

CITIZENS PROPERTY INSURANCE CORPORATION
TRANSCRIPT OF THE MINUTES OF THE
AUDIT COMMITTEE MEETING HELD TUESDAY MARCH 28, 2017

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation ("Citizens")
was held at 2.00 pm on Tuesday March 28, 2017 in Maitland, FL.

The following members of the Audit Committee were present:

Juan Cocuy, Chairman
Bette Brown
Jim Henderson

The following Citizens staff members were present:

Jay Adams	Steve Bitar
Violet Bloom	Kelly Booten
Barry Gilway	Joe Martins
Bruce Meeks	Jennifer Montero
Nancy Staff	Barbara Walker
David Woodruff	Jennifer Dilmore

The following persons were present:

Brian Smith, Dixon Hughes Goodman
Tamara Patterson, Jeffries
Paul Kutson, Willis Re
Dave Newell, FAIA
Coleman Cordell, Bank of America Merrill Lynch
Matt Williams, Bank of America Merrill Lynch

The following persons attended by telephone:

Betty Veal
Curt Overpeck
Paul Kutter
Cindy Brunner
Angela Smith
Candace Bunker
Christine Ashburn
March Fisher

Call Meeting to Order

MS. WALKER: Ladies and gentlemen, welcome to Citizens March 28th, 2017, Audit Committee meeting. The Audit Committee meeting is a publicly noticed meeting in the Florida Administrative Register. The committee meetings are recorded with transcribed Minutes available at our website.

CHAIRMAN COCUY: Good afternoon. We will commence the Audit Committee meeting with roll call. Barbara, please.

MS. WALKER: Yes, sir. Governor Jim Henderson?

GOVERNOR HENDERSON: Present.

MS. WALKER: Governor Bette Brown?

GOVERNOR BROWN: Here.

MS. WALKER: Chairman Juan Cocuy?

CHAIRMAN COCUY: Here.

MS. WALKER: Chairman, you have a quorum.

CHAIRMAN COCUY: Thank you. With that the first order of business is the approval of the prior Minutes December 6, 2016. May I have a motion?

Governor Brown proposed the motion to approve the minutes of the December 6, 2016 Audit Committee Meeting; Governor Henderson seconded; all were in favor and the motion carried.

CHAIRMAN COCUY: We will start with item number two on the agenda, Office of the Internal Auditor, the OIA status report. Joe, please.

MR. MARTINS: Thank you, Mr. Chairman. For the record I am Joe Martins, Chief of Internal Audit. I would like to refer you to page 12 of the books. Also on page 20 we have the dashboard that supports the data we have on page 12. We begin with an overview of the audit plan and plan changes. With the dashboard we indicate that within the plan we started this year with a plan including 32 audits. During the quarter we added five carry overs from last year and canceled two other audit projects. 35 audits remain on the plan of which we completed six and have five in progress. During the latter part of 2016, we had a market conduct exam conducted by the Florida Office of Insurance Regulation and they did a very detailed assessment of policy disbursements. OIA (John Fox) worked closely with the Office of Insurance Regulation and therefore we had good insight of the work they did and thought that it was very comprehensive and there is no need for us to do any extra work this year, hence the cancellation of our audit of policy disbursements. We also canceled an advisory and claims adjuster resource validation as there has been significant progress with the project moving forward and management agreed that there is no need to go ahead with that advisory.

On page 21 of the dashboard we have a couple of graphs that I wanted to focus on. The first graph is looking at the pending engagements and on the left hand side on the top it is showing the five audits that we have in progress, and then in the middle of the page we show the work that has been completed. They indicate three audits completed. We have the Privacy Audit, the Underwriting Quality Assurance Audit and Citizens Insurance Suite Access and then three advisories which focus on Citizens Insurance Suite monitoring, IT Governance and Building Consolidation. And I will just briefly mention the work that has been completed. When we look at the Privacy Audit, during 2013 Citizens established the privacy framework following an audit that we completed in 2012, and during that exercise they also brought on a privacy officer for Citizens. A framework and a policy were implemented. We completed this audit and through the review of the policies and interviews with management and the staff and examination and

documentation we determined that Citizens manages the use of privacy information well. Through this work we noted that the processes are appropriately designed to support Citizens' strategic privacy objective. We also noted the need to further develop regular monitoring and reporting on a continuous strength of applied privacy compliance practices. So in essence it is a satisfactory audit and we think they are doing a great job and just need to focus on the regular reviews and reporting on compliance with the privacy practices throughout the organization. The second audit that we completed referred to underwriting quality assurance. The objective of this audit was to assess process effectiveness. Following the audit we confirmed that the underwriting quality assurance process works well and the one observation noted indicated that management developed a QA administration system without following Citizens protocol and IT wasn't really involved in the development of the software and there are a couple of processes that need to be reassessed and improved on and they are working on that at the moment. The third audit noted refers to Citizens Insurance Suite Access. There we assessed the management of access to the billing center, policy center and claims center and we noticed that there are some opportunities for improvement of access. Three specific items were highlighted and the management is currently addressing that as well. We felt the issues that were noted were not of major impact, and therefore we have a needs minor improvement on the audit. One of the advisories that we completed was the IT governance advisory through which we completed an assessment of governance against the COBIT 5 framework and governance practices. With this advisory we utilized COBIT 5 as the framework and the base to determine the standard through which we should assess governance. We then looked at the organization practices and assessed that against leading practice. There we used Protiviti as an organization to help us identify what is practice, the current practices within organizations outside of Citizens. We completed a gap analysis which we provided to management and they are currently assessing the gaps that have been identified and determining what the appropriate action would be for them going forward in addressing those gaps.

The next item that we are looking at is ICF. There I wanted to mention our successes in respect of the COSO roll out. If you look at page 22 of the dashboard we highlight that there were 42 total engagements identified; of those we completed 31; we have six in progress and five to do. It is our assessment that we will complete those close to the end of November this year and then we will finalize the COSO project specifically. You will notice that on the bottom of that page we highlight which of the processes have been completed and which are outstanding. You will also see there are three processes outstanding in finance which mainly relates to Centerpoint and this is the right time for us to look at those. On the right hand side of that graph you will also see that COBIT 5 the assessment there is completely outstanding and we are starting with rolling out the COBIT project. We identified staff or redirected some of the audit staff to help us with the COBIT roll out and with that we will support the organization in identifying how well they currently manage the organization against the COBIT standard. I have a short presentation that I will just run through in terms of what the scope of this project really would be. On the first page of the presentation we show the internal audit framework which refers to COSO and COBIT. COSO focuses on processes within the operations and finance, with a strong finance color while COBIT help us to do focus the IT control assessments. COBIT 5 is organized in two areas and five domains and within these COBIT defined 37 processes, 210 practices (or sub processes) and just over 1,100 activities (or controls). Our assessment of COBIT identified six processes and 39 practices that are managed outside of IT (i.e. HR, change management, vendor management, et cetera). As a result, we included 31 processes in in scope for COBIT. That conforms to 171 sub processes and as many of the 1,100 activities or controls that align to those sub processes. The next page shows an example of the defined COBIT process mapping, indicating that we are mapping this back to the business unit structure and we are utilizing the business unit structure to define how we are going to complete and

execute against the COBIT assessment. We are currently developing the plan and working with management to determine the timeline, and really how we are executing this is giving management the opportunity to come back to us and tell us when is the most appropriate time for us to execute against this objective that we have. What I would like to mention is that we will try as much as we can to have this as a light touch within the organization, focus mainly on primary risks and primary controls. On page 7 we are like, just the process review to give the methodology that we are going to follow. Step one will be a kick off meeting and the outcome related from the kick off meeting would be just coming aware of how we have mapped COBIT to the specific process that we have and do a risk assessment to get a feeling for which is the key or primary risk. Step two would be to perform a full process walk through and identify the active controls currently in place and that will help us to do the gap analysis in step three, and with that we will also be able to document what identifies the primary control which then will follow the same as the COSO process and the primary controls that we identify with COBIT will be documented in the same way as we document the COSO controls. Step four we test the concludes on primarily controls and we completed a residual risk assessment. What is nice about the process that we developed here is that we won't only work with the organization to roll out COBIT and then identify what the main controls are, but we will also complete an operational risk assessment and once we have implemented this we will have a well-defined operational risk assessment as well as a well-documented control infrastructure within IT. And then step five will be a closing meeting where we just agree to the processes. It is estimated that we will use roughly around 11 hours of IT management time through this process and the bulk of the exercise will be or the bulk of the work will be within the COBIT team. It will take us between 6 and 10 weeks to do a walk through and document the controls. And just the last page is just showing the roll out. We will start with that in the second quarter. The first area that we will address will be IT security. We think that will be our kick off and our test period as well just to see how well it is working and IT security asked to be the first one to be addressed, and we will be able to bring back to you at the end of the second quarter a plan in terms of how we are going to execute against the rest of the time. Hopefully we will be able to complete this in December 2018 throughout the IT organization and then also give some insight in terms of the work that we have done in the IT security area. That is all we have on COBIT.

The next area that I wanted to address was control efficiency. You will see on page 23 of the dashboard the control open items are being addressed well with management. We started off at the same period roughly last year at 15, we are currently at six. It is also an indication of the fact that we are moving away from pure audits and doing more consulting work. Having said that, we would like to retain a balance between audit and advisory so that we have approximately 50 percent of the projects to be complete as audit and then 50 percent as advisory. This is an indication that some of the advisories that we work with also provide assurance to us and to the Audit Committee and management in respect of the areas that need to be addressed and then later on we will come back with an audit to confirm that the advice that we provided has been properly implemented. On page 24 of the dashboard I highlight our staffing, where we are. We have two vacancies we are currently trying to fill. One is a manager in our forensic audit area. We don't currently have a qualified forensic accountant or fraud auditor, and we are trying to bring one in to help us provide some assurance on the occupational fraud risk within the organization. We have some interviews scheduled and we are working hard on finding a right candidate for that position. The director of Enterprise Risk Management is another role that we have been working at. We have gone through I think it was roughly 150 candidates at this point in time, and it is being proven very difficult for us to find the right candidate for the role, and we find that when we do identify a candidate that would be a good fit the salary and compensation is a little bit outside of what we intend to pay for that position, but we continue to work at that.

Having said that, what we are also looking at in terms of our staffing is we are currently considering the makeup of the function given that we now manage Audit as well as Internal Control and Enterprise Risk Management and we are reassessing the makeup of the function itself, in determining what would be the right mix of staff given the fact that we are also doing advisory work. When you look at pure audit I think a traditional auditor is a person that operates well in pure traditional audits. But when you bring in consulting you probably need to have staff with broader experience and understanding of our operational organization. So we realize the structure and are assessing what would be the correct mix for us in the function.

CHAIRMAN COCUY: What other types of professional certifications? There is a long bar that says other.

MR. MARTINS: What, other?

CHAIRMAN COCUY: Yes, CPAs, CIAs and then other.

MR. MARTINS: There is a certification that I have which is a South African certification which is a professional accounting certification that I haven't specifically identified. There are some IT certifications the staff has that we haven't specifically noted. I don't think we have the Risk Management certification noted yet. So there are a couple of ones that we haven't mentioned specifically.

CHAIRMAN COCUY: A bunch of different ones.

GOVERNOR HENDERSON: On that as well, you mentioned in the case of the number of people you go through the interview to complete your staffing there is indicating that is the budget something you are looking at, the salary, the comp is that workable in terms of getting the talent you need or is that the issue or just finding the right people out there?

MR. MARTINS: Governor Henderson, I think what we need to do is revisit our approach and then if we cannot find the right director, then we could potentially source very strong managers and bring in a manager instead of a director. I think we need to be relatively careful in terms of the remuneration and not overpay for what Citizens usually would remunerate at this certain level. And I would be reluctant to say that we - to give you a good example, some of the candidates that we had were well over \$200,000 in salary, and we certainly would like to remain in the 150, 175 range for us as an organization, which I think would be fair for the State of Florida and the area that we are in. And there is an opportunity for us to find a candidate within that range if we identify the right candidate. And there were instances where we did identify candidates from up north, but then it is relatively difficult to transfer them to or get them to agree to transfer to north Florida as well. So it is location as well as salary that makes it a little bit difficult, but I think, I am receiving extremely good support from Human Resources, specifically the recruitment function and resources. They are really working hard at helping identify the type of candidate that we are looking for. And so I think we just need to bite the bullet and eventually we will have the right person at the right remuneration or we just reorganize slightly to make sure that we have the right people on the ground.

GOVERNOR HENDERSON: Thank you.

MR. MARTINS: Then I would like to refer you to page 25 in respect to Enterprise Risk Management. There we list the Enterprise Risk Management framework and I just put that in for

you to see what we have done and how we have recreated ourselves in terms of our risks and how we are going to go forward in assessing the risks with the organization. What this really does for us, it brings us together as a first, second and third line of defense through Citizens and puts focus on where the responsibility for Risk Management really lies, and it lies with management. And for this framework we really tried to identify that Enterprise Risk is a function that should facilitate and enable the organization to identify the risk, assess the risk and manage those risks going forward and that is what this framework will do for us. Once we have the right staff we can then help the organization facilitate that process, document it, provide a tool for them to identify the risk throughout the organization from an operational perspective and then also from the top down on a strategic risk perspective. So we have already started to commence with the operation risk assessments. We have a manager that we have put in place that is doing that for us. We are putting that together and we are progressing from the bottom up. We are just trying to hire staff and a director that will help us to bring it altogether from the top down and making sure that we have a proper focus and approach to Risk Management within Citizens. On page 36, I just put in for the Audit Committee's record, the revised charter for the risk steering committee just as a communication with respect to the responsibility of that steering committee. It hasn't met this quarter and we will start with a meeting in the next quarter, and it is giving an indication of the responsibilities of the Enterprise Risk office, management, who is leading this committee and really what the tasks of this committee would be, and what its steering committee would be and what its mandate is.

On page 38 I have a copy of the annual report that we provide to the Legislature, and just one paragraph that I want to highlight is on page 41 of that report where we give an opinion really on the strength of the control infrastructure within the organization, and we say the results of our work completed during the year indicated Citizens has a well-established and functioning control environment in comparison to previous years. The rating impacts of the audit reports and root causes issues note remain relatively consistent year over year and I think that is a solid good statement that we make within the organization. Then on page 60 and 64, we included the Audit Committee charter and the Office of Internal Auditor charter. Annually we are required to do a review of the charters and bring it forward to the committee for consideration. This year we didn't have any changes and so I am just putting a copy of those charters in the packet for the Audit Committee to review and determine whether they would prefer some changes or whether they agree with the assessment. I asked Dan Sumner whether we need a resolution on the charters and his comment was only if there are changes. But they are in the packet for the Audit Committee to consider and assess whether they are comfortable with the charters as they stand.

CHAIRMAN COCUY: So at this point I will ask the committee members, do you have any changes or recommendations or comments on the charter?

GOVERNOR HENDERSON: I do not. Thank you.

CHAIRMAN COCUY: Bette? Bette, do you have anything?

GOVERNOR BROWN: No, I do not.

CHAIRMAN COCUY: Okay, so we will move on.

MR. MARTINS: Thank you, Mr. Chairman. Then the last item I have really is an action item on page 96, and I will just read that action item. This action item seeks Board approval to enter into

contracts with a panel of 14 auditing consulting firms to augment the Office of Internal Auditor, Office of Internal Audit staff on an as needed basis. The number of recommended firms is considered reasonable due to the variety of potential engagements and the possibility of conflicts. Assignments of work will be made pursuant to task orders issued by the Office of Internal Audit primarily in the following areas. We are looking at compliance and regulated data analytics or analysis, finance and investment, forensic and audit fraud governance, information systems technology, internal controls, operational audits and Risk Management. Compensation will be based on the hourly rates set forth by the contract on a negotiated fixed fee. Execution of the contract does not guarantee any work to any firm. This is really a continuation of agreements that we have had in place. We have had for the last seven years, agreements in place for approximately 19 suppliers, and the total value of that agreement was \$1.8, roughly around \$1.8 million. Those contracts expired and there are no renewal options and that is why we bring this back to the Audit Committee for consideration. The contracts will have a five-year base term and may be renewed for up to five annual years upon mutual consent. November 15, 2016, Citizens issued requests for proposal number 16-005 for internal audit consulting services. Fourteen proposals met Citizens' managerial requirements and were evaluated by an evaluation committee. On February 3rd, 2017, the evaluation committee conducted a publicly noticed telephone meeting and recommended awarding contracts to all 14 vendors in order to assure the skills and experience required to fulfill the annual audit plan would be available over the contract period. And staff recommends that the Audit Committee approve the recommended awards and resulting contracts for presentation to the Board tomorrow for the 14 firms identified on Exhibit A on the next page, for a five-year based term and five-year operational renewal term for a total cost not to exceed \$2 million.

CHAIRMAN COCUY: So this in essence procures additional resources that we need from time to time. We have done this historically and we have about \$200,000 per year in the budget.

MR. MARTINS: That is correct.

CHAIRMAN COCUY: And basically on Exhibit A is the pool of firms that we are contracting with to be available for the items shown there on the purpose and scope including compliance, regulatory data, governance, so on and so forth, forensic and fraud. So with that I would unless we have any questions or comments.

Governor Henderson proposed the motion to approve the action item to enter into with a panel of 14 auditing consulting firms to augment the Office of Internal Auditor, Office of Internal Audit staff on an as needed basis. Governor Brown seconded, all approved and the motion carried.

MR. MARTINS: Thank you, Mr. Chairman. If there are no further questions that is all I have.

CHAIRMAN COCUY: Are there any questions of Joe before he completes his report? Okay. If not, we will move on to the next part of the agenda, which is CFO Jennifer Montero's December 31, 2016, financial report.

MS. MONTERO: Good afternoon.

CHAIRMAN COCUY: Hi, Jennifer.

MS. MONTERO: The materials you have before you today are the December 2016 QFA, the

2016 financial statements and the 2016 water loss trends. I present unaudited year-end financial information for fiscal year 2016. On the 2016 financial statements are the first tab behind tab three. Page 1 is the summary of the financial results on a consolidated basis and page 2 is the summary by account. While most if not all of the year end results illustrate the continuation of trends that I have shared with the Board during prior meetings, I would like to specifically address several items that have most significantly contributed to our year end results. During 2016 approximately \$1 billion in storm risks was removed through depopulation, marking an appreciable decline relative to 2015, during which approximately 2.5 billion in storm risks was removed. Consolidated direct written premium decreased 294 million during 2016, by account decreases in direct written premium were 83 million, 26 million, and 185 million within the PLA, the CLA and the coastal account respectively. Relative to 2015, 2016 new business activity in the personal lines account decreased roughly 22 percent, and renewal activity decreased roughly 11 percent. In addition to reductions in new and renewal business activity during 2016, significant reductions and the number of policies assumed during 2016, were also observed. During 2016 roughly 19 million of premium was assumed through depopulation in contrast to the 92 million that was assumed during 2015. Also contributing to the year over year decline in direct written premium was the 2015 rate filing which for the PLA generally produced overall rate decreases. Historical trends in commercial policies continued in 2016, contributing to a decline in direct written premium of 26 million, from 63 million in 2015 to 37 million in 2016. This decline was driven by three continuing trends. A reduction in new policies, a decreasing renewal rate and continued depopulation. Fewer than 100 new policies were written in the CLA in 2016. Direct written premium within the coastal account declined by 184 million, from 651 million in 2015 down to 466 million in 2016. Both new and renewal policy counts declined by approximately 30 percent due to a combination of premium that was assumed and the declining commercial renewal rate. Commercial business continues to represent a smaller percentage of the total coastal account, roughly 27 percent in 2016, reduced from 29 percent in 2015, and 30 percent in 2014. Wind only business, which includes both commercial and personal lines policies comprise approximately 68 percent of the direct written premium marking a slight decline from 2015. The decrease in direct written premium is partially offset by an overall rate increase as a result of the 2015 rate filing. During 2016, Citizens' net loss ratio increased marginally by two percentage points, from 53 percent to 55 percent, while the net LAE ratio increased considerably by 16 percentage points from 11 percent to 27 percent. Losses incurred during 2016 were \$346 million representing a decrease of \$57 million relative to 2015. Conversely, LAE incurred during 2016 were \$167 million, representing a sizable increase of \$80 million relative to 2015. For the year that ended December 31st, 2016, the PLA experienced a direct loss in LAE ratio of 80 percent, up six percentage points from 2015, while Hurricane Matthew and Hermine contributed roughly three percentage points to the 2016 loss LAE ratio. The primary driver of loss in LAE activity within the PLA continues to be litigated water claims. Litigated water claims from accident year 2015, account for \$65 million of adverse development in calendar year 2016, and as a result the revision to the projected number of claims that would ultimately enter into litigation. This revised projection impacted both loss and LAE and comprised of 15 percentage points of the overall loss in LAE ratio. For the most recent accident year the expectation is that close to 50 percent of non-sinkhole, non-catastrophe claims will be litigated. The expected percentage of claims entering into litigation is largely due to the volume of claims reported with an assignment of benefit and claims that are reported with representation at the first notice of loss. However, calendar year 2016 marked the first year wherein the amount of premium earned for sinkhole coverage exceeded the amount of sinkhole losses and LAE incurred. Despite substantial declines in premium volume within the CLA, commercial residential policies continue to represent a majority of the CLA book of business. In 2007, the CLA reported roughly \$60 million in direct earned premium for commercial residential

business. Since 2007, direct earned premium for commercial residential business has steadily declined, ending at \$38 million for 2016. The overall 2016 direct loss and LAE, LAE ratio, sorry, of 15 percent includes approximately five percentage points in losses in LAE related to Hurricane Matthew and Hermine. The remaining 10 percent, the remaining 10 percentage points were due to non-catastrophe events. The 2015 calendar year loss and LAE ratio was negative 23 percent due to approximately 20 million of favorable development stemming from the reduction of commercial residential sinkhole loss reserves from prior accident years. During 2016, no such favorable development occurred which resulted in a seemingly large swing in the year over year loss in LAE ratio. For the year that ended December 31st, 2016, the direct loss in LAE ratio within the coastal account was approximately 29 percent, marking an increase of roughly 11 percentage points. Approximately five percentage points are due to Hurricane Matthew and Hermine. The primary driver of loss in LAE activity unrelated to hurricane is due to litigated water claims and generally parallels loss in LAE activity within the PLA with similar impacts to both losses in LAE impacted by litigated water claims. Non-sinkhole and non-catastrophe losses on multi-peril homeowners and fire and allied policies within the coastal account contributed to over eight percentage points to the loss in LAE ratio. However, the overall loss in LAE ratio in comparison to the PLA is lower due to the presence of wind only policies that typically exhibit minimal loss activity. As in the PLA account, the litigated water claim impacts both losses and LAE. During 2016, Citizens incurred an underwriting loss of \$129 million, representing an increase of \$122 million relative to the underwriting loss incurred during 2015 of \$7 million. The current year underwriting loss was substantially the result of continued deterioration in the loss in LAE ratios, with a notable increase specifically in LAE within the personal lines account. Reductions in year over year costs associated to Citizens' risk transfer program along with declines in underwriting expenses partially offset the 2016 underwriting loss. Net investment consists of an interest earned on Citizens' invested assets. Net realized gains on sales of invested assets and interest expense incurred on senior secured bonds outstanding. During 2016, Citizens realized a substantial year over year increase in net realized gains from the sale of invested assets largely due to the disposition of several legacy assets that resulted in gains of \$10 million. During 2015, net realized gains on sales were principally offset by the defeasance of the Citizens 2007 A post event bonds in which future interest rates were accelerated and recognized as a loss within net realized gains on sales. The 2016 disposition of legacy assets and 2015 bond defeasance costs impact the comparability of year over year activity within reported net realized gains on sales. Increases to net investment income of \$30 million were primarily the result of investment policy changes approved in 2015, effective in the first quarter of 2016, that extended the maximum final maturity and the maximum dollar weighted average maturity across several portfolios that improved overall portfolio returns. Despite market improvements, in investment returns the 2016 operating results were dominated by declines in written premium and increases in loss and LAE ratios, leading to an overall consolidated net loss of \$27 million for 2016. We have also included the 2016 management discussion and analysis of the 2016 financial results. And if there are no other questions that concludes my report.

CHAIRMAN COCUY: Committee members, are there any questions for Jennifer?

GOVERNOR BROWN: Yes, Juan, I have, this is Bette Brown, and I have a quick question. The loss, underwriting loss that was increased in 2016, what are the details of that?

MS. MONTERO: That is because of the increase in the loss in LAE ratios and the reduction of premium earned.

GOVERNOR BROWN: Okay, so that is a net number?

MS. MONTERO: Yes, that is a net number of everything other than the investments. It is all of the operating related to underwriting and losses and admin.

GOVERNOR BROWN: Okay.

GOVERNOR HENDERSON: Jennifer, I have a similar question. So the movement in the loss ratio, in respect of between loss and LAE, so obviously the water damage. What, in case of the storms, if you look at -- they seem to have hit the, what was it, the coastal account on a greater basis, is that correct?

MS. MONTERO: Yes, hold on. I can tell you that. The coastal account had five percent and the PLA had three percent. So three percentage points were added to the PLA loss ratio, loss and LAE ratio because of the storms, and five percent in the coastal account.

GOVERNOR HENDERSON: Right, thank you very much.

CHAIRMAN COCUIY: Is there any difference between the statutory statement of income and the GAAP? I see the net income is about the same. We haven't really made any adjustments or anything.

MS. MONTERO: No.

CHAIRMAN COCUIY: All right.

MS. MONTERO: You can no longer defer the acquisition costs in GAAP.

CHAIRMAN COCUIY: Okay. Any other comments, questions for Jennifer?

GOVERNOR HENDERSON: I guess, Mr. Chairman, a comment. It seems like on the personal lines with the water we are selling a product that cost us about 16 percent more than we get for it. So at that rate we are not going to make a lot of money for a while. So the statement of the obvious, but it really does reflect the fact that this is something we do have to address. And I know that in many ways we are trying to, certainly the staff is trying to. So hopefully those that will be on the band wagon with us to try to implement some change, would look at this and recognize that our mission in the state is going to be really pressed if we don't do something about this.

MS. MONTERO: Agreed.

CHAIRMAN COCUIY: Right, we can't continue losing \$27 million a year.

MS. MONTERO: Agreed.

CHAIRMAN COCUIY: Or more as we depopulate. Okay. Thank you, Jennifer.

MS. MONTERO: Thank you.

CHAIRMAN COCUY: The next item is a verbal update from the external auditors, Matt Church.

MR. SMITH: Brian Smith from Dixon Hughes. Thanks for having us today.

CHAIRMAN COCUY: Oh, I am sorry.

MR. SMITH: Sorry Matt couldn't make it today.

CHAIRMAN COCUY: Okay.

MR. SMITH: Our update will be very quick. I just want to make sure everybody is on board and understand where we are with the 2016 audit. We will be beginning our year end field work next week on April 3rd. We plan to be in Tallahassee for roughly a month with our team, targeting the issuance date of May 15th for all reports. And the other item I want to update, we were requested by management to perform agreed upon procedures in respect the 2017 CAT bond offering. We delivered a draft report to the underwriters last week and we are on target and substantially complete those procedures to provide our final report next week on April 5th. As far as any changes to our audit plan, there is none from the last meeting from the fall. I am certainly open for any questions or considerations before we get back in the year end field work.

CHAIRMAN COCUY: You have completed all of your internal testing?

MR. SMITH: Correct.

CHAIRMAN COCUY: Control work.

MR. SMITH: Correct, control work is complete, IT work is complete. ITGC's testing is complete, no findings to report to date.

CHAIRMAN COCUY: Okay. Committee members, are there any comments or questions?

GOVERNOR HENDERSON: None.

CHAIRMAN COCUY: Okay. There being none, thank you, Brian, I appreciate your report.

MR. SMITH: Thank you.

CHAIRMAN COCUY: Okay, complaint management statistics, I think is just included in here for our information, tab five. The last item other than new business is the Chief Internal Auditor's annual review. I performed Joe's performance evaluation either at year end or a little bit after year end, and basically concluded in most of the attributes that Joe meets or exceeds expectations. There are a few outstanding areas. One that I would in particular like to mention is in the area of strategic thinking, strategic thinking takes a broad scale long term view assessing options and implications. And Joe self-evaluated himself as exceeds expectations, but I believe that that area is outstanding. And in my conclusion at the end, I definitely appreciate Joe's hard work and dedication to strong internal controls, ethical environment and accountability for all of the functions at Citizens. I believe that his leadership has created an atmosphere of cooperation among the departments with all of the other operating functions and provide strong operational efficiencies. So, in other words, we have talked about it since I have

been on this committee, this organization, the Office of the Internal Auditor is not just internal audits and performing testing and internal controls. It also provides some really valuable advice and recommendations to the other departments, especially in the finance and the IT area. So we appreciate Joe's efforts and that basically concludes my evaluation of his performance for 2016. Are there any other comments in that regard or any other items from the committee?

GOVERNOR HENDERSON: Mr. Chairman, I would have to interacting with Joe and his staff, again, Joe, thank you for your good service to Citizens, we appreciate what you are doing.

CHAIRMAN COCUY: If there are no other items I will entertain a motion to adjourn the meeting.

GOVERNOR HENDERSON: So moved.

CHAIRMAN COCUY: Bette, second?

GOVERNOR BROWN: Second, yes, second.

CHAIRMAN COCUY: All in favor, aye. (Chorus of ayes.)

CHAIRMAN COCUY: Okay, the meeting is adjourned. Thank you very much. (Whereupon, the proceedings were concluded.)