Citizens Property Insurance Corporation

Statutory-Basis Financial Statements and Supplementary Information

Years Ended December 31, 2017 and 2016

DIXON HUGHES GOODMAN LLP

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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, 2017 and 2016, 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.

DIXON HUGHES GOODMAN LLP

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, 2017 and 2016, 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, 2017 and 2016, 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 31 through 38 as of and for the year ended December 31, 2017, 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 29, 2018

Citizens Property Insurance Corporation
Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus
December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	**$ 8,881,287**	$ 10,815,093
Cash, cash equivalents, and short-term investments	**1,227,756**	1,290,512
Total cash and invested assets	**10,109,043**	12,105,605
Investment income due and accrued, net	**68,958**	75,183
Premiums receivable, net	**72,053**	78,183
Reinsurance recoverable on paid losses and loss adjustment expenses	**887**	1,143
Other receivables under reinsurance contracts, net	**472**	6,614
Assessment receivable	**-**	907
Taxes and fees receivable	**292**	180
Other admitted assets	**3,818**	3,751
Total admitted assets	**$ 10,255,523**	$ 12,271,566
LIABILITIES AND ACCUMULATED SURPLUS		
Liabilities:		
Loss reserves, net	**$ 740,371**	$ 499,051
Loss adjustment expense reserves, net	**432,163**	221,765
Retroactive reinsurance ceded	**(1,430)**	(1,411)
Unearned premiums, net	**430,586**	440,413
Reserve for future assessments	**143,590**	143,910
Reinsurance payable	**51,366**	93,199
Provision for reinsurance	**17,280**	11
Bonds payable	**1,983,573**	3,361,156
Interest payable	**7,857**	12,745
Advance premiums and suspended cash	**19,153**	24,244
Return premiums payable	**2,661**	2,568
Assessments payable	**152**	-
Other liabilities	**68,901**	72,113
Total liabilities	**3,896,223**	4,869,764
Accumulated surplus:		
Restricted	**8,243**	8,237
Unrestricted	**6,351,057**	7,393,565
Total accumulated surplus	**6,359,300**	7,401,802
Total liabilities and accumulated surplus	**$ 10,255,523**	$ 12,271,566

See accompanying notes to the statutory-basis financial statements.

Citizens Property Insurance Corporation
Statutory-Basis Statements of Operations
Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
Underwriting income:		
Net premiums earned	**$ 626,446**	$ 625,540
Underwriting expenses:		
Net losses incurred	**1,032,851**	345,768
Net loss adjustment expenses incurred	**532,242**	167,146
Other underwriting expenses incurred	**226,317**	241,460
Total underwriting expenses	**1,791,410**	754,374
Net underwriting loss	**(1,164,964)**	(128,834)
Investment income:		
Net interest income	**207,968**	171,082
Net realized capital gains	**18,430**	66,195
Net interest expense	**(94,244)**	(137,928)
Total net investment income	**132,154**	99,349
Other income:	**4,427**	2,407
Net loss	**$ (1,028,383)**	$ (27,078)

See accompanying notes to the statutory-basis financial statements.

Citizens Property Insurance Corporation
Statutory-Basis Statements of Changes in Accumulated Surplus
Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	Restricted	Unrestricted	Total Accumulated Surplus
Balance at December 31, 2015	$ 20,950	$ 7,368,741	$ 7,389,691
Net loss	-	(27,078)	(27,078)
Change in nonadmitted assets	-	38,736	38,736
Change in provision for reinsurance	-	-	-
Net assessments released from FSLSO	(12,713)	12,713	-
Other	-	453	453
Balance at December 31, 2016	8,237	7,393,565	7,401,802
Net loss	-	(1,028,383)	(1,028,383)
Change in nonadmitted assets	-	2,956	2,956
Net assessments advanced from FSLSO	6	-	6
Change in provision for reinsurance		(17,269)	(17,269)
Other	-	188	188
Balance at December 31, 2017	$ 8,243	$ 6,351,057	$ 6,359,300

See accompanying notes to the statutory-basis financial statements.

Citizens Property Insurance Corporation
Statutory-Basis Statements of Cash Flows
Years Ended December 31, 2017 and 2016
(Dollars in thousands)

	2017	2016
Operating activities:		
Premiums collected, net of reinsurance	**$ 578,405**	$ 545,301
Loss and loss adjustment expenses paid	**(1,114,537)**	(523,247)
Underwriting expenses paid	**(217,848)**	(236,728)
Net investment income received	**164,486**	106,690
Other income received (paid)	**4,931**	(2,524)
Net cash used in operating activities	**(584,563)**	(110,508)
Investing activities:		
Proceeds from investments sold, matured or repaid	**7,361,552**	8,830,342
Investments acquired	**(5,488,954)**	(8,168,408)
Net cash provided by investing activities	**1,872,598**	661,934
Financing and miscellaneous activities:		
Borrowed funds repaid	**(1,348,500)**	(923,085)
Assessments received	**1,059**	2,423
Other cash paid	**(3,350)**	(5,477)
Net cash used in financing and miscellaneous activities	**(1,350,791)**	(926,139)
Net decrease in cash, cash equivalents, and short-term investments	**(62,756)**	(374,713)
Cash, cash equivalents, and short-term investments:		
Beginning of year	**1,290,512**	1,665,225
End of year	**$ 1,227,756**	$ 1,290,512

See accompanying notes to the statutory-basis financial statements.

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. Summary of Significant Accounting Policies

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.

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.

For the years ended December 31, 2017 and 2016, there were no differences between Florida prescribed or permitted practices and SAP which had an effect on Citizens' reported net loss or accumulated surplus.

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.

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.

(Dollars in thousands)

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.

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.

Total Net Investment Income

Net investment income includes interest income, amortization and accretion, realized gains and losses on sales of investments that are recognized on the specific identification basis, and interest expense. Gains and losses from call redemptions and repayments are charged 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.

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 $31,880 and $28,091 at December 31, 2017, and $43,240 and $39,579 at December 31, 2016, respectively. Depreciation and amortization expense was $4,003 and $4,370 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 were $3,669 and $4,404, respectively. Net admitted EDP equipment of $3,789 and $3,661 at December 31, 2017 and 2016, 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.

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, 2017 and 2016, 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, 2017 and 2016, nonadmitted premiums receivable totaled $1,854 and $1,496 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.

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*. All policies ceded under the agreement were fully earned as of December 31, 2017 and 2016. 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 2017 or 2016.

(Dollars in thousands)

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 $250,000 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, 2017, 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.

Components of Unrestricted Surplus

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

	2017	2016
Nonadmitted assets:		
Premiums receivable	**$ (1,854)**	$ (1,496)
Other receivables under reinsurance contracts	**(5,053)**	(5,053)
Furniture, fixtures and equipment	**(3,669)**	(4,404)
Prepaid expenses	**(6,898)**	(7,926)
Other assets	**(865)**	(2,476)
Total nonadmitted assets	**$ (18,399)**	$ (21,355)
Provision for reinsurance	**$ 17,280**	$ 11
Other	**$ (36)**	$ 152

Reclassifications

Certain balances in the 2016 financial statements have been reclassified to conform to the 2017 presentation. Return premium payables on insurance policies in the amount of $2,568 were reclassified on the statutory-basis of admitted assets, liabilities, and accumulated surplus from net premiums receivables to return premiums payable as of December 31, 2016. This reclassification changes the balance of net premiums receivable from $75,615 to $78,183, and total admitted assets from $12,268,998 to $12,271,566, as of December 31, 2016, respectively.

Application of Recent Accounting Pronouncements

In December 2017, the NAIC adopted changes to SSAP No. 2R, *Cash, Cash Equivalents, Drafts and Short-Term Investments*, which requires that all money market mutual funds, previously reported as short-term investments, be classified as cash equivalents on a prospective basis beginning December 31, 2017. As a result of the adoption of these changes, $1,128,415 of money market mutual funds were reported as cash equivalents for the year ended December 31, 2017.

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. 100, *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.

(Dollars in thousands)

The following tables reflect the admitted values and estimated fair values of all admitted assets and liabilities that are financial instruments at December 31, 2017 and 2016. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

	2017				
	Admitted Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Bonds	**$ 8,881,287**	**$ 8,828,078**	**$ 1,577,978**	**$ 7,250,100**	**$ -**
Cash, cash equivalents, and short-term investments	**1,227,756**	**1,231,925**	**948,524**	**283,401**	**-**
Investment income due and accrued	**68,958**	**68,958**	**-**	**68,958**	**-**
Total financial assets	**$ 10,178,001**	**$ 10,128,961**	**$ 2,526,502**	**$ 7,602,459**	**$ -**
Financial liabilities:					
Bonds payable	**$ 1,983,573**	**$ 2,057,040**	**$ -**	**$ 2,057,040**	**$ -**
Interest payable	**7,857**	**7,857**	**-**	**7,857**	**-**
Total financial liabilities	**$ 1,991,430**	**$ 2,064,897**	**$ -**	**$ 2,064,897**	**$ -**

	2016				
	Admitted Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Bonds	$ 10,815,093	$ 10,702,783	$ 1,738,635	$ 8,964,148	$ -
Cash, cash equivalents, and short-term investments	1,290,512	1,295,303	1,109,226	186,077	-
Investment income due and accrued	75,183	75,183	-	75,183	-
Total financial assets	$ 12,180,788	$ 12,073,269	$ 2,847,861	$ 9,225,408	$ -
Financial liabilities:					
Bonds payable	$ 3,361,156	$ 3,542,822	$ -	$ 3,542,822	$ -
Interest payable	12,745	12,745	-	12,745	-
Total financial liabilities	$ 3,373,901	$ 3,555,567	$ -	$ 3,555,567	$ -

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.

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, 2017 and 2016.

5. Investments

Investment Policy and Impairment

Citizens' invested assets are governed by four investment policies, two 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.

Citizens did not recognize any other-than-temporary impairments for the years ended December 31, 2017 or 2016. 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, 2017 and 2016.

(Dollars in thousands)

Bonds

The amortized cost, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2017 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. Treasury and U.S. government securities	**$ 1,609,469**	**$ 336**	**$ (27,460)**	**$ 1,582,345**
All other government	**12,481**	**-**	**(77)**	**12,404**
States, territories and possessions	**281,390**	**391**	**(2,343)**	**279,438**
Political subdivisions of states, territories and possessions	**405,177**	**632**	**(3,269)**	**402,540**
Special revenue	**2,030,688**	**2,335**	**(21,964)**	**2,011,059**
Industrial and miscellaneous	**4,257,121**	**37,505**	**(37,656)**	**4,256,970**
Mortgage-backed securities	**284,961**	**1,031**	**(2,670)**	**283,322**
Total admitted bonds	**$ 8,881,287**	**$ 42,230**	**$ (95,439)**	**$ 8,828,078**

The amortized cost, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2016 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. Treasury and U.S. government securities	$ 1,777,327	$ 1,020	$ (31,826)	$ 1,746,521
All other government	67,797	187	(697)	67,287
States, territories and possessions	437,704	230	(3,022)	434,912
Political subdivisions of states, territories and possessions	606,524	323	(5,674)	601,173
Special revenue	2,883,951	1,455	(27,674)	2,857,732
Industrial and miscellaneous	4,779,330	20,766	(64,817)	4,735,279
Mortgage-backed securities	262,460	726	(3,307)	259,879
Total admitted bonds	$ 10,815,093	$ 24,707	$ (137,017)	$ 10,702,783

(Dollars in thousands)

The unrealized loss position of bonds at December 31, 2017 was as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Bonds:						
U.S. Treasury and U.S. government securities	**$ 517,304**	**$ (4,629)**	**$ 981,513**	**$ (22,831)**	**$ 1,498,817**	**$ (27,460)**
All other government	**5,815**	**(23)**	**6,589**	**(54)**	**12,404**	**(77)**
States, territories and possessions	**97,222**	**(983)**	**142,070**	**(1,360)**	**239,292**	**(2,343)**
Political subdivisions of states, territories and possessions	**74,151**	**(625)**	**242,305**	**(2,644)**	**316,456**	**(3,269)**
Special revenue	**505,050**	**(4,955)**	**1,203,939**	**(17,009)**	**1,708,989**	**(21,964)**
Industrial and miscellaneous	**890,506**	**(5,243)**	**1,527,462**	**(32,413)**	**2,417,968**	**(37,656)**
Mortgage-backed securities	**107,649**	**(652)**	**93,149**	**(2,018)**	**200,798**	**(2,670)**
Total	**$ 2,197,697**	**$ (17,110)**	**$ 4,197,027**	**$ (78,329)**	**$ 6,394,724**	**$ (95,439)**

The unrealized loss position of bonds at December 31, 2016 was as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Bonds:						
U.S. Treasury and U.S. government securities	$ 1,130,114	$ (27,616)	$ 378,535	$ (4,210)	$ 1,508,649	$ (31,826)
All other government	15,916	(585)	25,058	(112)	40,974	(697)
States, territories and possessions	244,572	(2,580)	60,476	(441)	305,048	(3,021)
Political subdivisions of states, territories and possessions	400,613	(5,188)	85,322	(487)	485,935	(5,675)
Special revenue	1,689,504	(24,076)	519,110	(3,598)	2,208,614	(27,674)
Industrial and miscellaneous	2,113,609	(59,851)	835,962	(4,967)	2,949,571	(64,818)
Mortgage-backed securities	132,965	(3,177)	37,206	(129)	170,171	(3,306)
Total	$ 5,727,293	$ (123,073)	$ 1,941,669	$ (13,944)	$ 7,668,962	$ (137,017)

There were 2,895 and 3,423 bond holdings in an unrealized loss position at December 31, 2017 and 2016, respectively.

(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, 2017 and 2016.

Proceeds from maturities and sales of bonds during 2017 were $7,358,112 with gross realized gains of $32,540 and gross realized losses of $18,227 and during 2016 were $8,813,118 with gross realized gains of $57,240 and gross realized losses of $8,261. 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 gains on cash, cash equivalents, and short term investments during 2017 and 2016 were $3,440 and $17,224 respectively.

The amortized cost and estimated fair value of securities at December 31, 2017, 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.

	Amortized Cost	Estimated Fair Value
Maturity:		
In 2018	$ 487,896	$ 488,381
2019 - 2022	4,551,959	4,508,907
2023 - 2027	2,990,760	2,966,503
After 2027	565,711	580,964
Mortgage-backed securities	284,961	283,323
Total	$ 8,881,287	$ 8,828,078

(Dollars in thousands)

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

	2017	2016
Gross interest income:		
Bonds	**$ 200,069**	$ 170,818
Cash, cash equivalents, and short-term investments	**13,222**	6,136
Total gross interest income	**213,291**	176,954
Investment expenses	**(5,323)**	(5,872)
Net interest income	**207,968**	171,082
Net realized gain on sales of invested assets:		
Bonds	**14,313**	48,979
Cash, cash equivalents, and short-term investments	**3,430**	17,216
Total net realized gain on sales of invested assets	**17,743**	66,195
Gain on optional debt redemption	**687**	-
Net realized capital gains	**18,430**	66,195
Interest expense:		
Bond interest	**(94,244)**	(137,928)
Net investment income	**$ 132,154**	$ 99,349

Restricted Assets

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

	Gross Restricted				Percentage	
Restricted Asset Category	**Total from Current Year**	**Total from Prior Year**	**Increase (Decrease)**	**Total Current Year Admitted**	**Gross Restricted to Total Assets**	**Admitted Restricted to Total Admitted Assets**
Pledged as collateral not captured in other categories	$ 240,095	$ 751,410	$ (511,315)	$ 240,095	2.34%	2.34%
Other restricted assets	8,243	8,237	6	8,243	0.08%	0.08%
Total restricted assets	$ 248,338	$ 759,647	$ (511,309)	$ 248,338	2.42%	2.42%

(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:

	2017	2016
Direct loss and loss adjustment expense reserves, beginning of year	**$ 720,811**	$ 735,332
Less reinsurance recoverables on reserves	**(995)**	(2,720)
Net loss and loss adjustment expense reserves, beginning of year	**720,816**	731,179
Incurred related to:		
Current accident year	**1,526,417**	426,236
Prior accident years	**38,676**	86,678
Total incurred	**1,565,093**	512,914
Paid related to:		
Current accident year	**(796,178)**	(157,912)
Prior accident years	**(317,197)**	(366,798)
Total paid	**(1,113,375)**	(524,710)
Change in retroactive reinsurance reserves ceded	**(19)**	22
Net loss and loss adjustment expense reserves, end of year	**1,172,534**	721,811
Add reinsurance recoverables on reserves	**661,854**	995
Net Balance at end of year	**$ 1,834,388**	$ 720,816

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by approximately $38,676 and $86,678 net of reinsurance, in 2017 and 2016, respectively. 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 2017 and 2016, net recoveries with respect to reinsurance recoverable on paid losses and LAE was $256 and $1,463 respectively.

(Dollars in thousands)

During September 2017, Hurricane Irma made landfall in the Florida Keys and continued its path northward along the west coast of the state. For the year ended December 31, 2017, Citizens' ultimate losses and LAE include a provision for claims attributable to Hurricane Irma of $1,810,976, excluding recorded anticipated reinsurance recoveries of $661,088. Ultimate losses and LAE, net of anticipated reinsurance recoveries, as of December 31, 2017 of $1,149,888 are largely comprised of actuarial estimates in the form of incurred but not reported (IBNR) losses and LAE and are inherently subject to significant change as claims are reported into 2018 and reported claims mature through the adjudication process.

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 $1,296,462 and $1,028,389 in the Coastal Account and PLA and CLA, respectively, for 2017, and $1,684,547 and $1,032,762 in the Coastal Account and PLA and CLA, respectively, for 2016. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled $1,329,920 and $2,464,312 and for 2017 and 2016, respectively.

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

	2017		**2016**	
	Written	**Earned**	**Written**	**Earned**
Direct premiums	**$ 893,990**	**$ 923,852**	$ 973,841	$ 1,105,385
FHCF ceded premiums	**(153,935)**	**(153,935)**	(176,392)	(176,392)
Private ceded premiums	**(92,710)**	**(92,710)**	(181,399)	(181,399)
Depopulation ceded premiums	**(30,726)**	**(50,761)**	(63,432)	(122,054)
Net premiums	**$ 616,619**	**$ 626,446**	$ 552,618	$ 625,540

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 11). Ceded losses and LAE incurred were $661,048 and ($834) and during 2017 and 2016, 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 $20,523 and $40,558 at December 31, 2017 and 2016, respectively. There were no ceded unearned premiums with respect to the FHCF or traditional and capital markets reinsurance agreements at December 31, 2017 and 2016.

(Dollars in thousands)

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, 2017, Citizens reported a net recoverable due from FHCF in the amount of $534,689, or approximately 8.4% of accumulated surplus. FHCF net recoverable amounts at December 31, 2017 are primarily comprised of ceded loss and LAE reserves for incurred but not reported (IBNR) claims attributed to Hurricane Irma. As of December 31, 2016, there were no balances due from an individual reinsurer in excess of 3% of accumulated surplus.

As of December 31, 2017, Citizens recorded a provision for reinsurance as a liability with a corresponding charge to surplus in the amount of $17,280 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. The provision for reinsurance includes $7,697 and $9,583 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 2009A-1 Senior Secured Bonds (Pre-event HRA)	May 7, 2009	$ -	$ -	4.000% - 6.000%	$ 343,500	$ 9,718
Series 2010A-1 Senior Secured Bonds (Pre-event HRA)	Apr 6, 2010	-	-	3.000% -5.250%	525,000	12,825
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	Jul 14, 2011	475,000	477,222	3.000% - 5.000%	-	23,445
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	770,000	795,882	3.000% - 5.000%	130,000	41,673
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	650,000	710,469	3.000% - 5.000%	50,000	34,800
Series 2015A-2 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	-	-	SIFMA plus 0.85%-0.95%	300,000	5,067
Total		$ 1,895,000	$ 1,983,573		$ 1,348,500	$ 127,528

(Dollars in thousands)

Interest expense includes net amortization for and accretion of premiums and discounts of $28,396 and $34,691 for the years ended December 31, 2017 and 2016, respectively. Effective December 1, 2017, Citizens exercised an optional redemption of $350,000 of outstanding Series 2015A Senior Secured pre-event bonds. The optional redemption included $50,000 of fixed rate Series 2015A-1 Senior Secured Bonds with original maturities of June 1, 2018 along with $300,000 of SIFMA floating-rate Series 2015A-2 Senior Secured Bonds with original maturities of June 1, 2018 and June 1, 2020 each at $150,000. As a result, Citizens recognized a gain of $687 due to the carrying value of the bonds exceeding the redeemed par value upon execution. The realized gain is reported within net realized capital gains on the accompanying statements of operations. Net unamortized premium at December 31, 2017 and 2016 was $88,573 and $117,656 respectively.

A schedule of bond maturities is as follows:

Years ended December 31,	2011 Bonds	2012 Bonds	2015 Bonds	Total
2018	$ 125,000	$ 130,000	$ -	$ 255,000
2019	175,000	160,000	-	335,000
2020	175,000	160,000	150,000	485,000
2021	-	160,000	-	160,000
2022	-	160,000	225,000	385,000
After	-	-	275,000	275,000
	$ 475,000	$ 770,000	$ 650,000	$ 1,895,000

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

Years ended December 31,	Principal	Interest	Total
2018	$ 255,000	$ 86,883	$ 341,883
2019	335,000	71,880	406,880
2020	485,000	50,904	535,904
2021	160,000	36,217	196,217
2022	385,000	21,722	406,722
After	275,000	33,229	308,229
	$ 1,895,000	$ 300,835	$ 2,195,835

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 $6,243 and $5,263 for the years ended December 31, 2017 and 2016, 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 $68,413 and $77,139 during 2017 and 2016, 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 $3.50 to $140.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were $1,607 and $1,743 during 2017 and 2016, 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.

During 2017 and 2016, Citizens recognized ceded written premiums of $30,727 and $63,432, 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, 2017 and 2016, net assumed premiums receivable in the amount of $472 and $6,614 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 $10,220 and $16,284, at December 31, 2017 and 2016, 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 $7,419 and $9,332 for the years ended December 31, 2017 and 2016, 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.

(Dollars in thousands)

Future minimum payments under operating leases are as follows:

2018	$	6,000
2019		5,929
2020		5,094
2021		5,179
2022		5,304
After		19,830
Total	$	47,336

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. Citizens is also involved in other potentially significant litigation described below. Due to the preliminary nature of the following litigation, the potential loss, if any, is not determinable at this time.

A summary of potentially significant litigation follows:

Castellanos v. Citizens. This is a 2006 limited class action matter brought on behalf of the unit owners of a 2-story, 66 unit condominium building in Miami Beach for alleged Hurricane Wilma damage. Sunny Isles Resort Developers ("developer") purchased all the units directly from the individual unit owners ("plaintiffs") shortly before Hurricane Wilma. Plaintiffs alleged an assignment from the developer for any future claim benefits. The developer intervened in the lawsuit denying the assignment. In 2009, the trial court assumed a valid assignment existed and granted the class certification while acknowledging the assignment issue required a more thorough consideration during the litigation. Citizens appealed the Class Certification Order to the 3rd District Court of Appeals, but later requested relinquishment of the District Court's jurisdiction in order to argue in the trial court that neither the plaintiff nor the developer received a valid assignment since the Association failed to execute an assignment. The trial court granted a directed verdict for Citizens and found that plaintiffs lacked standing since the assignment was invalid. Plaintiffs appealed to the 3rd District Court of Appeals. On appeal, Citizens argued that order should be affirmed thus eliminating the class action. In 2012, the District Court reversed the trial court's ruling reinstating the class action certification. Citizens' Motions for Rehearing, Rehearing En Banc & Request for Oral Argument were denied. Plaintiffs filed a motion for summary judgment on the developer's "assignment" issue. In January 2015, the trial court denied plaintiffs' motion as procedurally improper. Plaintiffs' filed a Motion for Mistrial. The trial court ordered the parties to mediation which impassed. Citizens filed a motion for involuntary dismissal based on the same rationale as Plaintiffs' Motion for Mistrial. The trial court granted the Plaintiffs' Motion for Mistrial and denied Citizens' motion. However, during the hearing, plaintiffs' counsel alleged the discovery of new documents supporting their position and the court allowed the admission of the new documents into the record. Both parties immediately served extensive discovery relating to the newly submitted documents. In November 2016, the developer filed a Motion for Leave to File a Cross-Complaint. Plaintiffs filed a memo in opposition and defense counsel responded preserving all of Citizens' rights and defenses, including undue delay. The trial court granted the developer's motion. In January 2017, Citizens filed an Answer & Affirmative defenses to the developer's Cross-Complaint. Citizens filed a Motion for Summary Judgment against the developer to dismiss all claims against Citizens, based on factual evidence that the property was not condemned. Thereafter the developer filed a Motion to Compel Appraisal. The court heard both Citizens' Motion for Summary Judgment and the developer's Motion to Compel Appraisal. The court granted Citizens' motion and denied the developer's motion.

Both the plaintiffs and the developer have filed Notices of Appeal and the case is now on appeal before the Third District Court of Appeal. Citizens moved to consolidate each of the appeals for all purposes and that motion was granted on September 29, 2017. We anticipate that the plaintiffs and the developer will each be filing their initial briefs arguing that the Trial Court erred in granting our motions for summary judgment.

(Dollars in thousands)

Multi-Year Reinsurance Treaties

Citizens is party to reinsurance arrangements that provide coverage into 2018, including a traditional aggregate catastrophic excess of loss agreement as well as an aggregate catastrophe bond 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. On May 3, 2017, the multi-year reinsurance arrangement with Everglades Re II that provided coverage of $300 million was terminated as a result of the early redemption of the Everglades Re II Series 2015-1 bonds. These bonds were redeemed at par and were not subject to a call premium.

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, 2017 and 2016, 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' 2017 and 2016 statutory-basis net 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:

	2017	2016
Net loss - statutory basis	**$ (1,028,383)**	$ (27,078)
Adjustments:		
Change in allowance for doubtful accounts	**635**	(462)
Change in FIGA assessment income	**907**	2,423
Change in net unrealized gain on investments	**57,294**	(133,867)
Change in net position - GAAP basis	**$ (969,547)**	$ (158,984)
Accumulated surplus - statutory basis	**$ 6,359,300**	$ 7,401,802
Adjustments:		
Nonadmitted assets, net of allowance	**11,433**	13,812
Provision for reinsurance	**17,280**	11
FIGA assessment recoverable	**-**	(907)
Net unrealized (loss) gain on investments	**(49,142)**	(106,407)
Net position - GAAP basis	**$ 6,338,871**	$ 7,308,311

15. Assessments

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are 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.

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 $1,059 and $2,423 during 2017 and 2016, 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 plans to settle the net over-collection with FIGA pursuant to Section 631.57(3)(f), Florida Statutes and will file a final reconciliation with the Office. As of December 31, 2016, remaining balances due on FIGA assessments of $907 are reported as assessment receivable on the statutory-basis statements of admitted assets, liabilities and accumulated surplus.

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, 2017 and 2016, collections in excess of the Emergency Assessment were $143,590 and $143,910, 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.

16. Subsequent Events

Subsequent events have been considered through May 29, 2018, the date of issuance of these statutory-basis financial statements. There were no 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, 2017
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
ADMITTED ASSETS				
Cash and invested assets:				
Bonds	$ 8,881,287	$ 3,249,967	$ 1,685,853	$ 3,945,467
Cash, cash equivalents, and short-term investments	1,227,756	302,245	250,607	674,904
Total cash and invested assets	10,109,043	3,552,212	1,936,460	4,620,371
Investment income due and accrued, net	68,958	24,683	12,382	31,893
Premiums receivable, net	72,053	39,577	1,170	31,306
Reinsurance recoverable on paid losses and loss adjustment expenses	887	724	-	163
Other receivables under reinsurance contracts, net	472	150	-	322
Taxes and fees receivable	292	(284)	(36)	612
Other admitted assets	3,818	3,818	-	-
Inter-account receivable (payable)	-	(3,687)	26	3,661
Total admitted assets	$ 10,255,523	$ 3,617,193	$ 1,950,002	$ 4,688,328
LIABILITIES AND ACCUMULATED SURPLUS				
Liabilities:				
Loss reserves, net	$ 740,371	$ 441,817	$ 73,190	$ 225,364
Loss adjustment expense reserves, net	432,163	283,594	17,995	130,574
Retroactive reinsurance ceded	(1,430)	(1,313)	-	(117)
Unearned premiums, net	430,586	246,747	9,682	174,157
Reserve for future assessments	143,590	-	-	143,590
Reinsurance payable	51,366	2,714	-	48,652
Provision for reinsurance	17,280	-	-	17,280
Bonds payable	1,983,573	687,323	108,558	1,187,692
Interest payable	7,857	2,766	437	4,654
Advance premiums and suspended cash	19,153	9,757	433	8,963
Return premiums payable	2,661	1,421	87	1,153
Assessment payable	152	(1,121)	75	1,198
Other liabilities	68,901	57,448	888	10,565
Total liabilities	3,896,223	1,731,153	211,345	1,953,725
Accumulated surplus:				
Restricted	8,243	-	-	8,243
Unrestricted	6,351,057	1,886,040	1,738,657	2,726,360
Total accumulated surplus	6,359,300	1,886,040	1,738,657	2,734,603
Total liabilities and accumulated surplus	$ 10,255,523	$ 3,617,193	$ 1,950,002	$ 4,688,328

Citizens Property Insurance Corporation
Supplemental Combining Statutory-Basis Statements of Operations by Account
Year Ended December 31, 2017
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
Underwriting income:				
Net premiums earned	$ 626,446	$ 400,677	$ 19,546	$ 206,223
Underwriting expenses:				
Net losses incurred	1,032,851	553,399	13,509	465,943
Net loss adjustment expenses incurred	532,242	335,086	2,767	194,389
Other underwriting expenses incurred	226,317	126,477	5,780	94,060
Total underwriting expense	1,791,410	1,014,962	22,056	754,392
Net underwriting (loss)	(1,164,964)	(614,285)	(2,510)	(548,169)
Investment (expense) income:				
Net interest income	207,968	72,492	40,831	94,645
Net realized capital gains	18,430	7,884	2,573	7,973
Interest expense	(94,244)	(24,583)	(3,883)	(65,778)
Total net investment income	132,154	55,793	39,521	36,840
Other income	4,427	3,017	277	1,133
Net income (loss)	$ (1,028,383)	$ (555,475)	$ 37,288	$ (510,196)

Citizens Property Insurance Corporation
Summary Investment Schedule
December 31, 2017
(Dollars in thousands)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	**Percentage**	**Amount**	**Percentage**
Bonds				
U.S. Treasury securities	$ 1,604,985	15.9%	$ 1,604,985	15.9%
U.S. government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	4,484	0.0%	4,484	0.0%
Issued by U.S. government-sponsored agencies	691,287	6.8%	691,287	6.8%
Non-U.S. government (including Canada, excluding mortgage-backed securities)	12,481	0.1%	12,481	0.1%
Securities issued by states, territories and possessions and political subdivisions in the U.S.				
States, territories and possessions general obligations	281,390	2.8%	281,390	2.8%
Political subdivisions of states, territories and possessions and political subdivisions general obligations	405,177	4.0%	405,177	4.0%
Revenue and assessment obligations	1,339,401	13.2%	1,339,401	13.2%
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Issued or guaranteed by GNMA	6,606	0.1%	6,606	0.1%
Issued or guaranteed by FNMA and FHLMC	192,643	1.9%	192,643	1.9%
CMOs and REMICs				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	82,542	0.8%	82,542	0.8%
Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies	3,170	0.0%	3,170	0.0%
Other debt and other fixed income securities (Excluding short-term)				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	3,582,255	35.4%	3,582,255	35.4%
Unaffiliated foreign securities	674,866	6.7%	674,866	6.7%
Receivables for securities	-	0.0%	-	0.0%
Cash, cash equivalents and short-term investments	1,227,756	12.3%	1,227,756	12.3%
Total invested assets	$ 10,109,043	100.0%	$ 10,109,043	100.0%

Citizens Property Insurance Corporation
Supplemental Schedule of Investment Risks Interrogatories
December 31, 2017
(Dollars in thousands)

1. Reporting entity's total admitted assets: $ 10,255,523

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

	Issuer	Description of Exposure	Carrying Amount	Percentage of Total Admitted Assets
2.01	State of California	Bonds	$ 141,594	1.4%
2.02	Citibank NA	Bonds	107,300	1.0%
2.03	JPMorgan Chase & Co.	Bonds	101,069	1.0%
2.04	City of New York, New York	Bonds	88,179	0.9%
2.05	Wells Fargo & Co	Bonds	84,643	0.9%
2.06	Morgan Stanley	Bonds	83,929	0.8%
2.07	Bank of America Corp	Bonds	82,665	0.8%
2.08	Commonwealth of Massachusetts	Bonds	79,577	0.8%
2.09	State of Texas	Bonds	72,745	0.7%
2.10	Apple Inc	Bonds	70,822	0.7%

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

		Carrying Amount	Percentage of Total Admitted Assets
	Bonds:		
3.01	NAIC-1	$ 7,954,824	77.6%
3.02	NAIC-2	1,163,127	11.3%
3.03	NAIC-3	891	0.0%
3.04	NAIC-4	-	0.0%
3.05	NAIC-5	-	0.0%
3.06	NAIC-6	31,836	0.3%
	Preferred Stocks:		
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%

(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]

		Carrying Amount	Percentage of Total Admitted Assets
4.02	Total admitted assets held in foreign investments	$ 565,093	5.5%
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:

		Carrying Amount	Percentage of Total Admitted Assets
5.01	Countries designated NAIC 1	$ 560,439	5.5%
5.02	Countries designated NAIC 2	2,245	0.0%
5.03	Countries designated NAIC-3 or below	2,409	0.0%

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

		Carrying Amount	Percentage of Total Admitted Assets
	Countries designated NAIC 1:		
6.01	United Kingdom	$ 161,201	1.6%
6.02	Japan	88,576	0.9%
	Countries designated NAIC 2:		
6.03	Spain	2,245	0.0%
6.04	-	-	-%
	Countries designated NAIC 3 or below:		
6.05	Supranational	2,409	0.0%
6.06	-	-	-%

7. Aggregate unhedged foreign currency exposure:

Not applicable.

(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:

	Issuer	NAIC Designation	Carrying Amount	Percentage of Total Admitted Assets
10.01	Westpac Banking Corp	1	$ 47,202	0.5%
10.02	HSBC Holdings PLC	1	44,297	0.4%
10.03	BP Capital Makets PLC	1	41,878	0.4%
10.04	Svenska Handelsbanken AB	1	40,294	0.4%
10.05	Mitsubishi UFJ Financial Group Inc	1	38,932	0.4%
10.06	Shell International Finance BV	1	37,711	0.3%
10.07	Lloyds Bank PLC	1	32,530	0.3%
10.08	Cooperatieve Rabobank UA	1	30,207	0.3%
10.09	Sumitomo Mitsui Banking Corp	1	28,617	0.3%
10.10	Credit Suisse AG N CD 1.65 15JUN18	1	24,982	0.2%

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

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.

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 [X] 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 [X] 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 [X] 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 [X] 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 [X] No [ ]

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

(Dollars in thousands)

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

		At Year End			At End of Each Quarter 1st Qtr.		2nd Qtr.		3rd Qtr.
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:

		Owned			Written		
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:

		At Year End			At End of Each Quarter 1st Qtr.		2nd Qtr.		3rd Qtr.
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:

		At Year End			At End of Each Quarter 1st Qtr.		2nd Qtr.		3rd Qtr.
23.01	Hedging	$	-	0.0%	$	-	$	-	$ -
23.02	Income generation		-	0.0%		-		-	-
23.03	Replications		-	0.0%		-		-	-
23.04	Other		-	0.0%		-		-	-