | 922                                     | (3,327)                    |
| Interest expense                      | <u>(51,621)</u>   | <u>(17,133)</u>                       | <u>(2,706)</u>                          | <u>(31,782)</u>            |
| Total net investment income           | <u>180,826</u>    | <u>68,569</u>                         | <u>48,962</u>                           | <u>63,295</u>              |
| Other income                          | <u>2,562</u>      | <u>1,871</u>                          | <u>60</u>                               | <u>631</u>                 |
| Net income (loss)                     | <u>\$ 86,329</u>  | <u>\$ (6,861)</u>                     | <u>\$ 44,838</u>                        | <u>\$ 48,352</u>           |

**Citizens Property Insurance Corporation**  
**Summary Investment Schedule**  
**December 31, 2019**  
**(Dollars in thousands)**

|  | <b>Gross Investment Holdings</b> |                   | <b>Admitted Assets as Reported<br/>in the Annual Statement</b> |                   |
|--|----------------------------------|-------------------|--|-------------------|
|  | <b>Amount</b>                    | <b>Percentage</b> | <b>Amount</b>  | <b>Percentage</b> |
| <b>Bonds</b>   |                                  |                   |  |                   |
| U.S. Governments   | \$ 1,612,185                     | 18.2%             | \$ 1,612,185   | 18.2%             |
| All Other Governments  | 11,093                           | 0.1%              | 11,093   | 0.1%              |
| U.S. States, Territories and Possessions, etc. Guaranteed                      | 202,212                          | 2.3%              | 202,212  | 2.3%              |
| U.S. Political Subdivisions of States, Territories and Possessions, Guaranteed | 266,098                          | 3.0%              | 266,098  | 3.0%              |
| U.S. Special Revenue & Special Assessment Obligations, etc. Non-Guaranteed     | 1,714,297                        | 19.4%             | 1,714,297  | 19.4%             |
| Industrial and Miscellaneous   | 4,307,987                        | 48.6%             | 4,307,987  | 48.6%             |
| Hybrid Securities  | -                                | 0.0%              | -  | 0.0%              |
| Parent, Subsidiaries and Affiliates  | -                                | 0.0%              | -  | 0.0%              |
| SVO Identified Funds   | -                                | 0.0%              | -  | 0.0%              |
| Unaffiliated Bank Loans  | -                                | 0.0%              | -  | 0.0%              |
| <b>Preferred Stocks</b>  |                                  |                   |  |                   |
| Industrial and Miscellaneous (Unaffiliated)                                    | -                                | 0.0%              | -  | 0.0%              |
| Parent, Subsidiaries and Affiliates  | -                                | 0.0%              | -  | 0.0%              |
| <b>Common Stocks</b>   |                                  |                   |  |                   |
| Industrial and Misc. Publicly Traded (Unaffiliated)                            | -                                | 0.0%              | -  | 0.0%              |
| Industrial and Misc. Other (Unaffiliated)                                      | -                                | 0.0%              | -  | 0.0%              |
| Parent, Subsidiaries and Affiliates Publicly Traded                            | -                                | 0.0%              | -  | 0.0%              |
| Parent, Subsidiaries and Affiliates Other                                      | -                                | 0.0%              | -  | 0.0%              |
| Mutual Funds   | -                                | 0.0%              | -  | 0.0%              |
| Unit Investment Trusts   | -                                | 0.0%              | -  | 0.0%              |
| Closed-End Funds   | -                                | 0.0%              | -  | 0.0%              |
| <b>Mortgage Loans</b>  |                                  |                   |  |                   |
| Farm Mortgages   | -                                | 0.0%              | -  | 0.0%              |
| Residential Mortgages  | -                                | 0.0%              | -  | 0.0%              |
| Commercial Mortgages   | -                                | 0.0%              | -  | 0.0%              |
| Mezzanine Real Estate Loans  | -                                | 0.0%              | -  | 0.0%              |
| <b>Real Estate</b>   |                                  |                   |  |                   |
| Properties Occupied by Company   | -                                | 0.0%              | -  | 0.0%              |
| Properties Held for Production of Income                                       | -                                | 0.0%              | -  | 0.0%              |
| Properties Held for Sale   | -                                | 0.0%              | -  | 0.0%              |
| Cash (Schedule E, Part 1)  | (87,511)                         | -1.0%             | (87,511)   | -1.0%             |
| Cash Equivalents (Schedule E, Part 2)  | 599,369                          | 6.8%              | 599,369  | 6.8%              |
| Short-Term Investments (Schedule DA)   | 229,909                          | 2.6%              | 229,909  | 2.6%              |
| <b>Total Invested Assets</b>   | <u>\$ 8,855,638</u>              | <u>100.0%</u>     | <u>\$ 8,855,638</u>  | <u>100.0%</u>     |

See independent auditors' report on the supplementary information.

**Citizens Property Insurance Corporation**  
**Supplemental Schedule of Investment Risks Interrogatories**  
**December 31, 2019**  
**(Dollars in thousands)**

**1. Reporting entity's total admitted assets:**

**\$ 9,110,471**

**2. Ten largest exposures to a single issuer/borrower/investment.**

|      | <b>Issuer</b>           | <b>Description of Exposure</b> | <b>Carrying Amount</b> | <b>Percentage of Total Admitted Assets</b> |
|------|-------------------------|--------------------------------|------------------------|--|
| 2.01 | Fannie Mae              | Bonds                          | \$ 377,405             | 4.1%                                       |
| 2.02 | Goldman Sachs           | Bonds, Cash Equivalents        | 303,340                | 3.3%                                       |
| 2.03 | Freddie Mac             | Bonds, Short-term Investments  | 225,334                | 2.5%                                       |
| 2.04 | Morgan Stanley          | Bonds, Cash Equivalents        | 224,848                | 2.5%                                       |
| 2.05 | Bank of New York Mellon | Bonds, Cash Equivalents        | 189,815                | 2.1%                                       |
| 2.06 | State of California     | Bonds                          | 129,569                | 1.4%                                       |
| 2.07 | JP Morgan Chase & Co.   | Bonds                          | 102,393                | 1.1%                                       |
| 2.08 | Federal Home Loan Bank  | Bonds                          | 101,315                | 1.1%                                       |
| 2.09 | Wells Fargo & Co.       | Bonds                          | 101,122                | 1.1%                                       |
| 2.10 | Citigroup Inc.          | Bonds                          | 97,787                 | 1.1%                                       |

**3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.**

|      |                          | <b>Carrying Amount</b> | <b>Percentage of Total Admitted Assets</b> |
|------|--------------------------|------------------------|--|
|      | <i>Bonds:</i>            |                        |  |
| 3.01 | NAIC-1                   | \$ 6,986,161           | 76.7%                                      |
| 3.02 | NAIC-2                   | 1,393,977              | 15.3%                                      |
| 3.03 | NAIC-3                   | 3,383                  | 0.0%                                       |
| 3.04 | NAIC-4                   | -                      | 0.0%                                       |
| 3.05 | NAIC-5                   | -                      | 0.0%                                       |
| 3.06 | NAIC-6                   | -                      | 0.0%                                       |
|      | <i>Preferred Stocks:</i> |                        |  |
| 3.07 | P/RP-1                   | -                      | 0.0%                                       |
| 3.08 | P/RP-2                   | -                      | 0.0%                                       |
| 3.09 | P/RP-3                   | -                      | 0.0%                                       |
| 3.10 | P/RP-4                   | -                      | 0.0%                                       |
| 3.11 | P/RP-5                   | -                      | 0.0%                                       |
| 3.12 | P/RP-6                   | -                      | 0.0%                                       |

**Citizens Property Insurance Corporation**  
**Supplemental Schedule of Investment Risks Interrogatories**  
**December 31, 2019**  
**(Dollars in thousands)**

**4. Assets held in foreign investments:**

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

Yes [ ] No [ X ]

|      |   | <u>Carrying<br/>Amount</u> | <u>Percentage<br/>of Total<br/>Admitted<br/>Assets</u> |
|------|---|----------------------------|--|
| 4.02 | Total admitted assets held in foreign investments               | \$ 507,434                 | 5.6%   |
| 4.03 | Foreign currency-denominated investments                        | -                          | 0.0%   |
| 4.04 | Insurance liabilities denominated in that same foreign currency | -                          | 0.0%   |

*If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.*

**5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:**

|      |                                      | <u>Carrying<br/>Amount</u> | <u>Percentage<br/>of Total<br/>Admitted<br/>Assets</u> |
|------|--------------------------------------|----------------------------|--|
| 5.01 | Countries designated NAIC 1          | \$ 497,866                 | 5.5%   |
| 5.02 | Countries designated NAIC 2          | 5,366                      | 0.1%   |
| 5.03 | Countries designated NAIC-3 or below | 4,202                      | 0.1%   |

**6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:**

|      |  | <u>Carrying<br/>Amount</u> | <u>Percentage<br/>of Total<br/>Admitted<br/>Assets</u> |
|------|--|----------------------------|--|
|      | <i>Countries designated NAIC 1:</i>          |                            |  |
| 6.01 | United Kingdom                               | \$ 148,217                 | 1.6%   |
| 6.02 | Netherlands                                  | 83,436                     | 0.9%   |
|      | <i>Countries designated NAIC 2:</i>          |                            |  |
| 6.03 | Mexico                                       | 5,366                      | 0.1%   |
| 6.04 |  | -                          | 0.0%   |
|      | <i>Countries designated NAIC 3 or below:</i> |                            |  |
| 6.05 | Ukraine                                      | 3,014                      | 0.0%   |
| 6.06 | Guernsey                                     | 1,188                      | 0.0%   |

**7. Aggregate unhedged foreign currency exposure:**

Not applicable.

**Citizens Property Insurance Corporation**  
**Supplemental Schedule of Investment Risks Interrogatories**  
**December 31, 2019**  
**(Dollars in thousands)**

**8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:**

Not applicable.

**9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:**

Not applicable.

**10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:**

|       | <u>Issuer</u>                        | <u>NAIC Designation</u> | <u>Carrying Amount</u> | <u>Percentage of Total Admitted Assets</u> |
|-------|--------------------------------------|-------------------------|------------------------|--|
| 10.01 | HSBC Holdings PLC                    | 1                       | \$ 48,146              | 0.5%                                       |
| 10.02 | Sumitomo Mitsui Financial Group Inc. | 1                       | 38,398                 | 0.4%                                       |
| 10.03 | BP PLC                               | 1                       | 34,077                 | 0.4%                                       |
| 10.04 | Westpac Banking Corp.                | 1                       | 32,970                 | 0.4%                                       |
| 10.05 | Royal Dutch Shell PLC                | 1                       | 28,527                 | 0.3%                                       |
| 10.06 | Cooperatieve Rabobank UA             | 1                       | 27,228                 | 0.3%                                       |
| 10.07 | Svenska Handelsbanken AB             | 1                       | 27,090                 | 0.3%                                       |
| 10.08 | Banco Santander SA                   | 1,2                     | 21,993                 | 0.2%                                       |
| 10.09 | Total SA                             | 1                       | 20,316                 | 0.2%                                       |
| 10.10 | Credit Suisse Group AG               | 1,2                     | 18,710                 | 0.2%                                       |

**11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:**

\$ 117,252 1.3%

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?  
Yes [ X ] No [ ]

*If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.*

**12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:**

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?  
Yes [ X ] No [ ]

*If response to 12.01 is yes, detail is not required for the remainder of Interrogatory 12.*

**13. Amounts and percentages of admitted assets held in the ten largest equity interests:**

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?  
Yes [ X ] No [ ]

*If response to 13.01 is yes, detail is not required for the remainder of Interrogatory 13.*

**Citizens Property Insurance Corporation**  
**Supplemental Schedule of Investment Risks Interrogatories**  
**December 31, 2019**  
**(Dollars in thousands)**

---

**14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:**

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

*If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.*

**15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:**

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

*If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.*

**16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:**

16.01 Are mortgage loans reported in Schedule B less 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

*If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.*

**18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:**

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes ☒ No ☐

*If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.*

**19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans.**

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes ☒ No ☐

*If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.*

**Citizens Property Insurance Corporation**  
**Supplemental Schedule of Investment Risks Interrogatories**  
**December 31, 2019**  
**(Dollars in thousands)**

**20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:**

|                    |  |           | <b>At End of Each Quarter</b> |                            |                            |
|--------------------|--|-----------|-------------------------------|----------------------------|----------------------------|
| <b>At Year End</b> |  |           | <b>1<sup>st</sup> Qtr.</b>    | <b>2<sup>nd</sup> Qtr.</b> | <b>3<sup>rd</sup> Qtr.</b> |
| 20.01              | Securities lending agreements (do not include assets held as collateral for such transactions) | \$ - 0.0% | \$ -                          | \$ -                       | \$ -                       |
| 20.02              | Repurchase agreements  | - 0.0%    | -                             | -                          | -                          |
| 20.03              | Reverse repurchase agreements  | - 0.0%    | -                             | -                          | -                          |
| 20.04              | Dollar repurchase agreements   | - 0.0%    | -                             | -                          | -                          |
| 20.05              | Dollar reverse repurchase agreements   | - 0.0%    | -                             | -                          | -                          |

**21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:**

|       |                   |           | <b>Owned</b> | <b>Written</b> |
|-------|-------------------|-----------|--------------|----------------|
| 21.01 | Hedging           | \$ - 0.0% | \$ -         | 0.0%           |
| 21.02 | Income generation | - 0.0%    | -            | 0.0%           |
| 21.03 | Other             | - 0.0%    | -            | 0.0%           |

**22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:**

|                    |                   |           | <b>At End of Each Quarter</b> |                            |                            |
|--------------------|-------------------|-----------|-------------------------------|----------------------------|----------------------------|
| <b>At Year End</b> |                   |           | <b>1<sup>st</sup> Qtr.</b>    | <b>2<sup>nd</sup> Qtr.</b> | <b>3<sup>rd</sup> Qtr.</b> |
| 22.01              | Hedging           | \$ - 0.0% | \$ -                          | \$ -                       | \$ -                       |
| 22.02              | Income generation | - 0.0%    | -                             | -                          | -                          |
| 22.03              | Replications      | - 0.0%    | -                             | -                          | -                          |
| 22.04              | Other             | - 0.0%    | -                             | -                          | -                          |

**23. Amounts and percentages of the reporting entity's total admitted assets of potential for future contracts:**

|                    |                   |           | <b>At End of Each Quarter</b> |                            |                            |
|--------------------|-------------------|-----------|-------------------------------|----------------------------|----------------------------|
| <b>At Year End</b> |                   |           | <b>1<sup>st</sup> Qtr.</b>    | <b>2<sup>nd</sup> Qtr.</b> | <b>3<sup>rd</sup> Qtr.</b> |
| 23.01              | Hedging           | \$ - 0.0% | \$ -                          | \$ -                       | \$ -                       |
| 23.02              | Income generation | - 0.0%    | -                             | -                          | -                          |
| 23.03              | Replications      | - 0.0%    | -                             | -                          | -                          |
| 23.04              | Other             | - 0.0%    | -                             | -                          | -                          |

# **Citizens Property Insurance Corporation**

---

## **Financial Statements and Supplementary Information**

**Years Ended December 31, 2019 and 2018**



## Table of Contents

|   |    |
|---|----|
| <b>Independent Auditors' Report</b> .....   | 1  |
| <b>Management's Discussion and Analysis</b> .....   | 4  |
| <b>Financial Statements:</b>  |    |
| Statements of Net Position .....  | 11 |
| Statements of Revenues, Expenses and Changes in Net Position .....  | 12 |
| Statements of Cash Flows.....   | 13 |
| Notes to Financial Statements .....   | 15 |
| <b>Supplementary Information:</b>   |    |
| Supplemental Combining Statements of Net Position .....   | 37 |
| Supplemental Combining Statements of Revenues, Expenses and Changes<br>in Net Position .....  | 38 |
| Supplemental Revenues, Expenses and Claim Development Information.....  | 39 |
| <b>Other Reports:</b>   |    |
| Independent Auditors' Report on Internal Control over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial Statements<br>in Accordance with <i>Government Auditing Standards</i> ..... | 41 |

## Independent Auditors' Report

Audit Committee  
Citizens Property Insurance Corporation  
Tallahassee, Florida

We have audited the accompanying financial statements of Citizens Property Insurance Corporation (Citizens), an enterprise fund of the State of Florida, which comprise of statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended, and the related notes of the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens as of December 31, 2019 and 2018, 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.

***Basis of Presentation***

As discussed in Note 2, the financial statements of Citizens are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business type activities of the State of Florida that is attributable to the transactions of Citizens. They do not purport to, and do not, present fairly the financial position of the State of Florida as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 to 10 and the Supplemental Revenues, Expenses and Claim Development Information on page 39 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information – Supplemental Combining Statements***

Our audits were conducted for the purpose of forming an opinion of the basic financial statements as a whole. The supplemental combining statements of net position and supplemental combining statements of revenues, expenses and changes in net position (Supplemental Combining Statements), on pages 37 through 38 as of and for the year ended December 31, 2019, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Supplemental Combining Statements are the responsibility of Citizens' management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted by the United States of America. In our opinion, the Supplemental Combining Statements are fairly stated, in all material respects, in relation to the basic financial statement as a whole.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2020 on our consideration of Citizens' internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Citizens' internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina**  
**May 15, 2020**

## **Management's Discussion & Analysis**

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

### **1. Financial Highlights**

- The assets of Citizens exceeded its liabilities at the close of the most recent year by \$6,523,875.
- Citizens' total net position increased by \$461,642 primarily as a result of net investment income.
- The operating loss of \$97,060 represents a decrease of \$183,640 for 2019 as compared to the operating loss reported for 2018. The 2018 operating loss was principally driven by development of net losses and LAE incurred related to Hurricane Irma in addition to losses and LAE attributable to Hurricane Michael. Adverse development on net Hurricane Irma losses and LAE in 2019 contributed most significantly to the 2019 underwriting loss.
- Operating expenses were comparatively unchanged during 2019.
- Nonoperating income of \$558,679 increased \$554,790 during 2019 as compared to nonoperating income of \$3,889 for 2018. The net increase is primarily a result of increases in net investment income of \$542,606. Net investment income increases in 2019 were principally driven by net unrealized gains of \$376,041 and net realized gains of \$19,626 on Citizens' invested assets. Net interest expense decreases in 2019 were the result of schedule maturities of pre-event bonds of \$335,000.

### ***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 position, statements of revenues, expenses and changes in net position and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

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

The *statements of revenues, expenses and changes in net position* present information illustrating changes to Citizens' net position during the most recent fiscal year as well as the prior year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

The *statements of cash flows* present information concerning cash receipts and cash payments during the year. The statements illustrate the cash effects of operating, noncapital financing, capital financing and investing activities during the fiscal years presented.

**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

---

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 immediately follow the statements of cash flows.

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

## **2. Financial Analysis**

### ***Cash and invested assets***

Citizens employs an investment policy that focuses on principal preservation, competitive returns, and adequate liquidity in order to meet future claim obligations. Citizens' invested assets are governed by four investment policies, two for taxable operating funds and two for tax-exempt bond proceeds: 1) Liquidity Fund (Taxable) – generally this policy will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis; 2) Liquidity Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis; 3) Claims-Paying Fund (Taxable) – generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund; 4) Claims-Paying Fund (Tax-exempt) – generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended; 5) Claims-Paying Long Duration Fund (Taxable) – generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund and Claims-Paying Fund. Citizens' investment policy requires securities with long-term ratings in the taxable portfolios to have an average rating of Baa2/BBB/BBB or better and be rated by at least two of Moody's, S&P and/or Fitch with no rating below Baa3/BBB-/BBB. The policy also requires securities with long-term ratings in the tax-exempt portfolios to be rated by at least two of Moody's, S&P, and/or Fitch and have minimum ratings of A3/A-/A-. Citizens engages independent investment managers to invest bond proceeds and certain operating cash pursuant to its taxable and tax-exempt investment policies. Citizens' investment portfolio consists of high-quality debt instruments such as US Treasury and Agency securities and money market funds, corporate bonds, commercial paper and certificates of deposit, AAA rated asset backed securities, tax-exempt money market funds, taxable municipal bonds, tax-exempt municipal bonds, tax-exempt variable rate demand notes, and prime money market funds.

Declines in market value of invested assets are continually evaluated to determine whether these declines are temporary or other-than-temporary in nature. In making this determination, Citizens monitors external impairment indicators such as issuer credit ratings as well as the extent and length of the related declines and internal impairment indicators such as Citizens' intent and ability with respect to retention of the impaired securities. These indicators are obtained from both third-party valuation services and internal analyses performed by Citizens.

Cash and the estimated market value of Citizens' invested assets totaled \$9,050,742 at December 31, 2019, marking a decrease of \$19,778 from December 31, 2018. The overall decrease consisted of reductions in short and long-term investments of \$84,178 partially offset by increases in cash and equivalents of \$64,400. Proceeds from redemptions of short and long-term investments were largely used for debt service obligations on pre-event bonds of \$335,000.

**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

***Reserve for losses and loss adjustment expenses***

Reserves for unpaid losses and loss adjustment expenses (LAE) are stated at Citizens' estimate of the ultimate cost of settling all incurred but unpaid claims. Incurred losses and LAE represent a combination of payments for loss and LAE as well as changes in reserves that occur during the calendar year.

Activity with respect to reserves for unpaid losses and loss adjustment expenses for the Years Ended December 31, 2019 and 2018 were as follows:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Direct loss and loss adjustment expense reserves, beginning of year | \$ 1,344,719        | \$ 1,832,958        |
| Less reinsurance recoverables on reserves                           | <u>(606,348)</u>    | <u>(661,854)</u>    |
| Net loss and loss adjustment expense reserves, beginning of year    | <u>738,371</u>      | <u>1,171,104</u>    |
| Incurred related to:  |                     |                     |
| Current accident year   | 405,139             | 553,502             |
| Prior accident years  | <u>94,822</u>       | <u>136,211</u>      |
| Total incurred  | <u>499,961</u>      | <u>689,713</u>      |
| Paid related to:  |                     |                     |
| Current accident year   | (168,707)           | (249,825)           |
| Prior accident years  | <u>(369,472)</u>    | <u>(872,628)</u>    |
| Total paid  | <u>(538,179)</u>    | <u>(1,122,453)</u>  |
| Change in retroactive reinsurance reserves ceded                    | <u>232</u>          | <u>7</u>            |
| Net loss and loss adjustment expense reserves, end of year          | 700,385             | 738,371             |
| Add reinsurance recoverables on reserves                            | <u>306,677</u>      | <u>606,348</u>      |
| Direct loss and loss adjustment expense reserves, end of year       | <u>\$ 1,007,062</u> | <u>\$ 1,344,719</u> |

Reserves for unpaid losses, net of amounts ceded under reinsurance contracts, increased \$14,941 and reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, decreased \$52,927. Net unpaid losses and LAE reserves related to catastrophes (2004 and 2005 hurricanes, 2008 Tropical Storm Fay, 2016 Hurricane Matthew, 2017 Hurricane Irma and 2018 Hurricane Michael) decreased \$1,807 largely due to the development of 2017 hurricane claims. Net unpaid losses and LAE reserves not related to hurricanes decreased \$36,411 million due to the settlement of reserve balances from prior years.

***Long-term debt***

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe to ensure that liquidity demands associated with policyholder obligations can be met.

**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

These bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular and emergency assessments, and/or reimbursements received from the Florida Hurricane Catastrophe Fund (FHCF). During 2019, cash outflows associated with Citizens' Senior Secured Bonds totaled \$335,000 in principal repayments and \$73,269 in interest obligations. Net interest expense of \$51,621 includes net amortization of bond premiums of \$20,259 for the year ended December 31, 2019.

***Other liabilities***

Effective July 1, 2015, Citizens terminated the 2005 Citizens Emergency Assessment that was activated as a result of unprecedented storm activity during 2004 and 2005 during which eight hurricanes made landfall in various southern US states, including Florida. The collection of these assessment funds were used for debt service obligations incurred in connection with the now defeased 2007A post-event bonds that were issued to provide claims paying resources to Citizens. Amounts collected by Citizens in excess of the 2005 Citizens Emergency Assessment levy are held in a reserve account and may be used by Citizens to offset future plan year deficits as approved by Citizens Board of Governors and the Office of Insurance Regulation. At December 31, 2019 and 2018, funds held in this reserve totaled \$140,806 and \$141,655 respectively.

***Operating Revenue***

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

|   | <u>2019</u> | <u>2018</u>  | <u>2017</u>  | <u>%Change<br/>2019-2018</u> | <u>%Change<br/>2018-2017</u> |
|---|-------------|--------------|--------------|------------------------------|------------------------------|
| Operating revenue:                                |             |              |              |                              |                              |
| Premiums earned                                   | \$ 616,075  | \$ 622,975   | \$ 626,446   | (1.1) %                      | (0.5) %                      |
| Operating expenses:                               |             |              |              |                              |                              |
| Losses and loss adjustment expenses incurred      | 499,962     | 689,713      | 1,565,096    | (27.5) %                     | (55.9) %                     |
| Other underwriting expenses                       | 213,173     | 213,962      | 226,317      | (0.4) %                      | (5.5) %                      |
| Total expenses                                    | 713,135     | 903,675      | 1,791,413    | (21.1) %                     | (49.5) %                     |
| Operating loss                                    | (97,060)    | (280,700)    | (1,164,967)  | 65.4 %                       | 75.9 %                       |
| Non-operating income (expense)                    | 558,679     | 3,889        | 195,420      | 14,265.6 %                   | (98.0) %                     |
| Change in net position                            | \$ 461,619  | \$ (276,811) | \$ (969,547) | 266.8 %                      | 71.4 %                       |
| Policies in-force (as of year-end)                | 442,196     | 427,395      | 440,406      | 3.5 %                        | (2.9) %                      |
| Policies serviced (as of year-end)                | 447,433     | 441,066      | 463,754      | 1.4 %                        | (4.9) %                      |
| Underwriting ratios:                              |             |              |              |                              |                              |
| Net loss and LAE ratio (calendar year)            | 81%         | 111%         | 250%         | (30)%                        | (139)%                       |
| Expense ratio (calculated on net premiums earned) | 35%         | 34%          | 36%          | 1%                           | (2)%                         |
| Combined ratio                                    | 116%        | 145%         | 286%         | (29)%                        | (141)%                       |



**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

---

***Operating loss***

For 2019, Citizens incurred an underwriting loss of \$97,060, a decrease of \$183,640 from the operating loss reported in December 31, 2018. The 2018 underwriting loss was principally driven by development of net losses and LAE incurred related to Hurricane Irma in addition to losses and LAE attributable to Hurricane Michael of \$151,725. Adverse development on net Hurricane Irma losses and LAE of \$62,252 in 2019 contributed most significantly to the 2019 operating loss.

***Direct Written Premium***

During 2019, consolidated direct written premium increased \$8,142 (1%). By account, increase (decreases) in direct written premium were \$30,707 (6%), (\$2,694) (-18%), and (\$19,871) (-6%) within the PLA, CLA, and Coastal Account, respectively. An analysis of observed trends in direct written premium, by account, follows:

Personal Lines Account

In November of 2019, approximately 20,200 policies were written to accommodate the placement of policies and provide coverage to policyholders as a result of a private market carrier discontinuing operations. As of December 31, 2019, approximately 18,000 of these policies remained inforce.

At December 31, 2019, the number of policies inforce within the PLA was approximately 323,000 reflecting a 6% increase relative to December 31, 2018. While the number of cancellations and non-renewals in 2019 were relatively unchanged relative to 2018, the number of policies assumed decreased by approximately 50%. Premiums written during 2019 were \$558,477 or \$30,707 (6%) greater than 2018. Premiums ceded through depopulation during 2019 were \$6,035 or \$129 (2%) less than 2018.

Commercial Lines Account

At December 31, 2019, the number of policies inforce within the CLA was approximately 700 reflecting a 20% decrease relative to December 31, 2018. The number of new policies written during 2019 was 23 and approximated the same number of new policies written during 2018. The number of cancellations (66) and non-renewals (155) contributed most significantly to the year-over-year decrease in policies inforce. Citizens' commercial policies remain attractive to insurers both in the private market and E&S market, particularly commercial policies with higher average premiums, leading to decreases in premiums written surpassing decreases in policies inforce. Premiums written during 2019 were \$11,972 or \$2,694 (18%) less than 2018. Premiums ceded through depopulation during 2019 were \$7 or \$44 (87%) less than 2018.

Coastal Account

At December 31, 2019, the number of policies inforce within the Coastal Account was approximately 119,000 reflecting a 3% decrease relative to December 31, 2018. Although policies assumed during 2019 were approximately one-third the amount assumed during 2018, the number of non-renewals and cancellations outpaced the number of new policies written causing year-over-year declines in policies inforce. Premiums written during 2019 were \$306,111 or \$19,871 (6%) less than 2018. Premiums ceded through depopulation during 2019 were \$3,286 or \$8,394 (72%) less than 2018.

The 2019 rate filing went into effect in December 2019 (originally September 2019) and the 2020 rate filing is expected to go into effect February 2021.

Losses and LAE incurred

Non-catastrophe loss and LAE ratios were relatively unchanged in 2019 in comparison to 2018, driven by decreasing litigation rates on non-weather water loss claims from accident years 2019 and 2018, partially offset by an increase in average loss and LAE severity on non-weather water loss claims. The PLA continues to represent a larger portion of Citizens' overall business increasing from 61% in 2018 to 64% in 2019.

**Citizens Property Insurance Corporation**  
**Management's Discussion & Analysis**  
**(Dollars in thousands)**

---

With this proportional increase, Citizens' consolidated underwriting results will continue to be dominated by underwriting results within the PLA. Consolidated direct losses and LAE incurred related to hurricanes (namely Hurricanes Michael and Irma) increased \$243,196, of which \$181,520 was ceded through Citizens' reinsurance program.

At December 31, 2019, consolidated direct ultimate losses and LAE related to Hurricane Irma were increased by \$244,746. A majority of the development that occurred during 2019 (\$210.8 million of the \$244.5 million) occurred within the PLA and resulted from an increase in claim counts and loss severity (driven by an increase in inflationary trends), particularly in the Southeastern region of the state, despite reductions in actual and projected litigation rates. LAE associated with Hurricane Irma was relatively unchanged in 2019 compared to 2018. Projected claims counts in the PLA and Coastal Account increased approximately 1,200 (2.6%) and 600 (2.0%), respectively, both driven by increases in claim counts in the Southeastern region of the state. Loss severity in the PLA and Coastal Account increased approximately \$4,000 (27.3%) and \$200 (1.0%), respectively, with the largest increases occurring within the Southeastern region of the state. Year-over-year changes in LAE from Hurricane Irma were relatively unchanged.

On a consolidated basis, ultimate direct losses and LAE related to Hurricane Michael were relatively unchanged with year-end loss and LAE reserves of \$149.9 million, reflecting a \$1.8 million (1.1%) reduction from 2018.

No reinsurance recoverables associated with Hurricane Michael were recorded due to the losses and LAE not meeting the attachment levels of reinsurance arrangements.

Litigation of non-weather water claims continues to impact loss and LAE severity, particularly within the PLA, however accident years 2018 and 2019 have shown improvement relative to prior accident years. It is expected that the litigation rate for non-weather water loss claims for accident years 2018 and 2019 will remain under 30%, marking favorable decline from prior accident years where litigation rates approached 50%.

Within the CLA, volatility in older sinkhole claims continues to contribute to material quarterly variances in the reported loss and LAE ratios. While loss and LAE development within the CLA are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss and LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger. The reported loss ratio for 2019 was driven by favorable development on outstanding loss reserves for older sinkhole claims while the current accident year loss ratio was driven by a sinkhole claim for a loss that occurred in 2019. Loss and LAE ratios reported in future periods could be significantly affected by the development of this sinkhole claim.

Administrative expenses reclassified to LAE are assigned to prior accident years based on the number of claims closed for the current and each prior accident year. Accordingly, fluctuations in the number of claims closed and the fraction of claims closed for each accident year can lead to adverse or favorable development of LAE in prior accident years.

### **3. Net investment income and interest expense**

Net investment income consists of interest earned on Citizens' invested assets, net realized and unrealized gains on sales of invested assets, and interest expense incurred on senior secured bonds outstanding. Total investment income for 2019 was \$556,867 or \$554,556 more than 2018. Net realized and unrealized gains during 2019 were \$6,825 and \$376,042, respectively, marking an increase of \$30,754 and \$507,959, respectively, compared to 2018. Average invested assets decreased \$504,580 over the same comparable period. The relative and absolute increases in investment income were principally driven by significant increases in realized and unrealized gains, partially offset by \$12,335 in realized losses arising from the disposition of certain legacy securities, and increased yields persisting from investing in a higher interest rate environment. In September 2019, certain legacy securities were impaired resulting in an other-than-temporary impairment loss of \$12,801. With the recent overall increases in bond prices, most securities disposed of through the active management of invested assets have generated realized gains thereby increasing overall investment income. Holdings in tax-exempt securities within bond proceeds accounts have declined as outstanding bond obligations decline. A reduction in these holdings result in proportional increases in securities that generally produce higher yields.

Interest expense incurred on senior secured bonds outstanding were \$51,621 during 2019 in comparison to \$63,571 in 2018. The decrease was driven by reductions in pre-event bonds outstanding during 2019.

### **4. Subsequent Events**

Subsequent events have been considered through May 15, 2020, the date of issuance of these financial statements. On January 10, 2020, Citizens exercised an optional redemption of Series 2015A-1 Senior Secured pre-event fixed-rate bonds at par value for \$150 million with an original maturity of June 1, 2020. Citizens recognized a gain of \$1,519 as a result of the redemption due to the carrying value of the bonds exceeding the optional redemption price at execution.

In December 2019, a coronavirus (COVID-19) was reported in China and in March 2020 the World Health Organization declared it a pandemic. This contagious disease outbreak has continued to spread across the globe and is impacting worldwide economic activity and financial markets. On March 9, 2020, the Governor of Florida declared a state of emergency in order to receive federal funding for the state as did many other states. As a result, there is a risk and uncertainty surrounding the impact this pandemic might have on the Company.

There were no other events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

**Citizens Property Insurance Corporation**  
**Statements of Net Position**  
**December 31, 2019 and 2018**  
**(Dollars in thousands)**

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>                                    |                     |                     |
| Current assets:                                  |                     |                     |
| Cash and cash equivalents                        | \$ 503,327          | \$ 439,080          |
| Short-term investments                           | 230,015             | 313,643             |
| Restricted cash and cash equivalents             | 8,534               | 8,381               |
| Investment income due and accrued                | 61,455              | 67,880              |
| Reinsurance recoverable on paid losses and LAE   | 97,759              | 5,988               |
| Premiums receivable, net                         | 69,096              | 66,346              |
| Premiums receivable from assuming companies, net | 2,318               | 1,178               |
| Other current assets                             | 31,241              | 7,748               |
| Total current assets                             | <u>1,003,745</u>    | <u>910,244</u>      |
| Noncurrent assets:                               |                     |                     |
| Long-term investments                            | 8,308,866           | 8,309,416           |
| Capital assets                                   | 3,854               | 5,922               |
| Total noncurrent assets                          | <u>8,312,720</u>    | <u>8,315,338</u>    |
| Total assets                                     | <u>\$ 9,316,465</u> | <u>\$ 9,225,582</u> |
| <b>LIABILITIES</b>                               |                     |                     |
| Current liabilities:                             |                     |                     |
| Loss reserves, net                               | \$ 392,468          | \$ 377,527          |
| Loss adjustment expense reserves, net            | 307,917             | 360,844             |
| Unearned premiums, net                           | 446,486             | 423,572             |
| Reinsurance premiums payable                     | 43,564              | 45,738              |
| Advance premiums and suspended cash              | 18,433              | 19,272              |
| Return premiums payable                          | 4,486               | 2,335               |
| Interest payable                                 | 5,411               | 6,801               |
| Current portion of long-term debt                | 485,000             | 355,259             |
| Other current liabilities                        | 83,016              | 80,344              |
| Total current liabilities                        | <u>1,786,781</u>    | <u>1,671,692</u>    |
| Noncurrent liabilities:                          |                     |                     |
| Long-term debt                                   | 865,003             | 1,350,002           |
| Reserve for future assessments                   | 140,806             | 141,655             |
| Total noncurrent liabilities                     | <u>1,005,809</u>    | <u>1,491,657</u>    |
| Total liabilities                                | <u>\$ 2,792,590</u> | <u>\$ 3,163,349</u> |
| Net position:                                    |                     |                     |
| Invested in capital assets                       | \$ 3,854            | \$ 5,922            |
| Restricted                                       | 8,534               | 8,381               |
| Unrestricted                                     | 6,511,487           | 6,047,930           |
| Total net position                               | <u>\$ 6,523,875</u> | <u>\$ 6,062,233</u> |

See accompanying notes.

**Citizens Property Insurance Corporation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

|                                       | <u>2019</u>                | <u>2018</u>                |
|---------------------------------------|----------------------------|----------------------------|
| Operating revenue:                    |                            |                            |
| Net premiums earned                   | <u>\$ 616,075</u>          | <u>\$ 622,975</u>          |
| Operating expenses:                   |                            |                            |
| Net losses incurred                   | 331,849                    | 466,995                    |
| Net loss adjustment expenses incurred | 168,113                    | 222,718                    |
| Service company fees                  | 2,187                      | 1,759                      |
| Agent commissions                     | 65,155                     | 65,113                     |
| Taxes and fees                        | 11,267                     | 11,181                     |
| Other underwriting expenses           | <u>134,564</u>             | <u>135,909</u>             |
| Total operating expenses              | <u>713,135</u>             | <u>903,675</u>             |
| Operating loss                        | <u>(97,060)</u>            | <u>(280,700)</u>           |
| Nonoperating revenues (expenses):     |                            |                            |
| Net investment income                 | 608,488                    | 65,882                     |
| Net interest expense                  | (51,621)                   | (63,571)                   |
| Assessment income                     | (1)                        | (9)                        |
| Other income                          | <u>1,813</u>               | <u>1,587</u>               |
| Total nonoperating income             | <u>558,679</u>             | <u>3,889</u>               |
| Change in net position                | 461,619                    | (276,811)                  |
| Net position, beginning of year       | 6,062,233                  | 6,338,871                  |
| Other changes in net position         | <u>23</u>                  | <u>173</u>                 |
| Net position, end of year             | <u><u>\$ 6,523,875</u></u> | <u><u>\$ 6,062,233</u></u> |

**Citizens Property Insurance Corporation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

|   | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Cash flows from operating activities:                     |             |             |
| Premiums collected, net of reinsurance                    | \$ 631,648  | \$ 615,131  |
| Net losses and loss adjustment expenses paid              | (631,613)   | (1,125,106) |
| Payments to employees for services                        | (92,735)    | (90,909)    |
| Payments for underwriting expenses                        | (113,946)   | (115,935)   |
| Net cash used in operating activities                     | (206,646)   | (716,819)   |
| Cash flows from noncapital financing activities:          |             |             |
| Debt redemption   | (335,000)   | (255,000)   |
| Interest paid   | (73,269)    | (87,939)    |
| Other non-operating receipts                              | 2,545       | 2,536       |
| Assessment income paid                                    | -           | (151)       |
| Net cash used in noncapital financing activities          | (405,724)   | (340,554)   |
| Cash flows from capital and related financing activities: |             |             |
| Capital assets acquired                                   | (470)       | (2,318)     |
| Net cash used in capital and related financing activities | (470)       | (2,318)     |
| Cash flows from investing activities:                     |             |             |
| Proceeds from investments sold, matured or repaid         | 3,265,257   | 3,051,039   |
| Investment acquisition                                    | (2,825,881) | (2,783,950) |
| Interest income received                                  | 237,864     | 274,246     |
| Net cash provided by investing activities                 | 677,240     | 541,335     |
| Net change in cash and cash equivalents                   | 64,400      | (518,356)   |
| Cash and cash equivalents, beginning of year              | 447,461     | 965,817     |
| Cash and cash equivalents, end of year                    | \$ 511,861  | \$ 447,461  |
| Cash and cash equivalents consist of:                     |             |             |
| Cash and cash equivalents                                 | \$ 503,327  | \$ 439,080  |
| Restricted cash and cash equivalents                      | 8,534       | 8,381       |
|   | \$ 511,861  | \$ 447,461  |

See accompanying notes.

**Citizens Property Insurance Corporation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**  
**(Dollars in thousands)**

**(Continued)**

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| Reconciliation of operating loss to net cash used in operating activities: |                     |                     |
| Operating loss   | \$ (97,060)         | \$ (280,700)        |
| Adjustments to reconcile net cash used in operating activities:            |                     |                     |
| Depreciation expense   | 2,788               | 3,908               |
| (Increase) decrease in operating assets:                                   |                     |                     |
| Reinsurance recoverable on paid losses and LAE                             | (91,771)            | (5,101)             |
| Premiums receivable  | (2,750)             | 5,707               |
| Premiums receivable from assuming companies                                | (1,140)             | -                   |
| Other assets   | 4,936               | (3,292)             |
| Increase (decrease) in operating liabilities:                              |                     |                     |
| Loss and loss adjustment expense reserves                                  | (37,986)            | (432,733)           |
| Unearned premiums, net   | 22,914              | (7,014)             |
| Reinsurance premiums payable   | (2,174)             | (5,286)             |
| Advance premiums and suspended cash  | (839)               | 119                 |
| Other current liabilities  | (3,564)             | 7,573               |
| Net cash used in operating activities                                      | <u>\$ (206,646)</u> | <u>\$ (716,819)</u> |

## **Notes to Financial Statements**

### **1. Organization and Description of the Company**

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. This legislation was enacted such 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 Department of Financial Services, Office of Insurance Regulation (the Office). Likewise, Citizens is not subject to Risk-Based Capital (RBC) requirements or required to have a pledged deposit on file with the State of Florida. 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.

Citizens operates pursuant to a Plan of Operation (the Plan), under the Act, 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 of Florida.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and 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 and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

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 Coastal Account (collectively, the Accounts). A brief history of each account follows:

- *Personal Lines Account History* - The 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 for 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 may exclude windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account (PLA) under Citizens.



**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

---

- *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 (CLA) 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 CLA.
- *Coastal Account History* - The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State of Florida, 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 of Florida. 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. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

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.

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. No such funding has taken place from FMAP inception through December 31, 2019.

## **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 (U.S. GAAP) 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.

GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Government*, established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. It requires net position to be classified and reported in three components: invested in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets - This component of net position 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 position component as the unspent proceeds. As of December 31, 2019 and 2018, Citizens did not have any outstanding debt that was attributable to capital assets.
- Restricted - This component of net position 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. Restricted net position on the statements of net position includes funds advanced to Citizens by the Florida Surplus Lines Service Office (FSLSO) for obligations under the 2005 Citizens Emergency Assessment.
- Unrestricted - This component of net position consists of assets that do not meet the definition of "Restricted" or "Invested in capital assets."

### ***Use of Estimates***

The preparation of the financial statements in accordance with U.S 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.

### ***Measurement Focus***

As an enterprise fund, Citizens' financial statements 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 statements of net position. The statements of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. The statements of cash flows provides information about how Citizens finances and meets the cash flow needs of its activities.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

---

***Cash, Cash Equivalents, and Investments***

Cash and cash equivalents consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. Demand deposits and highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash and cash equivalents. Money-market funds, including money-market mutual funds, are included in the statements of net position as cash equivalents.

Short-term investments consist of commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency notes. Short-term investments are classified as all securities with original maturities greater than three months and less than twelve months at the time of acquisition.

Long-term investments consist solely of debt securities issued by municipal bodies, U.S. Treasury, U.S. government agencies, asset-backed securities, and corporate bonds with an original maturity greater than twelve months at the time of acquisition.

Such investments are recorded at fair value, which is generally 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. Changes in fair value are reflected as a component of net investment income.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other than temporary, the investment is written down to its estimated fair value. The determination of an other than temporary decline in estimated fair value includes, in addition to other relevant factors, consideration of the nature of the investments, the severity of the impairments, including the number of securities impaired, and the duration of the impairment.

***Net Investment Income***

Net investment income includes interest income, amortization and accretion, changes in unrealized gains and losses based on estimated fair value, and realized gains and losses on sales of investments that are recognized on the specific identification basis. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year and included in net investment income in the statements of revenues, expenses and changes in net position. Gains and losses from call redemptions and repayments are charged to investment income.

***Capital Assets***

Capital assets are depreciated using the straight-line method over the assets' estimated useful life. The estimated useful lives, by asset class, are as follows:

|   |          |
|---|----------|
| Electronic data processing (EDP) equipment: | 3 years  |
| Office equipment and automobiles:           | 5 years  |
| Furniture and equipment:                    | 7 years  |
| Leasehold improvements:                     | 10 years |

The cost and accumulated depreciation for capital assets was \$83,525 and \$79,671 at December 31, 2019, and \$88,705 and \$82,783 at December 31, 2018, respectively. Depreciation and amortization expense was \$2,792 and \$3,908 for the years ended December 31, 2019 and 2018, respectively and is included in other underwriting expenses on the accompanying statements of revenues, expenses and changes in net position.

### ***Loss Reserves and Loss Adjustment Expense Reserves***

Liabilities for loss reserves and loss adjustment expense (LAE) reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations for incurred but not reported reserves, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and LAE incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. However, the ultimate settlement of losses may vary significantly from the reserves provided. Adjustments 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 LAE reserves. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified, if necessary.

In the event of loss recoveries through reinsurance agreements, loss and LAE reserves are reported net of reinsurance amounts recoverable for unpaid losses and LAE. Losses and LAE incurred and ceded through reinsurance are credited against losses and LAE incurred.

Salvage and subrogation recoveries are not recorded until cash is received.

### ***Premiums***

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata basis over the policy period. The portion of premiums not earned at the end of the reporting period are recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as advance premiums. Amounts incurred for ceded reinsurance premiums are deducted from written, earned and unearned premiums. Funds collected that are not readily identifiable with a Citizens policy, primarily as a result of depopulation, are temporarily recorded as suspended cash until such time as the funds can be settled or returned by Citizens.

If anticipated losses and LAE exceed Citizens' recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability for the deficiency. Citizens anticipates investment income as a factor in the premium deficiency calculation. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with how Citizens' policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, Citizens' premium deficiency calculation is performed separately for the Accounts. At December 31, 2019 and 2018, management determined that no premium deficiency reserve was required.

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 allowance for doubtful accounts is recorded for the estimated uncollectible amounts, and amounted to \$1,203 and \$451 at December 31, 2019 and 2018, respectively.

Premium revenues and associated policy fees and inspection fees are recognized in accordance with the rates, rules, and forms as filed with the Office and included within net premiums earned and other income, respectively.

### ***Operating Revenues and Expenses***

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

### ***Guaranty Fund and Other Assessments***

Citizens is subject to assessments by the Florida Insurance Guaranty Association (FIGA). For the property lines of insurance, FIGA collects assessments from solvent insurance companies operating in Florida to cover the costs resulting from insolvency or rehabilitation of other insurance companies. Assessments are charged to expense and a liability is accrued when Citizens is notified that an assessment will be levied. After paying the FIGA assessment, Citizens recoups the assessment from its own insureds. Citizens recognizes revenue for the amount of policy surcharges that are charged to policyholders on subsequent billings to recoup any assessment levied by FIGA.

Citizens is also required to assess insurers and insureds in Florida for deficits incurred by 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 the Office and levied by Citizens (see Note 14). Assessment receivables are considered to be fully collectible. Under the Plan, amounts collected in excess of the calculated assessment are carried as a liability on the accompanying statements of net position as reserve for future assessments until such time as their permitted use is determined by the Board in accordance with the Plan.

### ***Reinsurance***

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses and LAE are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses and LAE 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, while depopulation premiums ceded are earned pro-rata over the life of the underlying policies. Premiums ceded include Florida Hurricane Catastrophe Fund (FHCF), private catastrophic reinsurance purchases and depopulation premiums.

Premiums receivable from assuming companies contracts represent amounts receivable from reinsurers on depopulation premiums. Reinsurance premiums payable represent amounts due to reinsurers and are presented as a liability. For multi-year treaties, ceded reinsurance is incurred in the treaty year in proportion to the coverage provided and amortized over the life of the hurricane season. Amounts unpaid for the current treaty year are recorded as reinsurance payable under the terms of the treaty.

### ***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. No federal or state income tax was incurred in 2019 or 2018.

### ***Significant Concentrations of Risks***

Citizens has geographic exposure to catastrophic losses. Catastrophes can be caused by various events including, but not limited to, hurricanes, windstorms, hail and fire. The occurrence and severity of catastrophes are inherently unpredictable. Citizens attempts to mitigate its exposure to losses from catastrophes by purchasing catastrophe reinsurance coverage. Catastrophes, depending on their path and severity, could result in losses exceeding Citizens' reinsurance protection, and could have a material adverse effect on Citizens' financial condition and results of operations.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

---

Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, adhering to an investment strategy that emphasizes preservation of principal and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities. Citizens reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and obtains a letter of credit from any unauthorized reinsurer and certain certified reinsurers. As of December 31, 2019, management believes Citizens had no significant concentrations of credit risk.

Citizens is exposed to interest rate risk, which is the risk that interest rates will change and cause a decrease in the value of fixed-rate investments. Citizens mitigates this risk by attempting to match the maturity schedule of its assets with the expected payout of its liabilities.

***Application of Recent Accounting Pronouncements***

In June 2017, the GASB issued Statement No. 87 – *Leases*. The guidance increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, and shall be adopted on a prospective basis. Citizens is currently evaluating the impact to this statement to the financial statements.

In January 2020, the GASB issued Statement No. 92 - *Omnibus 2020*. The guidance provides, among other topics unrelated to Citizens' financial statements, clarification on recoveries from reinsurers. Reporting entities will have the option of presenting recoveries from reinsurers as reductions of expenses. Citizens is currently evaluating the impact to this statement to the financial statements.

In March 2020, the GASB issued Statement No. 93 – *Replacement of Interbank Offered Rates*. This guidance is provided in response to the planned cessation of the Interbank Offered Rate (IBOR), most notably the London Interbank Offered Rate (LIBOR), in 2021. Historically, the LIBOR rate has served as a widely-used benchmark interest rate on floating rate debt and other variable rate interest-bearing securities. New, acceptable benchmarks may include the U.S. Treasury rate, the Effective Federal Funds Rate (EFFR), or the Secured Overnight Financing Rate (SOFR). This statement is effective for periods ending after June 15, 2020 and shall be applied retroactively to all periods presented. Citizens is currently evaluating the impact to this statement to the financial statements.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

### 3. Fair Value Measurements

Citizens' estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value measurements and disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect Citizens' significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market corroborated inputs.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement, and includes broker quotes which are non-binding.

At December 31, 2019 and 2018, Citizens financial assets measured at estimated fair value on a recurring basis include long-term and short-term investments. Citizens has no financial liabilities measured at estimated fair value on a recurring basis.

The following tables reflect the estimated fair values of all assets and liabilities that are financial instruments at December 31, 2019 and 2018, including those measured at estimated fair value on a recurring basis. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

|                                   | <b>2019</b>                         |                     |                     |                |
|-----------------------------------|-------------------------------------|---------------------|---------------------|----------------|
|                                   | <b>Estimated<br/>Fair<br/>Value</b> | <b>Level 1</b>      | <b>Level 2</b>      | <b>Level 3</b> |
| Financial assets:                 |                                     |                     |                     |                |
| Long-term investments             | \$ 8,308,866                        | \$ 1,629,039        | \$ 6,679,827        | \$ -           |
| Short-term investments            | 230,015                             | 209,617             | 20,398              | -              |
| Cash and cash equivalents         | 511,861                             | 503,810             | 8,051               | -              |
| Investment income due and accrued | 61,455                              | -                   | 61,455              | -              |
| Total financial assets            | <u>\$ 9,112,197</u>                 | <u>\$ 2,342,466</u> | <u>\$ 6,769,731</u> | <u>\$ -</u>    |
| Financial liabilities:            |                                     |                     |                     |                |
| Long-term debt                    | \$ 1,396,843                        | \$ -                | \$ 1,396,843        | \$ -           |
| Interest payable                  | 5,411                               | -                   | 5,411               | -              |
| Total financial liabilities       | <u>\$ 1,402,254</u>                 | <u>\$ -</u>         | <u>\$ 1,402,254</u> | <u>\$ -</u>    |

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

|                                   | 2018                       |                     |                     |             |
|-----------------------------------|----------------------------|---------------------|---------------------|-------------|
|                                   | Estimated<br>Fair<br>Value | Level 1             | Level 2             | Level 3     |
| Financial assets:                 |                            |                     |                     |             |
| Long-term investments             | \$ 8,309,416               | \$ 1,410,406        | \$ 6,899,010        | \$ -        |
| Short-term investments            | 313,643                    | 223,470             | 90,173              | -           |
| Cash and cash equivalents         | 447,461                    | 372,522             | 74,939              | -           |
| Investment income due and accrued | 67,880                     | -                   | 67,880              | -           |
| Total financial assets            | <u>\$ 9,138,400</u>        | <u>\$ 2,006,398</u> | <u>\$ 7,132,002</u> | <u>\$ -</u> |
| Financial liabilities:            |                            |                     |                     |             |
| Long-term debt                    | \$ 1,748,923               | \$ -                | \$ 1,748,923        | \$ -        |
| Interest payable                  | 6,801                      | -                   | 6,801               | -           |
| Total financial liabilities       | <u>\$ 1,755,724</u>        | <u>\$ -</u>         | <u>\$ 1,755,724</u> | <u>\$ -</u> |

The following describes fair value methodologies that may not be indicative of net realizable value or reflective of future fair values. Furthermore, Citizens believes different methodologies or assumptions used to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

***Long-term and Short-Term Investments***

When available, the estimated fair values are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 1 and are the most liquid of Citizens' securities holdings, and valuation of these securities does not involve management's judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs.

The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or which cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation and cannot be supported by reference or market activity. Generally, these investments are classified as Level 3.

***Cash and Cash Equivalents***

The estimated fair value of cash and cash equivalents, including restricted cash and cash equivalents, that represent highly liquid deposits generally approximates carrying value and is classified as Level 1. The estimated fair value of investment securities classified as cash equivalents is determined based on significant observable inputs and is generally classified as Level 2.

***Investment Income Due and Accrued and Interest Payable***

The estimated fair value is determined based on significant observable inputs. These amounts are generally classified as Level 2.



### ***Long-term Debt***

Citizens' bonds trade on the bond market. The estimated fair value is based on trading activity and closing market prices on December 31.

At the end of each reporting period, Citizens evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3. No transfers were made between levels during the years ended December 31, 2019 and 2018.

## **4. Investments**

Citizens' invested assets are governed by five investment policies, three for taxable operating funds and two for tax-exempt bond proceeds:

- **Liquidity Fund (Taxable):** generally this policy governs the investment of funds and surplus that, in addition to internally managed cash, are the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- **Liquidity Fund (Tax-exempt):** generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- **Claims-Paying Fund (Taxable):** generally this policy governs the investment of funds used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments are deposited in this fund.
- **Claims-Paying Fund (Tax-exempt):** generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.
- **Claims-Paying Long Duration Fund (Taxable):** generally this policy governs the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Funds and Claims-Paying Funds.

During the year ended December 31, 2019, Citizens recognized \$12,801 of other-than-temporary impairments on the basis of Citizens' intent to sell the securities. These securities were subsequently sold prior to the year ended December 31, 2019 and are recorded as realized capital losses, a component of net investment income. Citizens did not recognize any other-than-temporary impairments for the year ended December 31, 2018. Citizens evaluates external indicators, such as issuer credit ratings along with the extent and duration of the declines, and internal indicators such as ability and intent with respect to retention of impaired securities in determining whether declines in market value are temporary or other-than-temporary.

**Custodial Credit Risk** - 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, 2019 and 2018, 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 or a group of issuers with one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

*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. Citizens measures this risk by using the weighted average maturity (WAM) method and a set limit on the maximum WAM for each investment policy. Citizens' investment policies require that the WAM of the Liquidity Fund (taxable), Claims Paying Fund (taxable) and Claims Paying Long Duration Fund (taxable) portfolios not exceed 548 days, 6 years and 10 years, respectively, whereas the WAM for the Claims Paying Fund (tax-exempt) portfolios not exceed 3 years and 6 months and 4 years for the Series 2011 and 2012, and Series 2015 portfolios, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration.

*Foreign Currency Risk* - Citizens had no investments with foreign currency risk at December 31, 2019 and 2018, respectively. All investments are settled in U.S. dollars.

*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 two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2019.

| <b>Rating</b> | <b>Estimated<br/>Fair<br/>Value</b> |
|---------------|-------------------------------------|
| A1            | \$ 685,527                          |
| A2            | 898,224                             |
| A3            | 792,678                             |
| A3e           | 2,340                               |
| Aa1           | 437,629                             |
| Aa2           | 558,916                             |
| Aa3           | 421,601                             |
| Aaa           | 2,562,675                           |
| Aaae          | 9,186                               |
| Ba1           | 975,790                             |
| Baa2          | 448,305                             |
| Baa3          | 35,620                              |
| MIG1          | 10,728                              |
| WR            | 14,060                              |
| NR            | 685,601                             |
|               | <u>\$ 8,538,881</u>                 |

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

The following tables provide a summary of investments estimated fair value, amortized cost, and net unrealized gain (loss) by type as of December 31, 2019 and 2018.

| <b>2019</b>                                   |                           |                                       |  |                                     |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated<br/>Fair<br/>Value</b> |
| Non-asset backed securities:                  |                           |                                       |  |                                     |
| U.S. treasury and U.S. government             | \$ 1,815,922              | \$ 23,855                             | \$ (3,015)                             | \$ 1,836,762                        |
| All other government                          | 11,093                    | 58                                    | (12)                                   | 11,139                              |
| State, territories & possessions              | 202,212                   | 2,706                                 | (383)                                  | 204,535                             |
| Political subdivisions                        | 266,098                   | 4,309                                 | (821)                                  | 269,586                             |
| Special revenue                               | 1,444,437                 | 19,453                                | (3,110)                                | 1,460,780                           |
| Industrial and miscellaneous                  | 4,308,334                 | 145,938                               | (823)                                  | 4,453,449                           |
| Asset-backed securities:                      |                           |                                       |  |                                     |
| Residential and commercial<br>mortgage backed | <u>295,682</u>            | <u>7,489</u>                          | <u>(541)</u>                           | <u>302,630</u>                      |
|   | <u>\$ 8,343,778</u>       | <u>\$ 203,808</u>                     | <u>\$ (8,705)</u>                      | <u>\$ 8,538,881</u>                 |
| <b>2018</b>                                   |                           |                                       |  |                                     |
|   | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Estimated<br/>Fair<br/>Value</b> |
| Non-asset backed securities:                  |                           |                                       |  |                                     |
| U.S. treasury and U.S. government             | \$ 1,658,101              | \$ 4,268                              | \$ (28,493)                            | \$ 1,633,876                        |
| All other government                          | 12,559                    | -                                     | (260)                                  | 12,299                              |
| State, territories & possessions              | 230,215                   | 128                                   | (2,123)                                | 228,220                             |
| Political subdivisions                        | 326,973                   | 683                                   | (2,332)                                | 325,324                             |
| Special revenue                               | 1,762,921                 | 2,167                                 | (21,858)                               | 1,743,230                           |
| Industrial and miscellaneous                  | 4,490,258                 | 16,127                                | (142,793)                              | 4,363,592                           |
| Asset-backed securities:                      |                           |                                       |  |                                     |
| Residential and commercial<br>mortgage backed | 319,735                   | 164                                   | (6,547)                                | 313,352                             |
| Industrial and miscellaneous                  | <u>3,170</u>              | <u>-</u>                              | <u>(4)</u>                             | <u>3,166</u>                        |
|   | <u>\$ 8,803,932</u>       | <u>\$ 23,537</u>                      | <u>\$ (204,410)</u>                    | <u>\$ 8,623,059</u>                 |

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

The following tables summarize unrealized losses on investments by the length of time that the securities have continuously been in unrealized loss positions as of December 31, 2019 and 2018.

|  | 2019                |                   |                     |                   |                     |                   |
|--|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|
|  | Less than 12 months |                   | More than 12 months |                   | Total               |                   |
|  | Fair Value          | Unrealized Loss   | Fair Value          | Unrealized Loss   | Fair Value          | Unrealized Loss   |
| U.S. treasury and U.S government                         | \$ 212,921          | \$ (1,501)        | \$ 338,597          | \$ (1,514)        | \$ 551,518          | \$ (-3,015)       |
| All other government States, territories and possessions | -                   | -                 | 3,002               | (12)              | 3,002               | (12)              |
| Political subdivisions                                   | 35,627              | (361)             | 6,277               | (22)              | 41,904              | (383)             |
| Special revenue  | 26,725              | (763)             | 40,927              | (58)              | 67,652              | (821)             |
| Industrial and miscellaneous                             | 122,158             | (1,506)           | 250,722             | (1,604)           | 372,880             | (3,110)           |
| Asset-backed securities                                  | 125,900             | (533)             | 162,840             | (290)             | 288,740             | (823)             |
|  | 34,107              | (508)             | 10,763              | (33)              | 44,870              | (541)             |
| Total  | <u>\$ 557,438</u>   | <u>\$ (5,172)</u> | <u>\$ 813,128</u>   | <u>\$ (3,533)</u> | <u>\$ 1,370,566</u> | <u>\$ (8,705)</u> |

|  | 2018                |                    |                     |                     |                     |                     |
|--|---------------------|--------------------|---------------------|---------------------|---------------------|---------------------|
|  | Less than 12 months |                    | More than 12 months |                     | Total               |                     |
|  | Fair Value          | Unrealized Loss    | Fair Value          | Unrealized Loss     | Fair Value          | Unrealized Loss     |
| U.S. treasury and U.S government                         | \$ 234,901          | \$ (1,027)         | \$ 1,120,406        | \$ (27,466)         | \$ 1,355,307        | \$ (28,493)         |
| All other government States, territories and possessions | -                   | -                  | 12,299              | (260)               | 12,299              | (260)               |
| Political subdivisions                                   | 30,585              | (233)              | 145,683             | (1,890)             | 176,268             | (2,123)             |
| Special revenue  | 32,443              | (69)               | 207,149             | (2,263)             | 239,592             | (2,332)             |
| Industrial and miscellaneous                             | 124,186             | (1,010)            | 1,193,767           | (20,848)            | 1,317,953           | (21,858)            |
| Asset-backed securities                                  | 1,668,808           | (42,941)           | 2,326,769           | (99,852)            | 3,995,577           | (142,793)           |
|  | 136,303             | (2,208)            | 158,531             | (4,343)             | 294,834             | (6,551)             |
| Total  | <u>\$ 2,227,226</u> | <u>\$ (47,488)</u> | <u>\$ 5,164,604</u> | <u>\$ (156,922)</u> | <u>\$ 7,391,830</u> | <u>\$ (204,410)</u> |

Citizens believes there were no fundamental issues such as credit losses or other factors with respect to any of its bond securities that are in an unrealized loss position. The unrealized losses on bonds were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the bonds. Citizens evaluates U.S. treasury, corporate, and state and municipal bonds based upon factors such as expected cash flows and the financial condition, and near-term and long-term prospects of the issuer, and evaluates mortgage-backed securities and asset-backed securities based on actual and projected cash flows after considering such factors as the quality of the underlying collateral, expected prepayment speeds, current and forecasted severity, consideration of the payment terms of the underlying assets, and payment priority of the security. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because Citizens has the ability and intent to hold its bond securities until a market price recovery or maturity, Citizens does not consider any of its bonds to be other than temporarily impaired at December 31, 2019 and 2018.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

The estimated fair value and amortized cost of securities at December 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

|                         | <b><u>Estimated Fair<br/>Value</u></b> | <b><u>Amortized<br/>Cost</u></b> |
|-------------------------|--|----------------------------------|
| Maturity:               |  |                                  |
| In 2020                 | \$ 988,706                             | \$ 987,383                       |
| 2021 - 2024             | 3,509,328                              | 3,465,671                        |
| 2025 - 2029             | 3,086,047                              | 2,960,921                        |
| After 2029              | 652,170                                | 634,121                          |
| Asset-backed securities | <u>302,630</u>                         | <u>295,682</u>                   |
| Total                   | <u>\$ 8,538,881</u>                    | <u>\$ 8,343,778</u>              |

Sources and uses of net investment income for the years ended December 31 were as follows:

|  | <b><u>2019</u></b> | <b><u>2018</u></b> |
|--|--------------------|--------------------|
| Gross interest income:                                   |                    |                    |
| Bonds  | \$ 209,780         | \$ 205,125         |
| Cash, cash equivalents, and short-term investments       | <u>20,322</u>      | <u>21,091</u>      |
| Total gross interest income                              | <u>230,102</u>     | <u>226,216</u>     |
| Net realized gain (loss) on sales of invested assets:    |                    |                    |
| Bonds  | 13,202             | (26,216)           |
| Cash, cash equivalents, and short-term investments       | <u>(6,377)</u>     | <u>2,287</u>       |
| Net realized capital gains (losses)                      | <u>6,825</u>       | <u>(23,929)</u>    |
| Net increase (decrease) in the fair value of investments | <u>376,041</u>     | <u>(131,917)</u>   |
| Investment expenses                                      | <u>(4,480)</u>     | <u>(4,488)</u>     |
| Net investment income                                    | <u>\$ 608,488</u>  | <u>\$ 65,882</u>   |

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

**5. Liability for Loss Reserves and Loss Adjustment Expense Reserves**

Activity in the net liability for loss and LAE reserves for the years ended December 31, 2019 and 2018, were as follows:

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| Direct loss and LAE expense reserves, beginning of year          | \$ 1,344,719        | \$ 1,832,958        |
| Less reinsurance recoverables on reserves                        | <u>(606,348)</u>    | <u>(661,854)</u>    |
| Net loss and loss adjustment expense reserves, beginning of year | <u>738,371</u>      | <u>1,171,104</u>    |
| Incurred related to:   |                     |                     |
| Current accident year  | 405,140             | 553,502             |
| Prior accident years   | <u>94,822</u>       | <u>136,211</u>      |
| Total incurred   | <u>499,962</u>      | <u>689,713</u>      |
| Paid related to:   |                     |                     |
| Current accident year  | (168,707)           | (249,825)           |
| Prior accident years   | <u>(369,473)</u>    | <u>(872,628)</u>    |
| Total paid   | <u>(538,180)</u>    | <u>(1,122,453)</u>  |
| Change in retroactive reinsurance reserves ceded                 | <u>232</u>          | <u>7</u>            |
| Net loss and LAE reserves, end of year                           | 700,385             | 738,371             |
| Add reinsurance recoverables on reserves                         | <u>306,677</u>      | <u>606,348</u>      |
| Direct loss and loss adjustment expense reserves, end of year    | <u>\$ 1,007,062</u> | <u>\$ 1,344,719</u> |

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by \$94,822 and \$136,211, net of reinsurance, in 2019 and 2018, respectively. Increases in overall projected claims counts and loss severity of claims from Hurricane Irma, increases in LAE on litigated non-weather water claims, and settlements of sinkhole claims contributed most significantly to the overall increase in the provision for loss and LAE reserves of \$94,822 during 2019. These adjustments are the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There can be no assurance that the ultimate settlement of losses will not vary significantly from the recorded provision for losses and LAE. However, management believes the provision for losses and LAE is adequate to cover the cost of unpaid claims incurred. During 2019 and 2018, net recoveries with respect to reinsurance recoverable on paid losses and LAE was \$390,150 and \$86,620, respectively.

For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Irma were \$2,160,170 and \$1,915,425, respectively, excluding recorded anticipated reinsurance recoveries of \$879,778 and \$697,284, respectively. For the years ended December 31, 2019 and 2018, ultimate losses and LAE attributable to Hurricane Michael were \$149,861 and \$151,726, respectively, with no anticipated reinsurance recoveries.

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 compensates independent adjusting firms, depending upon the type or nature of the claims, either on a per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included in loss adjustment expenses.

## **6. Reinsurance Agreements**

Citizens has entered into various contracts with reinsurers for the purpose of reducing its net exposure to qualifying losses should such losses occur. These contracts provide for the recovery of amounts above specified retention levels, subject to contractual limits, under per occurrence and aggregate catastrophe excess of loss arrangements. Reinsurance coverage is purchased separately for the Coastal Account and combined for the PLA and CLA. As required by statute, Citizens participates in the FHCF. Coverage provided by and premium ceded to the FHCF as respects the Coastal Account is measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was \$1,033,202 and \$979,560 in the Coastal Account and PLA and CLA, respectively, for 2019, and \$1,121,535 and \$1,078,781 in the Coastal Account and PLA and CLA, respectively, for 2018. Reinsurance coverage purchased in the Coastal Account and PLA through traditional and capital markets totaled \$1,272,855 and \$175,500 for 2019, respectively, and \$1,422,960 and \$0 for 2018, respectively. At December 31, 2019, Citizens was party to two outstanding insurance-linked securities (ILS) contracts as a ceding insurer that provide aggregate maximum proceeds of \$550,000 for directly-written insurance risks by Citizens at an attachment level of \$1,395,000.

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

|                             | <b>2019</b>       |                   | <b>2018</b>       |                   |
|-----------------------------|-------------------|-------------------|-------------------|-------------------|
|                             | <b>Written</b>    | <b>Earned</b>     | <b>Written</b>    | <b>Earned</b>     |
| Direct premiums             | \$ 876,558        | \$ 860,795        | \$ 868,417        | \$ 884,755        |
| FHCF ceded premiums         | (133,602)         | (133,602)         | (146,151)         | (146,151)         |
| Private ceded premiums      | (94,639)          | (94,639)          | (88,409)          | (88,409)          |
| Depopulation ceded premiums | (9,328)           | (16,479)          | (17,896)          | (27,220)          |
| Net premiums                | <u>\$ 638,989</u> | <u>\$ 616,075</u> | <u>\$ 615,961</u> | <u>\$ 622,975</u> |

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10). Ceded losses and LAE incurred were \$182,250 and \$36,215 during 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, ceded unearned premiums on depopulation contracts of \$4,048 and \$11.199, respectively, are reported as a reduction of net unearned premium on the accompanying statements of net position. There were no ceded unearned premiums on FHCF or traditional and capital markets agreements at December 31, 2019 and 2018.

Amounts recoverable from reinsurers on unpaid losses and LAE are estimated based on the allocation of estimated unpaid losses and LAE among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and LAE. 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. As of December 31, 2019, Citizens reported a net recoverable due from FHCF in the amount of \$353,809, or approximately 5.6% of accumulated surplus. As of December 31, 2018, Citizens reported a net recoverable due from FHCF in the amount of \$481,656, or approximately 7.7% of accumulated surplus. FHCF net recoverable amounts at December 31, 2019 and 2018 are comprised of ceded loss and LAE reserves for claims arising from Hurricane Irma.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

**7. Long-Term Debt**

Citizens has issued multiple Senior Secured Bonds for the purpose of funding losses in the event of a future catastrophe. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any surcharges, regular, and emergency assessments, and/or reimbursements received from the FHCF. The following table provides pertinent information regarding each issuance of the Senior Secured Bonds:

The following table provides pertinent information regarding each issuance of the Senior Secured Bonds:

| Bond Issue  | Issuance Date | Face Value          | Carrying Value      | Stated Interest Rate | Current Year Principal Paid | Current Year Interest Paid |
|---|---------------|---------------------|---------------------|----------------------|-----------------------------|----------------------------|
| Series 2011A-1 Senior Secured Bonds (Pre-event HRA)     | Jul 14, 2011  | \$ 175,000          | \$ 175,137          | 3.000% - 5.000%      | \$ 175,000                  | \$ 12,938                  |
| Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA) | Jun 21, 2012  | 480,000             | 488,434             | 3.000% - 5.000%      | 160,000                     | 27,931                     |
| Series 2015A-1 Senior Secured Bonds (Pre-event Coastal) | Jun 2, 2015   | 650,000             | 686,432             | 3.000% - 5.000%      | -                           | 32,400                     |
| Total   |               | <u>\$ 1,305,000</u> | <u>\$ 1,350,003</u> |                      | <u>\$ 335,000</u>           | <u>\$ 73,269</u>           |

Interest expense includes the amortization and accretion of premiums and discounts of \$20,258 and \$23,313 for the years ended December 31, 2019 and 2018, respectively. Net unamortized premium at December 31, 2019 and 2018 was \$45,003 and \$65,261 respectively.

A schedule of bond maturities is as follows:

| Years ended December 31, | 2011 Bonds        | 2012 Bonds        | 2015 Bonds        | Total               |
|--------------------------|-------------------|-------------------|-------------------|---------------------|
| 2020                     | \$ 175,000        | \$ 160,000        | \$ 150,000        | \$ 485,000          |
| 2021                     | -                 | 160,000           | -                 | 160,000             |
| 2022                     | -                 | 160,000           | 225,000           | 385,000             |
| 2023                     | -                 | -                 | -                 | -                   |
| 2024                     | -                 | -                 | -                 | -                   |
| After                    | -                 | -                 | 275,000           | 275,000             |
|                          | <u>\$ 175,000</u> | <u>\$ 480,000</u> | <u>\$ 650,000</u> | <u>\$ 1,305,000</u> |



**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

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

| Years ended December 31, | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|--------------------------|---------------------|-------------------|---------------------|
| 2020                     | \$ 485,000          | \$ 50,904         | \$ 535,904          |
| 2021                     | 160,000             | 36,217            | 196,217             |
| 2022                     | 385,000             | 21,722            | 406,722             |
| 2023                     | -                   | 13,750            | 13,750              |
| 2024                     | -                   | 13,750            | 13,750              |
| After                    | <u>275,000</u>      | <u>5,729</u>      | <u>280,729</u>      |
|                          | <u>\$ 1,305,000</u> | <u>\$ 142,072</u> | <u>\$ 1,447,072</u> |

## **8. Retirement 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 \$5,684 and \$5,731 for the years ended December 31, 2019 and 2018, respectively.

## **9. 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. Agent commissions were \$65,155 and \$65,113 during 2019 and 2018, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide 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. These services are for both Citizens' Commercial Lines and Personal Lines business. The amount per transaction ranges from \$7.25 to \$66.00 (dollars), depending on the complexity and volume of each transaction. Service company fees incurred were \$2,187 and \$1,759, during 2019 and 2018, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

## **10. 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. Policies may be removed from Citizens at policy renewal or as part of a bulk assumption. In an assumption, the assuming insurer (Takeout Company) is responsible for losses occurring from the assumption date through the expiration of the Citizens' policy period (the assumption period). Subsequent to the assumption period, the Takeout Company will write the policy directly. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the Takeout Company, for the purpose of clarifying that FIGA is liable for assumption period losses occurring during the assumption period if a Takeout Company were liquidated and unable to meet its obligation to policyholders.

During 2019 and 2018, Citizens recognized ceded written premiums of \$9,328 and \$17,896, respectively as a result of depopulation.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

---

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption 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, 2019 and 2018, assumed premiums recoverable in the amount of \$2,318 and \$1,178, respectively were due from certain Takeout Companies and are reported as premiums receivable from assuming companies in the statements of net position. In addition, premiums due to Takeout Companies of \$147 and \$7,304 at December 31, 2019 and 2018, respectively, are included in reinsurance premiums payable on the accompanying statements of net position.

## **11. Operating Leases**

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7,168 and \$7,836 for the years ended December 31, 2019 and 2018, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions and there have been no early terminations of existing leases. Future minimum payments under operating leases are as follows:

|       |    |               |
|-------|----|---------------|
| 2020  | \$ | 5,206         |
| 2021  |    | 5,294         |
| 2022  |    | 5,423         |
| 2023  |    | 5,554         |
| 2024  |    | 5,620         |
| After |    | <u>8,684</u>  |
| Total | \$ | <u>35,781</u> |

## **12. Commitments and Contingencies**

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 there from, will not have a material adverse effect on the financial condition or results of operations of Citizens.

### ***Multi-Year Reinsurance Treaties***

Citizens is party to reinsurance arrangements that provide coverage into 2020, including a traditional aggregate catastrophic excess of loss agreements as well as aggregate catastrophe bonds placed in the capital markets. Premiums ceded under multi-year contracts are determined before each contractual reset period and are based upon defined risk parameters within the contracts that may result in increases or decreases to premiums ceded. Such adjustments to premiums ceded are included in the treaty year to which they apply.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

***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. For the years ending December 31, 2019 and 2018, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach 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.

**13. Reconciliation of U.S. GAAP to SAP**

A reconciliation of Citizens' U.S. GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position to statutory-basis net income (loss) and accumulated surplus for the years ended December 31, 2019 and 2018 are as follows:

|   | <u>2019</u>         | <u>2018</u>         |
|---|---------------------|---------------------|
| Change in net position – U.S. GAAP basis            | \$ 461,619          | \$ (276,811)        |
| Adjustments:  |                     |                     |
| Change in allowance for doubtful accounts           | 752                 | (6,457)             |
| Change in FIGA assessment income                    | 1                   | 9                   |
| Change in other expense                             | (1)                 | (8)                 |
| Change in net unrealized (gain) loss on investments | <u>(376,042)</u>    | <u>131,917</u>      |
| Net income (loss) - statutory basis                 | <u>\$ 86,329</u>    | <u>\$ (151,350)</u> |
|   | <u>2019</u>         | <u>2018</u>         |
| Net position – U.S. GAAP basis                      | \$ 6,523,875        | \$ 6,062,233        |
| Adjustments:  |                     |                     |
| Nonadmitted assets, net of allowance                | (10,764)            | (11,204)            |
| Provision for reinsurance                           | (75)                | (1,173)             |
| Net unrealized (gain) loss on investments           | <u>(195,103)</u>    | <u>180,873</u>      |
| Accumulated surplus - statutory basis               | <u>\$ 6,317,933</u> | <u>\$ 6,230,729</u> |

**14. Assessments and Other Regulatory Matters**

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 levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GASB, adjusted for certain items.

In the event of a Plan Year Deficit in any 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 premium.

**Citizens Property Insurance Corporation**  
**Notes to Financial Statements**  
**(Dollars in thousands)**

---

If the Citizens Policyholder Surcharge is insufficient to eliminate a deficit in the Coastal account, Citizens would then levy a Regular Assessment on assessable insurers, as defined in Section 627.351(6), Florida Statutes. The assessment is 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, and is applied as a uniform percentage of up to 2% of subject premiums. The Regular Assessment is not available for deficits within the PLA or CLA.

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, in addition to the Regular Assessment being limited to the Coastal account only.

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.

In November 2012, Citizens received notice of an assessment from FIGA totaling \$27,759. Amounts recouped from policyholders relating to this assessment were \$1 and \$154 during 2019 and 2018, respectively. As of December 31, 2017 Citizens reported an over-collection in the amount of \$152 reported within other current liabilities on the statements of net position. Citizens discontinued collections effective March 1, 2018 and settled the net over-collection in May 2018 with FIGA pursuant to Section 631.57(3)(f), Florida Statutes, and filed a final reconciliation with the Office.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. As of December 31, 2019 and 2018, collections in excess of the Emergency Assessment were \$140,806 and \$141,655, respectively. These balances are reported as the reserve for future assessments on the accompanying statements of net position until such time as the Board approves a change to direct these excess collections to be used for any lawful purpose available within the Plan.

In November of 2019, approximately 20,200 policies were written within the PLA to accommodate the placement of policies and provide coverage to policyholders as a result of a private market carrier discontinuing operations. As of December 31, 2019, approximately 18,000 of these policies remained inforce.

## **15. Restricted Cash**

Restricted cash and surplus 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 Office, FSLSO and Citizens agreed that \$70,585 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. For the years ended December 31, 2019 and 2018 restricted cash and restricted surplus of \$8,534 and \$8,381, respectively, are included within the statements of net position.

## **16. Subsequent Events**

Subsequent events have been considered through May 15, 2020, the date of issuance of these financial statements. On January 10, 2020, Citizens exercised an optional redemption of Series 2015A-1 Senior Secured pre-event fixed-rate bonds at par value for \$150 million with an original maturity of June 1, 2020. Citizens recognized a gain of \$1,519 as a result of the redemption due to the carrying value of the bonds exceeding the optional redemption price at execution.

In December 2019, a coronavirus (COVID-19) was reported in China and in March 2020 the World Health Organization declared it a pandemic. This contagious disease outbreak has continued to spread across the globe and is impacting worldwide economic activity and financial markets. On March 9, 2020, the Governor of Florida declared a state of emergency in order to receive federal funding for the state as did many other states. As a result, there is a risk and uncertainty surrounding the impact this pandemic might have on the Company. There were no other events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

## ***Supplementary Information***

**Citizens Property Insurance Corporation**  
**Supplemental Combining Statements of Net Position**  
**December 31, 2019**  
**(Dollars in thousands)**

|  | <u>Combined</u>     | <u>Personal<br/>Lines<br/>Account</u> | <u>Commercial<br/>Lines<br/>Account</u> | <u>Coastal<br/>Account</u> |
|--|---------------------|---------------------------------------|---|----------------------------|
| <b>ASSETS</b>                                    |                     |                                       |   |                            |
| Current assets:                                  |                     |                                       |   |                            |
| Cash and cash equivalents                        | \$ 503,327          | \$ 143,537                            | \$ 191,963                              | \$ 167,827                 |
| Short-term investments                           | 230,015             | 97,721                                | 12,655                                  | 119,639                    |
| Restricted cash and cash equivalents             | 8,534               | -                                     | -                                       | 8,534                      |
| Investment income due and accrued                | 61,455              | 19,787                                | 13,544                                  | 28,124                     |
| Reinsurance recoverable on paid losses and LAE   | 97,759              | 49,608                                | -                                       | 48,151                     |
| Premiums receivable, net                         | 69,096              | 44,330                                | 723                                     | 24,043                     |
| Premiums receivable from assuming companies, net | 2,318               | 1,686                                 | 2                                       | 630                        |
| Other current assets                             | 31,241              | 17,790                                | 3,948                                   | 9,503                      |
| Inter-account receivable (payable)               | -                   | (5,262)                               | 1,090                                   | 4,172                      |
| Total current assets                             | <u>1,003,745</u>    | <u>369,197</u>                        | <u>223,925</u>                          | <u>410,623</u>             |
| Noncurrent assets:                               |                     |                                       |   |                            |
| Long-term investments                            | 8,308,866           | 2,752,276                             | 1,756,225                               | 3,800,365                  |
| Capital assets                                   | 3,854               | 3,854                                 | -                                       | -                          |
| Total noncurrent assets                          | <u>8,312,720</u>    | <u>2,756,130</u>                      | <u>1,756,225</u>                        | <u>3,800,365</u>           |
| Total assets                                     | <u>\$ 9,316,465</u> | <u>\$ 3,125,327</u>                   | <u>\$ 1,980,150</u>                     | <u>\$ 4,210,988</u>        |
| <b>LIABILITIES</b>                               |                     |                                       |   |                            |
| Current liabilities:                             |                     |                                       |   |                            |
| Loss reserves, net                               | \$ 392,468          | \$ 261,954                            | \$ 42,816                               | \$ 87,698                  |
| Loss adjustment expense reserves, net            | 307,917             | 242,434                               | 10,709                                  | 54,774                     |
| Unearned premiums                                | 446,486             | 287,841                               | 5,801                                   | 152,844                    |
| Reinsurance premiums payable                     | 43,564              | 8,936                                 | -                                       | 34,628                     |
| Advance premiums and suspended cash              | 18,433              | 10,729                                | 333                                     | 7,371                      |
| Return premiums payable                          | 4,486               | 3,107                                 | 21                                      | 1,358                      |
| Interest payable                                 | 5,411               | 1,722                                 | 272                                     | 3,417                      |
| Current portion of long-term debt                | 485,000             | 151,540                               | 23,935                                  | 309,525                    |
| Other current liabilities                        | 83,016              | 67,487                                | 1,594                                   | 13,935                     |
| Total current liabilities                        | <u>1,786,781</u>    | <u>1,035,750</u>                      | <u>85,481</u>                           | <u>665,550</u>             |
| Noncurrent liabilities:                          |                     |                                       |   |                            |
| Long-term debt                                   | 865,003             | 270,273                               | 42,688                                  | 552,042                    |
| Reserve for future assessments                   | 140,806             | -                                     | -                                       | 140,806                    |
| Total noncurrent liabilities                     | <u>1,005,809</u>    | <u>270,273</u>                        | <u>42,688</u>                           | <u>692,848</u>             |
| Total liabilities                                | <u>2,792,590</u>    | <u>1,306,023</u>                      | <u>128,169</u>                          | <u>1,358,398</u>           |
| Net position:                                    |                     |                                       |   |                            |
| Invested in capital assets                       | 3,854               | 3,854                                 | -                                       | -                          |
| Restricted                                       | 8,534               | -                                     | -                                       | 8,534                      |
| Unrestricted                                     | 6,511,487           | 1,815,450                             | 1,851,981                               | 2,844,056                  |
| Total net position                               | <u>\$ 6,523,875</u> | <u>\$ 1,819,304</u>                   | <u>\$ 1,851,981</u>                     | <u>\$ 2,852,590</u>        |

**Citizens Property Insurance Corporation**  
**Supplemental Combining Statements of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2019**  
**(Dollars in thousands)**

|                                       | <b>Combined</b> | <b>Personal<br/>Lines<br/>Account</b> | <b>Commercial<br/>Lines<br/>Account</b> | <b>Coastal<br/>Account</b> |
|---------------------------------------|-----------------|---------------------------------------|---|----------------------------|
| Operating revenue:                    |                 |                                       |   |                            |
| Net premiums earned                   | \$ 616,075      | \$ 443,643                            | \$ 10,477                               | \$ 161,955                 |
| Operating expenses:                   |                 |                                       |   |                            |
| Net losses incurred                   | 331,849         | 236,326                               | 7,601                                   | 87,922                     |
| Net loss adjustment expenses incurred | 168,113         | 150,582                               | 3,722                                   | 13,809                     |
| Service company fees                  | 2,187           | 1,405                                 | 30                                      | 752                        |
| Agent commissions                     | 65,155          | 39,482                                | 1,302                                   | 24,371                     |
| Taxes and fees                        | 11,267          | 7,435                                 | 165                                     | 3,667                      |
| Other underwriting expenses           | 134,564         | 85,716                                | 1,840                                   | 47,008                     |
| Total operating expenses              | 713,135         | 520,946                               | 14,660                                  | 177,529                    |
| Operating loss                        | (97,060)        | (77,303)                              | (4,183)                                 | (15,574)                   |
| Nonoperating revenues (expenses):     |                 |                                       |   |                            |
| Net investment income                 | 608,488         | 208,622                               | 154,790                                 | 245,076                    |
| Net interest expense                  | (51,621)        | (17,133)                              | (2,706)                                 | (31,782)                   |
| Assessment income                     | (1)             | (1)                                   | 1                                       | (1)                        |
| Other income                          | 1,813           | 1,306                                 | 53                                      | 454                        |
| Total nonoperating income             | 558,679         | 192,794                               | 152,138                                 | 213,747                    |
| Change in net position                | 461,619         | 115,491                               | 147,955                                 | 198,173                    |
| Net position, beginning of year       | 6,062,233       | 1,703,813                             | 1,704,026                               | 2,654,394                  |
| Other changes in net position         | 23              | -                                     | -                                       | 23                         |
| Net position, end of year             | \$ 6,523,875    | \$ 1,819,304                          | \$ 1,851,981                            | \$ 2,852,590               |
|                                       | -               | -                                     | -                                       | -                          |



**Citizens Property Insurance Corporation**  
**Supplemental Revenues, Expenses and Claim Development Information**  
**(Unaudited)**  
**(Dollars in thousands)**

|   | <u>2010</u>    | <u>2011</u>    | <u>2012</u>    | <u>2013</u>      | <u>2014</u>    | <u>2015</u>    | <u>2016</u>    | <u>2017</u>    | <u>2018</u>    | <u>2019</u>    |
|---|----------------|----------------|----------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gross earned premiums and investment revenue                      | \$ 2,509,794   | \$ 3,054,678   | \$ 3,408,112   | \$ 3,066,913     | \$ 2,530,077   | \$ 1,770,837   | \$ 1,208,796   | \$ 1,207,544   | \$ 950,637     | \$ 1,469,282   |
| Ceded earned premiums   | <u>421,501</u> | <u>601,934</u> | <u>881,571</u> | <u>1,073,819</u> | <u>996,252</u> | <u>899,532</u> | <u>479,845</u> | <u>297,406</u> | <u>261,780</u> | <u>244,719</u> |
| Net earned premiums and investment revenue                        | \$ 2,088,293   | \$ 2,452,744   | \$ 2,526,541   | \$ 1,993,094     | \$ 1,533,825   | \$ 871,305     | \$ 728,951     | \$ 910,138     | \$ 688,857     | \$ 1,224,563   |
| Unallocated expenses  | \$ 293,047     | \$ 366,109     | \$ 507,579     | \$ 495,680       | \$ 366,261     | \$ 278,787     | \$ 241,460     | \$ 226,317     | \$ 213,962     | \$ 213,173     |
| Gross incurred claims and claims expenses, as originally reported | \$ 786,223     | \$ 1,236,012   | \$ 1,049,652   | \$ 686,676       | \$ 525,725     | \$ 356,735     | \$ 426,236     | \$ 2,187,505   | \$ 533,501     | \$ 405,139     |
| Incurred claims and expenses ceded, as originally reported        | \$ -           | \$ -           | \$ 5           | \$ 2,127         | \$ -           | \$ -           | \$ -           | \$ 661,072     | \$ -           | \$ -           |
| Net incurred claims and claims expenses, as originally reported   | \$ 786,223     | \$ 1,236,012   | \$ 1,049,647   | \$ 684,549       | \$ 525,725     | \$ 356,735     | \$ 426,236     | \$ 1,526,417   | \$ 533,501     | \$ 405,139     |

See independent auditors' report on the supplementary information.

**Citizens Property Insurance Corporation**  
**Supplemental Revenues, Expenses and Claim Development Information**  
**(Unaudited)**  
**(Dollars in thousands)**

**(Continued)**

|  | 2010       | 2011         | 2012         | 2013        | 2014       | 2015       | 2016       | 2017         | 2018       | 2019       |
|--|------------|--------------|--------------|-------------|------------|------------|------------|--------------|------------|------------|
| Paid (cumulative) as of:   |            |              |              |             |            |            |            |              |            |            |
| End of policy year   | \$ 330,603 | \$ 501,310   | \$ 516,059   | \$ 352,354  | \$ 272,398 | \$ 189,275 | \$ 157,912 | \$ 796,179   | \$ 249,825 | \$ 168,707 |
| One year later   | 553,965    | 799,332      | 785,930      | 520,164     | 431,384    | 309,997    | 287,506    | 1,425,245    | 401,374    |            |
| Two years later  | 643,424    | 965,456      | 900,022      | 593,799     | 477,993    | 380,930    | 370,297    | 1,521,913    |            |            |
| Three years later  | 702,357    | 1,120,696    | 980,299      | 621,673     | 499,597    | 425,403    | 414,047    |              |            |            |
| Four years later   | 798,270    | 1,265,008    | 1,017,004    | 635,403     | 517,732    | 447,561    |            |              |            |            |
| Five years later   | 890,356    | 1,327,294    | 1,039,769    | 652,548     | 526,819    |            |            |              |            |            |
| Six years later  | 927,379    | 1,352,225    | 1,054,857    | 662,233     |            |            |            |              |            |            |
| Seven years later  | 937,161    | 1,385,031    | 1,062,095    |             |            |            |            |              |            |            |
| Eight years later  | 946,248    | 1,391,298    |              |             |            |            |            |              |            |            |
| Nine years later   | 951,502    |              |              |             |            |            |            |              |            |            |
| Re-estimated incurred claims and claims expenses ceded                               | \$ -       | \$ -         | \$ 20        | \$ 2,050    | \$ -       | \$ -       | \$ -       | \$ 880,104   | \$ -       |            |
| Re-estimated net incurred claims and expense:  |            |              |              |             |            |            |            |              |            |            |
| End of policy year   | \$ 786,223 | \$ 1,236,012 | \$ 1,049,647 | \$ 684,549  | \$ 525,725 | \$ 356,735 | \$ 426,236 | \$ 1,526,417 | \$ 533,501 | \$ 405,139 |
| One year later   | 876,415    | 1,237,713    | 1,068,384    | 648,934     | 548,044    | 447,773    | 426,974    | 1,616,623    | 547,224    |            |
| Two years later  | 886,308    | 1,259,076    | 1,045,511    | 664,324     | 544,336    | 462,153    | 454,204    | 1,696,123    |            |            |
| Three years later  | 893,876    | 1,342,169    | 1,069,951    | 664,381     | 545,888    | 469,551    | 458,339    |              |            |            |
| Four years later   | 962,361    | 1,384,234    | 1,066,689    | 668,832     | 537,857    | 471,998    |            |              |            |            |
| Five years later   | 976,708    | 1,393,538    | 1,070,375    | 667,898     | 537,427    |            |            |              |            |            |
| Six years later  | 966,779    | 1,396,260    | 1,070,683    | 670,811     |            |            |            |              |            |            |
| Seven years later  | 962,569    | 1,406,454    | 1,070,052    |             |            |            |            |              |            |            |
| Eight years later  | 961,063    | 1,404,239    |              |             |            |            |            |              |            |            |
| Nine years later   | 960,092    |              |              |             |            |            |            |              |            |            |
| Increase (decrease) in estimated incurred claims and expense from end of policy year | \$ 173,869 | \$ 168,227   | \$ 20,405    | \$ (13,738) | \$ 11,702  | \$ 115,263 | \$ 32,103  | \$ 169,706   | \$ 13,723  | \$ -       |

See independent auditors' report on the supplementary information.

## **Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

May 15, 2020

Audit Committee  
Citizens Property Insurance Corporation  
Tallahassee, Florida

We have audited, in accordance with the 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, the financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statements of net position as of December 31, 2019, and the related statements of revenue, expenses and changes in net position, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Citizens' basic financial statements, and have issued our report thereon dated May 15, 2020.

### ***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Citizens' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Citizens' internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Citizens' financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.



***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

**Charlotte, North Carolina  
May 15, 2020**