Financial Report – 2Q2018

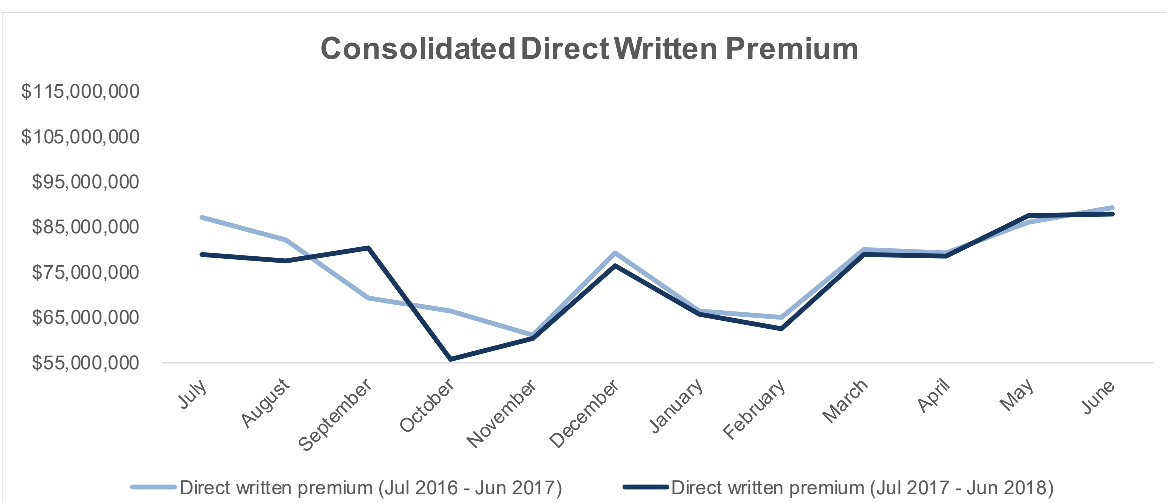
The following is an analysis of Citizens' financial and operating results for the second quarter of 2018.

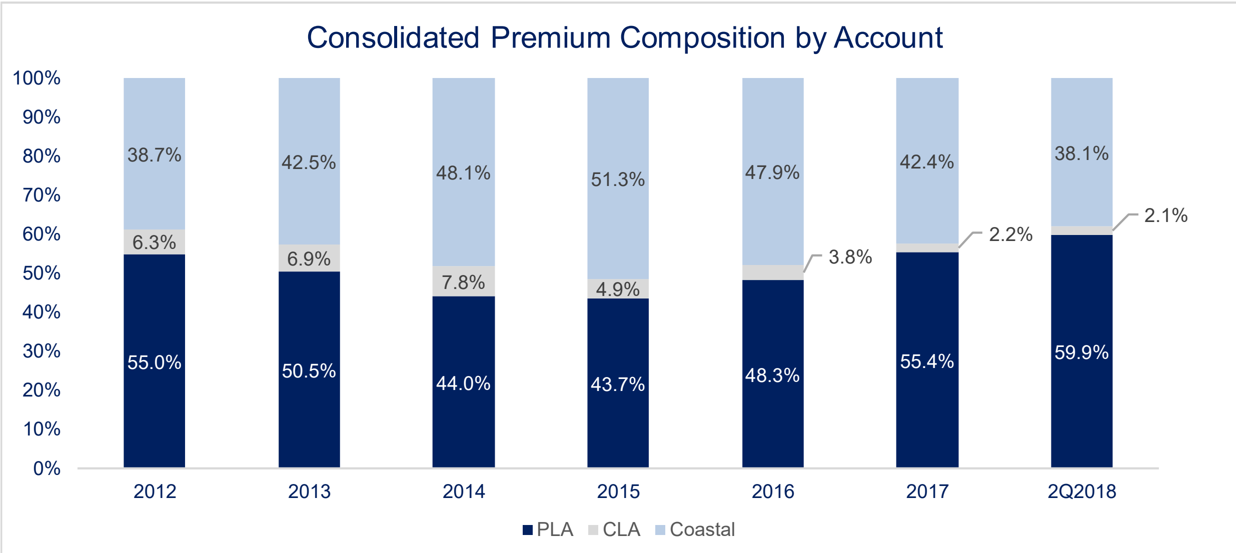
- PREMIUMS -

Consolidated direct written premium for the first half of 2018 was $460.0 million or $5.1 million (1%) less than the first half of 2017. The decrease in written premium is the result of decreases in combined policies inforce (PIF), primarily commercial lines policies within the Commercial Lines Account (CLA) and Coastal Account. During the first half of 2018, PIF within the Personal Lines Account (PLA) increased 3.7%, while the CLA and Coastal Account had decreases in PIF of 29% and 13%, respectively. During the first half of 2018, the PLA added 8,591 policies whereas the CLA and Coastal Account lost 203 and 5,534 policies, respectively. For the 12-month periods ended June 30, 2018 and 2017, the consolidated decrease in PIF (2.1%) approximated the decrease in consolidated direct written premium (2.3%). The volume of premiums removed through depopulation was substantially unchanged during the first half of 2018 compared to the first half of 2017, however, premiums removed through depopulation over the 12-month period ended June 30, 2018 were $31.3 million, or $15.5 million (33%) less than the same 12-month period ended June 30, 2017.

	12-months ended		6-months ended	
	Jun 2018	Jun 2017	Jun 2018	Jun 2017
New Business	92,347	94,623	48,070	47,706
Untagged Takeouts	304	12,360	146	6,553
Reinstatements	9,963	9,665	4,528	5,170
Cancellations	(47,144)	(51,361)	(22,833)	(24,849)
Non-Renewals	(39,151)	(47,415)	(22,117)	(25,115)
New Tags for Takeout	(25,650)	(54,415)	(4,940)	(12,714)
Net change	(9,331)	(36,543)	2,854	(3,249)
Ending PIF	443,262	452,593	443,262	452,593

Consolidated direct earned premium declined $26.1 million (5%) during the first half of 2018 compared to the first half of 2017, while direct earned premium declined $89.3 million (9%) during the 12-month period ended June 30, 2018 compared to the same period in 2017.





At June 30, 2018 premiums ceded through reinsurance arrangements totaled $240.9 million or $10.4 million (4%) less than the same period in 2017. The decline in reinsurance premiums ceded was driven by declines in the cost of private reinsurance as well as declines in premiums ceded to the FHCF, both largely due to declines in reinsured exposure and overall declines in risk-adjusted pricing on private reinsurance arrangements.

- LOSSES -

Non-CAT Only	**Consolidated**			**Personal Lines Account**			**Commercial Lines Account**			**Coastal Account**		
	Q2 2018	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**
Direct loss ratio	31.7%	28.3%	30.7%	42.8%	43.8%	46.6%	79.4%	3.3%	12.4%	13.2%	11.2%	13.9%
Direct loss ratio (underlying)	29.4%	27.3%	28.5%	41.2%	41.5%	43.4%	8.6%	9.8%	9.6%	13.5%	11.3%	12.9%
Direct LAE ratio	22.2%	18.9%	16.6%	31.3%	26.2%	24.0%	-32.3%	-2.2%	-0.4%	12.0%	11.6%	9.5%
Direct LAE ratio (underlying)	16.5%	16.0%	13.9%	21.9%	22.3%	19.8%	7.7%	4.1%	5.6%	9.1%	9.2%	7.8%

CAT and Non-CAT	**Consolidated**			**Personal Lines Account**			**Commercial Lines Account**			**Coastal Account**		
	Q2 2018	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**	**Q2 2018**	**FY 2017**	**Q2 2017**
Direct loss ratio	31.8%	187.7%	30.7%	42.9%	159.4%	46.6%	79.4%	75.8%	12.4%	13.2%	229.2%	14.0%
Direct loss ratio (underlying)	29.4%	186.6%	28.5%	41.2%	157.0%	43.4%	8.6%	82.3%	9.6%	13.5%	229.3%	12.9%
Direct LAE ratio	22.3%	67.2%	16.7%	31.4%	74.4%	24.2%	-32.3%	11.9%	-0.4%	12.2%	62.3%	9.6%
Direct LAE ratio (underlying)	16.5%	63.9%	13.9%	21.9%	70.1%	19.8%	7.7%	18.2%	5.6%	9.1%	59.5%	7.8%

The term *underlying* refers to losses and LAE on claims incurred in the current accident year and excludes development on prior accident years

On a consolidated basis, losses incurred through the second quarter of 2018 were relatively unchanged as compared to the prior calendar year and second quarter of 2017. By account, the PLA and Coastal Account did not have any significant loss development on prior accident years, whereas the CLA experienced adverse loss development as a result of the settlement of sinkhole losses from prior accident years.

While loss and LAE development within the CLA and commercial lines policies in the Coastal Account are less significant to the accident years to which they relate, the diminishing size of the overall commercial lines book of business leaves it more susceptible to material swings in the loss and LAE ratio as a result of development in prior accident years when the commercial lines book of business was considerably larger. The CLA reported direct written premium of $362.8 million in 2008 and in 2012 reported $200.8 million in direct written premium. Through the first half of 2018, direct written premium in the CLA was $9.4 million.

LAE incurred during the current calendar quarter increased as a result of increased resources (internal and external) needed to address continued challenges with non-weather water losses. Recent trends suggest that the fraction of non-weather water claims entering litigation has stabilized but remains within a historically high range of 40-50%.

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

At June 30, 2018, gross losses and LAE attributable to Hurricane Irma were unchanged from the prior quarter and remained at $1.81 billion. Estimated recoveries from the Florida Hurricane Catastrophe Fund (FHCF) are $534.7 million of which $193.8 million, $6.2 million and $334.7 are within the PLA, CLA and Coastal Account, respectively. Estimated recoveries from private reinsurers were $126.4 million within the Coastal Account. In total, an estimated 70,800 claims are projected as a result of Hurricane Irma, or 41,500, 250 and 29,050 in the PLA, CLA and Coastal Account, respectively.

Ultimate losses and LAE for Hurricane Irma include a projected litigation rate of approximately 30% for all personal lines claims along with the associated increase in loss and LAE severity for claims that enter litigation.

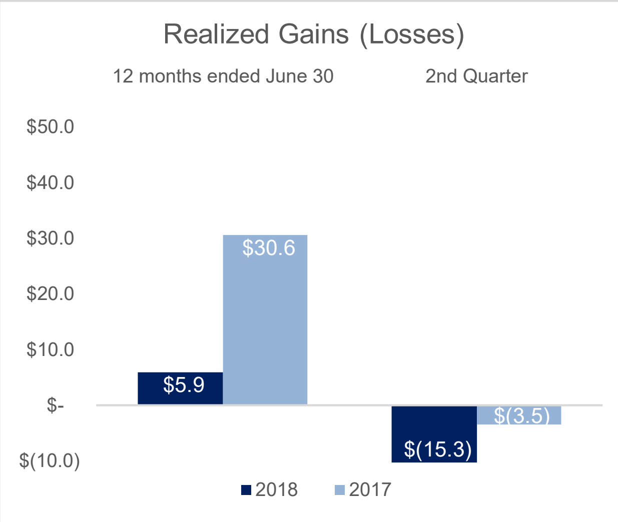
- ADMINISTRATIVE EXPENSES -

Administrative expenses incurred during the first half of 2018 of $66.1 million were approximately unchanged relative to the first half of 2017 and $10.2 million (13%) below budget. Total employee costs (salaries, employee benefits, and payroll taxes) increased by $1.0 million (1.6%) relative to the prior period and were $4.0 million (6%) below budget. Delays in the implementation of the new Agency Management System and unused contingency reserves related to the Centerpoint ERP implementation were the largest factors contributing to the favorable budget variance within professional services. Favorable budget variances within contingent staffing were driven by a timing difference in the need for independent adjusters for Hurricane Irma.

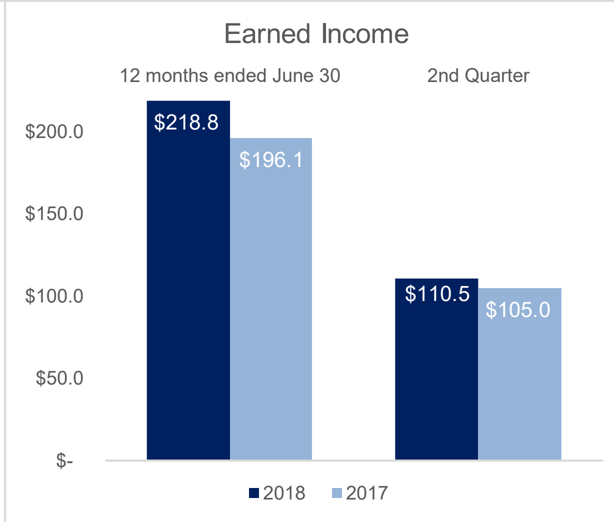
Staffing resources, contingent staffing and certain software licensing arrangements within the Claims Division as a result of Hurricane Irma also contributed to the increase in administrative expenses as well as the increase in ULAE expense allocation.

Through the first half of 2018, Citizens' expense ratio was 24.5%, reflecting a 0.7% decrease from 2017 and a 1.5% decrease as compared to budget. Citizens anticipates that the actual expense ratio for fiscal year 2018 will be inline with the budgeted expense ratio of 24.3%

- INVESTMENT INCOME -



($ in millions)



($ in millions)

Total income (measured as total investment income excluding investment expenses) for the first half of 2018 was $95.2 million, roughly $6 million (6%) less than the same period a year ago, while total average invested assets declined $2.063 billion (17%) over the same comparable period. Despite a slight decline in period-over-period total income, earned income (measured as total investment income excluding investment expenses and realized gains and losses) increased $5.5 million (5%). Net realized losses during the first half of 2018 were $15.3 million, representing an increase of $11.8 million relative to the first half of 2017. Net realized losses were taken as portfolio managers maintain duration targets across portfolios, reinvest maturing positions, and liquidate existing positions to meet scheduled debt service requirements. This resulted in an increase in realized losses due to overall rising market interest rates, volatility and fluctuations in credit spreads. It is expected that these short-term realized losses will be more than offset by longer-term increases in overall returns when reinvesting in a higher interest rate environment.

In January 2018, changes to Citizens' investment policies were implemented by portfolio managers, allowing Citizens to take advantage of market conditions, provide additional diversification across portfolios, and increase overall portfolio returns by extending portfolio duration, increasing exposure to corporate spread products, expanding permitted credit ratings, and permitting investment in certain asset-backed securities.

	12-months ended ($ millions)		6-months ended ($ millions)	
	Jun 2018	**Jun 2017**	**Jun 2018**	**Jun 2017**
Earned income	$ 218.84	$ 196.06	$ 110.52	$ 104.97
Net realized gains (losses)	5.92	30.61	(15.29)	(3.47)
Total income	**$ 224.75**	**$ 226.67**	**$ 95.22**	**$ 101.50**
Average invested assets	**$ 10,424.88**	**$ 12,147.06**	**$ 9,971.26**	**$ 12,034.10**

	Externally-Managed Portfolios (June 30, 2018)			
	Taxable Claims	Taxable Liquidity	Tax-Exempt Claims	Taxable LD Claims
Total market value ($ in billions)	$2.054	$0.836	$1.547	$4.291
Duration	3.9	0.8	1.9	5.6
Avg. credit rating (S&P / Moody's / Fitch)	A / A1 / AA-	A+ / Aa3 / AA-	AA / Aa2 / AA	A / A1 / A+

- CASH FLOWS -

Consolidated cash flows used in operations were $170.6 million during the first half of 2018 compared to $100.0 million in cash flows provided by operations during the same period in 2017. Net premiums collected were $405.2 million or $25.4 million (7%) more than the same period a year ago consistent with declines in ceded premiums paid for reinsurance in 2018 compared to 2017. Period-over-period increases in net investment income collected were driven by decreases in the level of debt obligations outstanding.

Increases in benefits and loss related payments were principally the result of loss and LAE payments associated with Hurricane Irma. The modest decrease in underwriting expenses paid were the result of similar declines in the overall levels of direct premium written.

	Consolidated - 12 months ended		Consolidated - 6 months ended	
	Jun 2018	**Jun 2017**	**Jun 2018**	**Jun 2017**
Premiums collected, net	$ 603,782,535	$ 537,727,391	$ 405,183,081	$ 379,805,690
Net investment income	185,327,280	131,459,325	87,687,541	66,846,383
Miscellaneous income (expense) collected (paid)	4,617,625	3,301,380	1,502,985	1,816,716
Benefits and loss related payments	(1,046,354,095)	(314,410,841)	(410,017,103)	(156,355,863)
Loss adjustment expense payments	(386,145,525)	(159,552,012)	(147,107,818)	(82,806,568)
Underwriting expenses paid	(216,395,665)	(219,301,330)	(107,882,014)	(109,334,103)
Net cash flows provided by (used in) operations	**$ (855,167,845)**	**$ (20,776,087)**	**$ (170,633,329)**	**$ 99,972,255**