

**CITIZENS PROPERTY INSURANCE CORPORATION  
TRANSCRIPT OF THE MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD TUESDAY June 19, 2018**

A Board meeting of the Audit Committee of Citizens Property Insurance Corporation (“Citizens”) was held at 1.00 pm on Tuesday June 19, 2018 in Maitland, FL.

The following members of the Audit Committee were present:

Governor Bette Brown, Chairwoman  
Governor Jim Holton  
Governor John McKay (on the telephone)  
Governor Marc Dunbar (on the telephone)

The following members of the Board of Governors were present:

John Wortman  
Blake Capps

The following Citizens Staff were present:

Jay Adams	Eric Addison
Christine Ashburn	Violet Bloom
Kelly Booten	Tonja Bradley
Scott Crozier	Brian Donovan
Bonnie Gilliland	Barry Gilway
Stephen Guth	Karen Holt
Mark Kagy	Paul Kutter
Joe Martins	Jennifer Montero
Nancy Staff	Dan Sumner
Barbara Walker	David Woodruff

The following were also present:

Dave Newell, FAIA  
Kapil Bhatia, Raymond Jones  
Danny Kriss, Guy Carpenter  
John Generali, Wells Fargo  
Steve Russ, FIRM  
V.Jannelti, UBS  
M. Lecano, UBS  
Keith Thompson, FTN Financial  
Jonathan Ruth, FTN Financial  
Matt Church, Dixon Hughes Goodman (telephone)  
Brian Smith Dixon Hughes Goodman (telephone)

BOARD SECRETARY: Good afternoon, and welcome to Citizens June 19, 2018, Audit Committee meeting publicly noticed in the Florida Administrative Register. Please do not place this call on hold. Please star 6 to mute your line and pound 6 top un-mute your line. Our meeting will convene at 1:00 p.m. with a roll call for quorum. Citizens’ Board and committee meetings are recorded with transcribed Minutes available on our website. As a reminder, as noticed in the Florida Administrative Register, the Finance and Investment Committee meeting will convene immediately following this meeting. Dial in details are available at Citizens’ website.

Chairman Brown, would you for me to take roll?

CHAIRWOMAN BROWN: Please.

BOARD SECRETARY: Chairman Bette Brown?

CHAIRWOMAN BROWN: Here.

BOARD SECRETARY: Mark Dunbar? James Holton?

GOVERNOR HOLTON: Here.

BOARD SECRETARY: John McKay.

GOVERNOR MCKAY: Here.

BOARD SECRETARY: Thank you, checking for Brian Smith?

MR. SMITH: Here.

BOARD SECRETARY: Thank you. And Matt Church?

MR. CHURCH: Here as well.

CHAIRWOMAN BROWN: Okay, let's go ahead and call the meeting to order. I would accept a motion to approve the Minutes of the 4/10.18 meeting?

GOVERNOR HOLTON: I will move to approve the Minutes.

GOVERNOR MCKAY: This is John McKay. I second.

CHAIRWOMAN BROWN: All in favor. (Chorus of ayes.)

CHAIRWOMAN BROWN: Motion passes.

CHAIRMAN BROWN: Welcome to Joe Martins. You are here to give us your quarterly report. We look forward to hearing from you as always. You have the floor.

MR. MARTINS: Thank you, Governors. For the record, I am Joe Martins, Chief of Internal Audit. I am going to give you brief today. If I could refer to page 13, section two of audit pack, and there we have the assurance dashboard. Since the last Audit Committee meeting we continue to finalize work in process and also commence with the audit engagements scheduled for quarter two. In this period we completed two audits. We also reassessed the audit plan and made six changes. We added two engagements, one audit engagement that will focus on the Centerpoint payroll access management. The second is an advisory which will focus on the vendor management Responsible Vendor Review process. We canceled three engagements. The first one is an audit of the IT infrastructure management. The second one was an advisory on the Strategic Workforce Planning and another advisory on Unclaimed Property. We also combined an advisory audit that we are going to do on Voice of the Customer with a Manage Repair Program audit that we scheduled for period three.

On page 19 and 25 we have the audit reports that refer to the two audits that were completed. The first audit related to Vendor Management. With this audit we focused on monitoring the contract performance, the contract termination process, as well as the contract compliance process. Results from our work indicated that the VMO contract compliance and monitoring processes are well managed with effective internal controls and adherence to regulatory requirements. Some process improvement opportunities which were relatively minor were presented to the management. On page 25 we have the Tampa Data Center Migration project memorandum. With this work we assessed the development of the data center migration plan. Our participation in this project confirmed that the preparation for the move is progressing well and there were a few minor planned items that I saw being sourced out and worked on, and we believe they will be in the position to migrate the center without major hiccup.

Further, I would like to go over to the internal controls office and the work that we are doing in the internal control framework. With ICF we assist the organization with the identification and documentation of major controls within the organization and are currently in process of six walk-throughs which we are continually working on. We further support the organization with a 2018 control self-assessment reviews that are currently in process, and these are for the internal control framework and control assessments that we have completed since the start of this project. There are roughly 38 of these processes that we are doing assessments for this year. And then lastly I want to focus on the Enterprise Risk Management and the work that we are doing, assisting the organization with the identification of major risks. As we mentioned at the last meeting we focused on the identification strategic risk of which we identified 16 risks, and the Enterprise Risk office is working with the risk owners to further develop a summary for the current and future mitigation activities. It is our objective to complete this and present the top five risks to the committee at the September committee meeting. The operation of risk assessments are also continuing and we have completed 31 process assessments at the moment. We identified 196 total risks during this assessment of which 15 were classified as high inherent risk. The residual risk assessments are currently in process and we should finish those also by the next committee meeting. We are also in the process of implementing a tool, a system that will assist the organization to manage and monitor the risks that are identified, and this implementation is in progress and should be completed by September. That completes my report to the committee.

CHAIRWOMAN BROWN: Joe, I have just a couple of comments. One, it looks like you are half way through the year and half way done so we are right on schedule, good job.

MR. MARTINS: Thank you.

CHAIRWOMAN BROWN: Anything that you want to bring up? As I read through this it didn't look like we had anything, any concerns, but is there anything that I might have missed that you want to bring to our attention?

MR. MARTINS: The projects that we are currently working on, none of those are identifying anything of major concern to the organization. We have a few minor issues that we have identified that we will be working on.

CHAIRWOMAN BROWN: Great.

MR. MARTINS: One of the audits that we are looking at which I mentioned was that we added was Centerpoint Access Management. Following this audit we may add an audit on the Citizens' payroll process just to ensure that the payroll following the implementation of Centerpoint is still being managed relatively well and we will bring that to the committee in September.

CHAIRWOMAN BROWN: Great. Thank you. Members, any questions of Joe?

GOVERNOR HOLTON: No questions.

CHAIRWOMAN BROWN: Anybody on the phone have questions? Thank you very much.

MR. MARTINS: Thank you very much.

CHAIRWOMAN BROWN: We welcome Nancy Staff. How are you? And Dan.

MR. SUMNER: Madam Chair, may I make a few introductory comments on this issue?

CHAIRWOMAN BROWN: Of course.

MR. SUMNER: Madam Chair, members of the Audit Committee, Dan Sumner, General Counsel for Citizens, for the record. On May the 2nd, CFO Patronis sent a letter to President Gilway urging Citizens to adopt a lobbying policy or lobbyist registration policy which mirrored the Executive Branch lobbying procedures in Section 112.321(5) of Florida Statutes. That request was immediately taken underway and with really Nancy Staff as Citizens' Compliance and Ethics Officer really taking the lead. We, in a very short period of time, have developed a corporate policy of which very much mirrors the Executive lobbying requirements of the statute. It was a team effort. Obviously we had strong partnership with legislative affairs and communications. As she will indicate, the IT staff very quickly put together the infrastructure to make this transparent and obviously the team of legal services were very much involved in the drafting of this. As CFO Patronis said somewhat generously, we were able to create this policy in a final form virtually overnight. And I think that reflects the interest Citizens has in the transparency that this policy will bring and the seriousness with which we addressed this request by CFO Patronis. This was discussed at the last Cabinet meeting and Financial Services Commission meeting and there was support among all the FSC members of the approach that we have taken. And if you would I would like to ask Nancy to give you an overview of the actual policy.

CHAIRWOMAN BROWN: Certainly, thank you Dan.

MS. STAFF: Good afternoon, Nancy Staff, the Director of Ethics and Compliance Officer. And I just wanted to give you a brief overview and answer any questions you may have. Tomorrow you will be presented with an action item to approve the legislative, excuse me, the lobbyist registration required policy. Once approved, if approved, it will be a stand-alone policy very similar to our conflicts of interest policy. But it is also going to be incorporated into Citizens' internal Code of Ethics. So we are refreshing the Code of Ethics to include it and of course once that is finished I will send everyone a copy. It is going to be very nice. The registration policy will be effective September 1, but we are going to have the online registration available and open beginning August 1. So it has been incredible work by the IT staff. It is going to be an easy registration process, very similar to what lobbyists do when they register to lobby an Executive Branch agency. It will have a familiar look and feel to it, and there will not be any fee involved. So that is a plus. We are planning on contacting existing Executive Branch lobbyists ahead of time so that if they feel they need to register they will have an opportunity before this goes into effect on September 1. This, as Dan said, this policy substantially mirrors the requirements for Executive Branch lobbyists, and you have a copy of the policy in your material, and it is pretty self-explanatory. There are some consequences for folks who fail to register, and it is required for

lobbyists to register if they are lobbying Citizens, and the defined terms are in the policy. Do you have any questions?

CHAIRWOMAN BROWN: Members, any questions of Nancy Staff? I guess I have one. This is a draft. So you don't need any action from us today, it is just for information purposes?

MS. STAFF: Right, I just wanted to be available to answer questions. It will be presented tomorrow.

CHAIRWOMAN BROWN: Okay.

MS. STAFF: For approval.

CHAIRWOMAN BROWN: Great, thank you, you guys did good work and fast.

MS STAFF: Thank you.

CHAIRWOMAN BROWN: Thank you. Jennifer Montero, you are recognized, our CFO. Thank you. You got a lot of good stuff to talk about today.

MS. MONTERO: Good morning, for the record this is Jennifer Montero, Chief Financial Officer. Behind tab three you will find the March 31, 2018 financial results, consisting of the Financial Summary and Statement of Operations and Quarterly Financial Update. Also in here behind the third and fourth tab are the audited financial statements for the December 31st, 2017, audit and financial. The statutory financials are the exact thing that were presented to you in April. As earlier Brian presented Matt Church will introduce themselves, they are both on the line. Also behind tab four you will find the March 31st, 2018 financial results consisting of the financial summary and the statement of operations and quarterly financial update. At the April 2018, Board meeting I provided an update to the Board on the revision of our estimated loss in LAE from Hurricane Irma, following the year end actuarial reserve review. At that time I advised the Board that our ultimate losses in LAE were increased from approximately \$1.2 billion to \$1.8 billion as a result of an anticipated litigation rate of nearly 30 percent on all Irma claims. At March 31st, our estimate for Irma losses and LAE remained unchanged relative to our year end estimates, and are reduced by approximately \$680 million for anticipated reinsurance recoverables. Through the end of the first quarter of 2018 Citizens' consolidated surplus was \$6.5 billion, while cash and invested assets were \$10 billion. Premiums written during the first quarter of 2018 of \$206 million declined marginally by \$4.2 million, compared to the first quarter of 2017. Despite an increase in the number of policies in force within the PLA, the CLA and coastal account both declined in overall policy count largely due to the continued removal of commercial lines policies. Quarter over quarter the volume of policies assumed through depopulation has relatively unchanged at \$3.3 million in ceded premium. On a consolidated basis the loss ratio during the first quarter was relatively unchanged compared to the prior calendar year and first quarter of 2017, primarily due to insignificant development in prior accident years. Loss adjustment expense increased during the current calendar quarter as a result of increased resources needed to address continued challenges with our non-weather water losses. Recent trends suggest that the fraction of non-weather water claims entering litigation may be stabilizing, but remains at a historical high level with projected litigation rates of 47 percent.

Administrative expenses are below budget by approximately eight percent through the first quarter. Certain changes in accounting policies that went into effect in 2018, contributed to an increase in administrative expenses relative to 2017. However, it is expected that Citizens' expense ratio for fiscal year 2018, will be in line with budgeted estimates of approximately 24.3 percent. Investment income for the first quarter was \$46 million, marking a two percent decline relative to the prior year's

quarter, while the average invested assets increased 18 percent. The relative increase in investment returns was driven by overall increases in its level of interest rates, but also through changes to our investment policy that have allowed us to increase duration within the portfolios. As we enter the 2018 hurricane season, Citizens' capital position remains incredibly strong, supported by a large level of surplus, highly rated investment assets and a robust reinsurance program. For the 2018 hurricane season our private reinsurance program totals \$1.423 billion in coverage, consisting of \$873 million in traditional reinsurance and \$550 million through Everglades Three. If there are no questions, that concludes my report.

CHAIRWOMAN BROWN: Members, any questions of Jennifer? Hearing none, thank you very much.

MS. MONTERO: Thank you.

CHAIRWOMAN BROWN: And I think we have a report on our audited statement, financial statement, 2017. I am not sure whether it is Brian or Matt who is going to give us that. But one or both are on the line.

MR. CHURCH: Yes, we are both here, this is Matt Church.

CHAIRWOMAN BROWN: Hi, Matt.

MR. CHURCH: Good afternoon, how are you?

CHAIRWOMAN BROWN: Good.

MR. CHURCH: Apologies for us not being there in person and we truly thank you for allowing both of us to call in today. Unfortunately we had a scheduling conflict as our firm and our insurance practice hosts an annual CPE event for a number of clients and prospects and both were there and we are here. But we had a great year and I am going to turn it over to Brian to actually share some of the results for the audit.

MR. SMITH: Certainly stop me, this is Brian Smith, stop me as I go along. Our report will be short. It should be in front of you, after tab five in your report. The highlights are the issued and unqualified opinion for Citizens both for the statutory basis financial and the GAAP financials under the GASB pronouncement. A few quick highlights we did audit reserves with utilizing the specialists with Molinas & Associates as an actuary. We are proud to say there is no material findings from the use of our actuary which is very critical in a year when we had a hurricane event. Looking at the results of the audit we had no uncorrected misstatements and no corrected misstatements in working with management. There was no difficulties in working through the audit and we had no disagreements with management. So we are really proud there to get through a clean audit successfully. And then finalize a report on internal control, we did not identify any significant deficiencies or material weaknesses to report. So with that I will take any questions that you have.

CHAIRWOMAN BROWN: Members, any questions? I failed to recognize that Governor Dunbar joined the meeting via phone about, a few minutes ago. So welcome to Governor Dunbar.

GOVERNOR DUNBAR: I am @18:53 (inaudible).

CHAIRWOMAN BROWN: Any questions of Brian Smith? Okay, thank you very much, Brian. Appreciate it, and Matt, appreciate it. Okay.

MR. SMITH: Thank you.

CHAIRWOMAN BROWN: We are down to complaint management statistics. There is nothing to report on that. And is there any new business to bring before the group? No new business? Okay, then I will entertain a motion to adjourn.

GOVERNOR HOLTON: Move to adjourn.

CHAIRWOMAN BROWN: Is there a second?

GOVERNOR MCKAY: Second.

CHAIRWOMAN BROWN: Okay. This meeting is adjourned. Thank you.

(Whereupon, the meeting was adjourned.)

DRAFT