COMPANY BACKGROUND

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market, but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (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 Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State.

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. A brief history of each account follows:

Personal Lines Account – 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 – 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 **–** The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. The 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. The 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.

During the 2013 legislative session, Citizens was authorized to create a Clearinghouse Program to confirm eligibility of new applicants to Citizens and to provide new applicants and existing Citizens policyholders enhanced access to offers of coverage from authorized insurers. Under the program, authorized insurers that have voluntarily agreed to participate in the program are able to make offers of coverage to new applicants and existing Citizens policyholders.

The clearinghouse program launched on January 27, 2014, and now has 16 authorized carriers participating in the program. Both Citizens' new business and renewal policies for HO-3, DP-1, DP-3, and HO-6 policy forms are currently processed through the clearinghouse. Through 2015, approximately $6B in new business exposure and $830 million in renewing exposure was redirected to the private market through the clearinghouse program. Citizens will be working with its participating insurers through 2016 to expand their offerings into multiple policy forms.

Policy types offered by Citizens, by account, are as follows:

Personal Lines Account	Commercial Lines Account	Coastal Account
Homeowners (HO-3) Modified Homeowners (HO-8) Dwelling Fire (DP-1 and DP-3) Condo Unit Owners (HO-6) Mobile Homeowners (MHO-3) Mobile Home Dwelling Fire (MDP-1) Tenant (HO-4) Mobile Home Tenants (MHO-4)	Commercial Residential Policies (excludes liability coverage) Commercial Nonresidential Policies (commercially operated nonresidential property)	All policy forms of the PLA and CLA within "Eligible Areas"** Personal Residential Wind-Only Homeowners (HW-2) Tenant (HW-4) Condo Unit Owners (HW-6) Dwelling (DW-2) Mobile Home (MW-2) Mobile Home Dwelling (MD-1) Commercial Wind-Only: Commercial Residential Commercial Nonresidential

***"Eligible Areas" currently include portions of 29 of Florida's 35 coastal counties, including all of Monroe County and the area within Port Canaveral; in Miami-Dade, Broward, and Palm Beach Counties, all of the areas east of I-95 are eligible (in some instances extends as far as five miles from the coast); elsewhere in the State, coverage is generally limited to a distance within 1,000 to 1,500 feet from the coast*

Net premiums earned by line of business for 2015 and 2014, are as follows:

Line of Business	2015 Net Premiums Earned	%	2014 Net Premiums Earned	%
	(in thousands)		*(in thousands)*	
Fire	$ 52,765	7%	$ 104,667	8%
Allied*	297,557	39%	658,162	48%
Homeowners multi peril	410,428	54%	615,012	45%
Total	$ 760,750	100%	$ 1,377,841	100%

*Includes wind-only policies classified as *Allied*

CATASTROPHE RISK MANAGEMENT

Beginning in 2011, Citizens reentered the risk transfer market as part of a strategic effort aimed at reducing the financial impact of catastrophic risk (wind storms). In that year, Citizens placed $575 million of catastrophic risk transfer through traditional risk transfer markets, representing slightly more than 2% of its total storm risk (as measured by 1-in-100 year probably maximum loss (PML) plus estimated loss adjustment expenses). In each year thereafter, Citizens has increased its reliance on traditional risk transfer markets to reduce overall storm risk levels and in 2012 entered the alternative risk transfer market by sponsoring an indemnity trigger catastrophe bond. Since 2012, Citizens has relied on this dual market approach to leverage both traditional and alternative risk transfer markets to reduce its net exposure to storm risk at efficient pricing levels. In 2015, Citizens' total risk transfer program amounted to $3.91 billion, representing a $640 million (20%) increase from 2014, and reduced roughly 38% of the total 2015 storm risk. Total premiums ceded under the 2015 risk transfer program were $283 million, representing a decrease from 2014 of $21 million (7%). All risk transfer is purchased by and inures solely to the benefit of the Coastal Account.

Pursuant to its enabling statute, Citizens must participate in the Florida Hurricane Catastrophe Fund (FHCF), a statutorily-created reinsurance facility. While private carriers may elect among several coverage options (90%, 75%, 45%), Citizens is required to purchase coverage at the 90% coverage limit. Coverage through the FHCF is purchased for each of Citizens' three accounts, however, catastrophic losses incurred by Citizens on commercial non-residential policies (written only in the CLA and Coastal Account) are not covered by the FHCF. In 2015, the FHCF provided coverage totaling $3.2 billion, representing a significant decrease of $1.3 billion from 2014 (29%). Total premiums ceded to the FHCF during 2015 were $231 million, or $113 million (33%) less than the amount of premiums ceded during 2014. Because the FHCF has a limit of insurance defined by Florida Statute and because private carriers are able to select one of three coverage options, Citizens' share of the statewide limit is influenced both by its market share and by elections made by private carriers – Citizens' retention levels through the FHCF are affected by Citizens' market share.

Citizens' risk transfer program, including its participation in the FHCF, does not relieve Citizens from its obligations 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.

ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, 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. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on assessable insurers and assessable insureds. The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 2% of such premium of the Coastal account only. Regular Assessments are levied on assessable insurers, as defined in Section 627.351(6), Florida Statutes, based upon each assessable insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on assessable insurers, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year. If the deficit in any year in any account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all assessable insurers, Surplus Lines Agents, and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments. For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs.

DEPOPULATION

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Office, to facilitate the reduction of both new and renewal writings. Policies may be removed from Citizens at policy renewal or as part of a bulk assumption (Assumption Agreement). For policies that are assumed as part of a bulk assumption, Citizens cedes 100% of the remaining unearned premium reserve at the date of assumption for policies that are assumed. In an assumption, the assuming insurer 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 assuming insurer will write the policy directly. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the assuming insurer, for the purpose of clarifying that FIGA is liable for assumption period losses occurring during the assumption period if an assuming insurer were liquidated and unable to meet its obligation to policyholders. Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the assuming insurer to adjust losses. While Citizens is not liable to cover claims after the assumption (unless the assumed insured exercises its option to return to Citizens during the assumption period), 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 assuming insurer.

FINANCIAL POSITION

Citizens' financial position at December 31 is as follows (unaudited):

	2015	2014
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	$ 11,484,293	$ 12,221,894
Cash, cash equivalents, and short-term investments	1,665,225	1,456,597
Receivable for securities	5,829	-
Total cash and invested assets	13,155,347	13,678,491
Investment income due and accrued, net	74,733	74,222
Premiums receivable, net	89,889	117,842
Reinsurance recoverable on paid losses and loss adjustment expenses	2,606	923
Other receivables under reinsurance contracts, net	32,435	32,654
Assessment receivable	3,330	5,530
Other admitted assets	4,657	4,586
Total admitted assets	$ 13,362,997	$ 13,914,248
LIABILITIES AND ACCUMULATED SURPLUS		
Liabilities:		
Loss reserves, net	$ 522,740	$ 738,068
Loss adjustment expense reserves, net	209,872	294,920
Retroactive reinsurance ceded	(1,433)	(1,466)
Unearned premiums, net	513,335	696,086
Reserve for future assessments	146,095	38,246
Taxes and fees payable (receivable)	1	(1,035)
Reinsurance payable	133,138	144,953
Provision for reinsurance	11	556
Bonds payable	4,318,932	4,420,636
Interest payable	16,592	22,540
Advance premiums and suspended cash	32,247	48,961
Other liabilities	81,776	127,755
Total liabilities	5,973,306	6,530,220
Accumulated surplus:		
Restricted	20,950	25,348
Unrestricted	7,368,741	7,358,680
Total accumulated surplus	7,389,691	7,384,028
Total liabilities and accumulated surplus	$ 13,362,997	$ 13,914,248

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. Citizens' investment policy requires all securities in the portfolio be rated Baa1/BBB+/BBB+ or better by

Moody's, S&P and/or Fitch at the time of purchase. 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, 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 amortized cost of Citizens' invested assets totaled approximately $13.2 billion at December 31, 2015, marking a decrease of $523 million from December 31, 2014. Of this decrease, approximately $410 million resulted from net cash used in operating activities driven by year-over-year declines in direct written premium along with current year payment activity on loss and LAE reserves from prior years. The remaining decrease in cash and invested assets is largely due to net cash outflows associated with Citizens' outstanding bonds payable and the related debt service requirements on those bonds.

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, 2015 and 2014 were as follows (*in thousands*) (unaudited):

	2015	2014
Balance at beginning of year	$ 1,032,988	$ 1,256,773
Incurred related to:		
Current accident year	356,735	525,725
Prior accident years	132,318	114,365
Total incurred	489,053	640,090
Paid related to:		
Current accident year	(189,275)	(272,399)
Prior accident years	(600,154)	(591,476)
Total paid	(789,429)	(863,875)
Balance at end of year	$ 732,612	$ 1,032,988

Reserves for unpaid losses, net of amounts ceded under reinsurance contracts, decreased approximately $215 million (29%) while reserves for unpaid LAE reserves, net of amounts ceded under reinsurance contracts, decreased approximately $85 million (29%). Net unpaid losses and LAE reserves related to the 2004 and 2005 hurricanes and the 2008 Tropical Storm Fay decreased $17 million due to the settlement of outstanding hurricane claims. It is expected that these loss reserves will continue to run-off through 2016 and likely beyond. Net unpaid losses and LAE reserves not related to hurricanes decreased $283 million due to an overall reduction in the number of policies in force and settlement of reserve balances from prior years. Additional analysis and discussion of current year loss and LAE activity is included within the Result of operations section beginning on page 6.

Bonds payable

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. 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 FHCF. In January 2015, Citizens executed a legal defeasance of its 2007A post-event bonds thereby decreasing bonds payable and the related interest payable by $399 million. The recognition of future interest expenses were accelerated and recognized as a loss on defeasance and is included within net realized gains on sales in the statement of operations. In June 2015, Citizens issued Senior Secured

Bonds with a par value of $1 billion. Cash flows associated with this issuance were offset by the legal defeasance of the 2007A post-event bonds and by principal repayments on previously issued Senior Secured Bonds totaling $765 million.

Other liabilities

Effective July 1, 2015, Citizens terminated the 2005 HRA 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 HRA Emergency Assessment levy are held in a reserve account and may be used by Citizens to offset future plan year deficits as approved by the Board and Office. At December 31, 2015, funds held in this reserve totaled $146 million.

RESULTS OF OPERATIONS

Operating results and policies in force for 2015 and 2014 were as follows (unaudited):

	2015	2014
Underwriting income:		
Net premiums earned	$ 760,750	$ 1,377,841
Underwriting expense:		
Net losses incurred	402,515	441,155
Net loss adjustment expenses incurred	86,538	198,935
Other underwriting expenses incurred	278,787	374,600
Total underwriting expense	767,840	1,014,690
Net underwriting (loss) income	(7,090)	363,151
Investment (expense) income:		
Net interest income	141,084	128,535
Net realized capital gains	19,047	53,501
Net interest expense	(165,800)	(180,835)
Total investment (expense) income, net	(5,669)	1,201
Other income (expense):		
Assessment income (expense)	19,326	(19,020)
Other (expense) income	(863)	5,790
Total other income (expense)	18,463	(13,230)
Net income	$ 5,704	$ 351,122

Underwriting income (loss)

During 2015, Citizens incurred an underwriting loss of $7 million in contrast to the underwriting gain of $363 million during 2014. The current year loss was substantially the result of declines in direct written premium and an increase in the loss and LAE ratio, partially offset by year over year reductions in premiums ceded through risk transfer and to the FHCF.

Direct Written Premium

During 2015, consolidated direct written premium decreased $816 million (39%). By account, decreases in direct written premium were $364 million (40%), $100 million (62%), and $352 million (35%) within the PLA, CLA, and Coastal Account, respectively. An analysis of observed trends in direct written premium, by account, follows:

Personal Lines Account

During 2014 and 2015, DP-3 and HO-3 policy form counts comprised approximately 66% of the PLA book of business while other policy form counts (DP-1, HO-4, HO-6, MDP-1, and MHO-3) comprised the remaining 34%. Premium trends within the PLA are generally driven by policy activity occurring within the DP-3 and HO-3 books of business. Despite moderate-to-decreasing levels of new business activity for DP-3 and HO-3 policy forms, a majority of the year-over-year reduction in overall direct written premium was the result of a reduction in renewal activity. This reduction in renewal activity was in turn driven principally by depopulation that occurred during the 4th quarter of 2014 and 1st half of 2015 during which roughly $222 million of unearned premium was assumed by private carriers. Also contributing to the year-over-year decline in direct written premium was the 2014 rate filing (effective February 2015) which, for the PLA, generally produced overall rate decreases.

Commercial Lines Account

During 2015, substantially all of the reduction in direct written premium was caused by reductions in commercial residential policies, while new business and renewal counts for commercial non-residential policies remained relatively unchanged. During the 4th quarter of 2014, approximately $40 million of unearned premium was assumed through depopulation which contributed significantly to the year-over-year decrease in direct written premium, most notably through the reduction in the number of renewed commercial residential policies. Certain statutory provisions allow for the removal of commercial residential and non-residential policies whereby Citizens must not renew policies for which a private carrier has made a valid offer of renewal. The impact of these statutory provisions together with the 2014 rate filing (effective February 2015) also contributed to the year-over-year declines in direct written premium.

Coastal Account

During 2014 and 2015, nearly half of the Coastal Account book of business, in terms of policy counts, consisted of HW-2 and HW-6 (“wind-only”) policies with DP-3, DW-2, HO-3, and HO-6 policy form counts comprising approximately 40%. While HW-6 policies have declined at a moderate pace, declines in HW-2 policies contributed most significantly to the year-over-year decrease in direct written premium. Across most policy types, new business rates have decreased moderately with a majority of the overall decrease attributed to reductions in renewal rates. Similar to the PLA, the reduction in renewal rates is largely the result of depopulation that occurred during the 4th quarter of 2014 and 1st half of 2015 during which $157 million of unearned premium was assumed by private carriers. The decrease in direct written premium is partially offset by overall rate increases as a result of the 2014 rate filing (effective February 2015).

Across all accounts and lines of business, the 2015 rate filings (effective February 2016) are expected to produce approximate rate changes ranging from -6.8% to 10.4% depending on the segment of business.

Losses and LAE incurred

Despite a year-over-year reduction in consolidated losses and LAE incurred of approximately $151 million (24%), the 2015 consolidated net loss and LAE ratio increased 21 percentage points relative to same ratio for 2014. An analysis of direct loss and LAE activity, by account, follows:

Personal Lines Account

For the year ended December 31, 2015, the PLA experienced a substantial increase in its direct loss and LAE ratio to 74%, up 18 percentage points from 2014. This increase is largely the result of adverse development on prior accident year loss and LAE reserves driven by three factors: older (i.e. pre-2012) sinkhole claims, continual worsening of settlements for litigated water claims from prior accident years, and depopulation. Projected losses on older sinkhole claims were revised upward as a result of: 1) sinkhole claims being settled at a higher cost than previously anticipated – prior to 2015, sinkhole claims were generally settled at 68% of Coverage A limits – during 2015, this metric increased to 87%, driving an overall increase in costs of sinkhole claim settlements; and 2) an increase in the number of sinkhole claims that were reopened and entered into settlement – current projected costs of reopened sinkhole claims entering settlement increase from approximately $10 million to $29 million. Losses and LAE on older sinkhole claims accounted for roughly 14 percentage points of the 2015 direct loss and LAE ratio of 74%. Current year loss and LAE activity on prior accident year litigated water claims also contributed significantly to the increase in the 2015 direct loss and LAE ratio. This increase is attributable to two factors: an increase in the number of water claims reported by an attorney and/or public adjuster – nearly two-thirds of water claims in report year 2014 were reported with representation which generally results in total loss payments that are double the amount of non-represented claims; and an increase in assignments of benefits (AOB). Losses and LAE on litigated water claims (accident years 2014 and prior) accounted for roughly 11 percentage points of the 2015 direct loss and LAE ratio of 74%. Citizens has had a significant amount of exposure and premium reduction over the last several years due to depopulation. In 2012, there was $1.6B dollars of earned premium in the PLA, though in 2015, this number decreased by 67% to $529 million. The 25 percentage points of adverse development (14% for sinkhole claims and 11% for litigated water claims) represents an increase in losses from prior years that had a much higher exposure relative to a much lower premium base in 2015. The precipitous decline in the premium base leads to a situation where the impact of any development from prior accident years is amplified in the current year.

Commercial Lines Account

In contrast to the PLA, for the year ended December 31, 2015, the CLA experienced a substantial decrease in its direct loss and LAE ratio to -18%. Whereas adverse development lead to an increase in the PLA direct loss and LAE ratio, favorable development lead to a decrease in the CLA direct loss and LAE ratio. Favorable development within the CLA was similarly driven by sinkhole claims, due principally to downward revisions of ultimate sinkhole losses from prior accident years. As prior accident years continue to mature, it is possible that future reserve releases within the CLA will occur over the next several years.

Coastal Account

For the year ended December 31, 2015, the direct loss and LAE ratio within the Coastal Account increased to 17%, up 4 percentage points from 2014. This increase was principally the result of continual worsening of settlements for litigated water claims from prior accident years and profitability impacts resulting from depopulation (similar to the PLA). The same patterns and causes noted for the PLA are shared by the Coastal Account in terms of litigated water claims – claims reported with representation and an increase in AOB. However, the overall impact of litigated water claims on the direct loss and LAE ratio within the Coastal Account is tempered due to the absence of any recent wind storm losses – wind-only business represented 67% and 64% of Coastal Account direct earned premium for the years ended December 31, 2015 and 2014, respectively.

Net investment (expense) income

Net investment income consists of interest earned on Citizens' invested assets, net realized gains on sales of invested assets, and interest expense incurred on Senior Secured Bonds outstanding. During 2015, Citizens realized a year-over-year increase in net realized gains from the sale of invested assets as part of its portfolio management and repositioning of investment instruments in connection with revisions to the investment policies that permitted Citizens to increase the duration of certain portfolios. Additionally, liquidity needs principally driven by depopulation required Citizens to sell invested assets during which unrealized holding gains were captured and realized as gains on the sale of these assets. Net realized gains on sales were largely offset as a result of the legal defeasance of Citizens' 2007A post-event bonds in which future interest expenses were accelerated and recognized as a loss within net realized gains on sales.

CASH FLOW AND LIQUIDITY

Cash flows for the years ended December 31 are as follows (unaudited):

	2015	2014
Operating activities:		
Premiums collected, net of reinsurance	$ 580,637	$ 972,774
Loss and loss adjustment expenses paid	(791,112)	(862,447)
Underwriting expenses paid	(282,424)	(379,101)
Net investment income received	75,849	68,904
Other income (expenses) received (paid)	(8,824)	10,215
Net cash used in operating activities	(425,874)	(189,655)
Investing activities:		
Proceeds from investments sold, matured or repaid	7,900,014	7,973,070
Investments acquired	(7,275,745)	(7,453,633)
Net cash provided by investing activities	624,269	519,437
Financing and miscellaneous activities:		
Borrowed funds received	1,088,275	-
Borrowed funds repaid	(1,173,934)	(535,275)
Assessments received	110,050	209,610
Other cash paid	(14,158)	(42,375)
Net cash provided by (used in) financing and miscellaneous activities	10,233	(368,040)
Net increase (decrease) in cash, cash equivalents, and short-term investments	208,628	(38,258)
Cash, cash equivalents, and short-term investments:		
Beginning of year	1,456,597	1,494,855
End of year	$ 1,665,225	$ 1,456,597

The year-over-year decrease in net cash used in operating activities was caused by declines in premiums collected resulting from declines in direct written premium. Net cash provided by investing activities has remained relatively unchanged due to ongoing liquidity needs associated with declines in premium levels and substantial depopulation activity. Cash provided by (used in) financing activities generally results from net cash flow activity related to Citizens' Senior Secured Bonds as well as collections of funds for the 2005 HRA Emergency Assessment.