

**SUPPLEMENT TO
OFFICIAL STATEMENT DATED MAY 21, 2015
relating to**

**CITIZENS PROPERTY INSURANCE CORPORATION
COASTAL ACCOUNT
SENIOR SECURED BONDS**



**\$700,000,000
SERIES 2015A-1**

**\$300,000,000
SERIES 2015A-2
(SIFMA Floating Rate Notes)**

As stated in the referenced Official Statement under the caption "FINANCIAL STATEMENTS," Citizens Property Insurance Corporation expected its Audited Financial Statements dated as of December 31, 2014 to be available on or before June 1, 2015, at which time a supplement to the Official Statement was expected to be published. Such Audited Financial Statements became available on June 1, 2015.

PLEASE BE ADVISED that the referenced Official Statement has been supplemented with the following information:

- APPENDIX K – AUDITED FINANCIAL STATEMENTS – STATUTORY BASIS AND SUPPLEMENTAL SCHEDULES FOR YEARS ENDED DECEMBER 31, 2014 AND 2013
- APPENDIX L – AUDITED FINANCIAL STATEMENTS – GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR YEARS ENDED DECEMBER 31, 2014 AND 2013

Further, the amounts appearing on the tables under the caption "FINANCIAL INFORMATION – General" for the fiscal year ended December 31, 2014 and labeled as "unaudited" are now "audited" and such section of the Official Statement is hereby supplemented to such effect.

The date of this Supplement is June 1, 2015.

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APPENDIX K

**AUDITED FINANCIAL STATEMENTS – STATUTORY BASIS AND SUPPLEMENTAL
SCHEDULES FOR YEARS ENDED DECEMBER 31, 2014 AND 2013**

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**FINANCIAL STATEMENTS - STATUTORY BASIS
AND SUPPLEMENTAL SCHEDULES**

Citizens Property Insurance Corporation

December 31, 2014 and 2013

Citizens Property Insurance Corporation
Financial Statements – Statutory Basis and Supplemental Schedules
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December 31, 2014 and 2013

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To the Board of Governors and Management
Citizens Property Insurance Corporation

We have audited the accompanying statutory financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory statements of admitted assets, liabilities and accumulated surplus as of December 31, 2014 and 2013, and the related statutory statements of income, changes in accumulated surplus, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Florida Office of Insurance Regulation (the Office). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 over financial reporting. 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Notes 2 and 13 to the financial statements, Citizens prepared these financial statements using accounting practices prescribed or permitted by the Office, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America are described in Note 13, and are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the preceding paragraph, the financial statements referred to above 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, 2014 and 2013, or changes in financial position and cash flows for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and accumulated surplus of Citizens as of December 31, 2014 and 2013, and the changes in financial position and cash flows for the years then ended, on the basis of accounting described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Combining Statement of Admitted Assets, Liabilities and Accumulated Surplus by Account - Statutory Basis, Supplemental Combining Statement of Income by Account - Statutory Basis, Summary Investment Schedule and Supplemental Investment Risks Interrogatories as of December 31, 2014 are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the Office. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 statutory basis financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style.

Jacksonville, Florida
May 29, 2015

Citizens Property Insurance Corporation
Statements of Admitted Assets, Liabilities and Accumulated Surplus - Statutory Basis

	December 31	
	2014	2013
	<i>(in thousands)</i>	
Admitted assets		
Bonds	\$ 12,221,894	\$ 12,828,989
Cash, cash equivalents, and short-term investments	<u>1,456,597</u>	<u>1,494,855</u>
Total cash and invested assets	13,678,491	14,323,844
Investment income due and accrued	74,222	81,873
Premiums receivable	117,842	147,567
Reinsurance recoverable on paid losses and LAE	923	2,351
Other receivables under reinsurance contracts	32,654	27,133
Assessment receivable	5,530	176,894
Other admitted assets	<u>4,586</u>	<u>6,945</u>
Total admitted assets	<u><u>\$ 13,914,248</u></u>	<u><u>\$ 14,766,607</u></u>
Liabilities and accumulated surplus		
Liabilities:		
Loss reserves	\$ 738,068	\$ 953,329
Loss adjustment expense reserves	294,920	303,444
Retroactive reinsurance ceded	(1,466)	(1,626)
Unearned premiums	696,086	1,093,992
Unearned assessment income	19,326	43,602
Taxes and fees (receivable) payable	(1,035)	3,143
Provision for reinsurance	556	1,881
Bonds payable	4,420,636	4,995,038
Interest payable	22,540	25,846
Advance premiums and suspended cash	48,961	70,440
Other liabilities	<u>291,628</u>	<u>269,310</u>
Total liabilities	<u>6,530,220</u>	<u>7,758,399</u>
Accumulated surplus:		
Restricted	25,348	15,339
Unrestricted	<u>7,358,680</u>	<u>6,992,869</u>
Total accumulated surplus	<u>7,384,028</u>	<u>7,008,208</u>
Total liabilities and accumulated surplus	<u><u>\$ 13,914,248</u></u>	<u><u>\$ 14,766,607</u></u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Income – Statutory Basis

	Years Ended December 31	
	2014	2013
	<i>(in thousands)</i>	
Premiums earned	\$ 1,377,841	\$ 1,880,761
Losses incurred	441,155	502,375
Loss adjustment expenses incurred	198,935	248,050
Other underwriting expenses incurred	374,600	461,683
Underwriting income	363,151	668,653
Net interest income	128,535	128,440
Net realized gain on sales	53,501	52,828
Interest expense	(180,835)	(200,711)
Net investment income (expense)	1,201	(19,443)
Assessment (expense) income	(19,020)	26,166
Other income (expense)	5,790	(10,030)
Net income	<u>\$ 351,122</u>	<u>\$ 665,346</u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Changes in Accumulated Surplus – Statutory Basis
(in thousands)

Balance at January 1, 2013	\$ 6,295,157
Net income	665,346
Change in nonadmitted assets	31,296
Change in provision for reinsurance	166
Prior period adjustment - assessment income	15,283
Other	960
Change in accumulated surplus	<u>713,051</u>
Balance at December 31, 2013	7,008,208
Net income	351,122
Change in nonadmitted assets	23,770
Change in provision for reinsurance	1,325
Other	(397)
Change in accumulated surplus	<u>375,820</u>
Balance at December 31, 2014	<u><u>\$ 7,384,028</u></u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows – Statutory Basis

	Years Ended December 31	
	2014	2013
	<i>(in thousands)</i>	
Operating activities		
Premiums collected, net of reinsurance	\$ 972,774	\$ 1,674,421
Loss and loss adjustment expenses paid	(862,447)	(919,408)
Underwriting expenses paid	(379,101)	(465,424)
Net investment income received	68,904	60,536
Other income received	10,215	17,033
Net cash (used in) provided by operating activities	<u>(189,655)</u>	<u>367,158</u>
Investing activities		
Proceeds from investments sold, matured or repaid	7,973,070	7,604,897
Investments acquired	<u>(7,453,633)</u>	<u>(7,369,289)</u>
Net cash provided by investing activities	<u>519,437</u>	<u>235,608</u>
Financing and miscellaneous activities		
Borrowed funds repaid	(535,275)	(871,530)
Other cash received	<u>167,235</u>	<u>176,987</u>
Net cash used in financing and miscellaneous activities	<u>(368,040)</u>	<u>(694,543)</u>
Net decrease in cash and short-term investments	(38,258)	(91,777)
Cash, cash equivalents, and short-term investments:		
Beginning of year	<u>1,494,855</u>	<u>1,586,632</u>
End of year	<u><u>\$ 1,456,597</u></u>	<u><u>\$ 1,494,855</u></u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis

NOTE 1 – GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the Florida Windstorm Underwriting Association (FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process.

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' President and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the Coastal Account. A brief history of each account follows:

Personal Lines Account 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.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 1 – GENERAL (CONTINUED)

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, 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. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High-Risk Account (HRA) under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the HRA. Pursuant to legislative changes during 2011, the HRA was renamed the Coastal Account.

During the 2013 legislative session, Citizens was authorized to create a Clearinghouse Program to confirm eligibility of new applicants to Citizens and to provide new applicants and existing Citizens policyholders enhanced access to offers of coverage from authorized insurers. Under the program, authorized insurers that have voluntarily agreed to participate in the program are able to make offers of coverage to new applicants and existing Citizens policyholders. The clearinghouse program launched on January 27, 2014, with four authorized carriers participating in the program and with only new applicants seeking HO-3 policies being processed through the clearinghouse. As of the end of 2014, existing HO-3 policies were added to the clearinghouse as well as an additional nine insurers bringing the participating insurer total to thirteen. In 2015 Citizens plans to begin submitting new and existing DP-1 and DP-3 dwelling only policies through the clearinghouse. Citizens also plans to add an additional personal multi-peril line of business to the platform during the 4th quarter of 2015, and is scheduled to add at least two additional insurers as well.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 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 are prepared in accordance with National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office.

Statutory Accounting Principles (SAP) is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America (GAAP). The significant SAP which differ from GAAP are as follows:

- a. 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. GAAP, on the other hand, includes these as assets unless impaired.
- b. Investments in debt securities are generally valued at cost and are amortized under the valuation standards of the NAIC. According to GAAP, investments in debt securities are generally reported at fair value.
- c. Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers are reported as reductions of the related reserves rather than as assets as required under GAAP.
- d. Cash, cash equivalents, and short-term investments in the statement of 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 includes 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. The statutory statement of cash flows does not classify cash flows consistent with GAAP and a reconciliation of net income to net cash provided by operating activities is not provided.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Differences between Florida prescribed practices and SAP which affect Citizens are prescribed in Florida Statutes 625.305. This statute provides limitations on the admission of invested assets with ratings of 5 and 6 issued by the Securities Valuation Office (SVO) as a percentage of total admitted assets, among other limitations not applicable to Citizens. The effect of the prescribed practice on accumulated surplus is provided below.

		<i>(in thousands)</i>	
Description	State	2014	2013
Policyholders' surplus, state basis	FL	\$ 7,384,028	\$ 7,008,208
Effect of state prescribed practices			
F.S. 625.305(4) d. Non-Admitted Invested	FL	36,098	61,253
Assets			
Policyholders' surplus, SAP basis		\$ 7,420,126	\$ 7,069,461

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 highest quality and high quality are reported at amortized cost, with all other bonds 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.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other-than-temporary, the investment is written down to its estimated fair value. The determination of an other-than-temporary decline in estimated fair value includes, in addition to other relevant factors, consideration of the nature of the investments, the severity of the impairments, including the number of securities impaired, and the duration of the impairment.

Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents consists of 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. Cash, cash equivalents, and short-term investments include amounts on deposit in excess of insured limits through the Federal Deposit Insurance Corporation. Management does not consider this to represent a significant credit risk to Citizens.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents, and Short-term Investments (Continued)

Short-term investments include amounts invested in the Florida State Board of Administration's Florida Prime (SBA Florida Prime), formerly known as the Florida State Board of Administration's Local Government Investment Pool (LGIP), various money market funds, commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency short-term notes.

Net Investment Income (Expense)

Net investment income (expense) includes realized gains and losses on sales of investments that are recognized on the specific identification basis. Net investment income (expense) also includes bond interest, bond expenses and investment expenses.

Furniture, Fixtures and Equipment

Depreciation and amortization expense was \$6.7 million and \$6.4 million for the years ended December 31, 2014 and 2013, respectively. 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
Capitalized office equipment and automobiles:	5 years
Furniture and equipment:	7 years
Leasehold improvements:	10 years

The cost and accumulated depreciation for EDP equipment and software was \$70.5 million and \$65.9 million at December 31, 2014, and \$68.4 million and \$60.8 million at December 31, 2013, respectively.

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, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses 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 loss adjustment expense reserves.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 period are recorded as unearned premiums.

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Company's 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. At December 31, 2014 and 2013, 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.

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.

Assessments are also levied by the Florida Hurricane Catastrophe Fund (FHCF), which are in turn payable by Citizens' insureds. Citizens collects the FHCF assessments from its insureds and remits them to the FHCF.

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 of Governors and the Office and levied by Citizens (see Note 14). Assessment receivables are considered to be fully collectible.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include FHCF, private catastrophe reinsurance purchases and depopulation premiums.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2014 or 2013.

Use of Estimates

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The carrying value of cash and cash equivalents, premiums receivable and other admitted assets approximates fair value given their short-term nature.

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. At December 31, 2014, approximately 57.7% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach. At December 31, 2014, approximately 12.8% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. See Note 14 for further information.

Concentration of Credit Risk

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. 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. As of December 31, 2014, management believes Citizens had no significant concentrations of credit risk.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain balances in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Subsequent Events

Subsequent events have been considered through May 29, 2015, the date of issuance of these statutory financial statements. There were no events, other than the events discussed below, occurring subsequent to the end of the year that merited recognition or disclosure in these statements.

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by Citizens' Board of Governors at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring future principal and interest of approximately \$400.5 million to a trusteed escrow account, from which all remaining future principal and interest payments will be made. Citizens is no longer legally obligated to make any future principal and interest payments to the bondholders. The recognition of future interest expenses was accelerated and recognized as a loss on defeasance within the January 2015 financial statements. The net effect on policyholders' surplus, as a result of the defeasance, is an increase of approximately \$1.6 million.

Effective March 5, 2015, the Office issued an order terminating the 2005 Emergency Assessment thereby requiring all insurers that are required to collect the 2005 Emergency Assessment (including Citizens) to cease collections by July 1, 2015 on both new and renewal policies. This order was issued following the decision by Citizens' Board of Governors to terminate the assessment in connection with the legal defeasance of Citizens' 2007A post-event bonds.

NOTE 3 – 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. 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 Citizens' 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.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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. During the current reporting period, no such transfers occurred.

At December 31, 2014, all bonds held by Citizens are categorized as Level 2. Citizens has no assets that are financial instruments categorized as Level 3 and Citizens has no liability-based financial instruments.

NOTE 4 – 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 will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- Liquidity Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund.
- Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Investment Policy and Impairment (Continued)

Citizens did not recognize any other-than-temporary impairments for the years ended December 31, 2014 or 2013. 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. In addition, Citizens nonadmitted \$36.1 million and \$61.3 million of invested assets at December 31, 2014 and 2013, respectively, that were rated as 5 or 6 by the SVO, pursuant to Florida statutes (see Note 2).

The investment policy requires any repurchase agreement be collateralized 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, 2014 and 2013.

Short-term Investments

Citizens' short-term investments include shares held in the SBA Florida Prime. At December 31, 2014 and 2013, \$0 and \$9.4 million, respectively, was invested in the SBA Florida Prime Fund B, which has been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid assets. During 2014 and 2013, Citizens received principal recoveries of \$4.7 million and \$7.6 million, respectively.

As principal and interest payments are received, Citizens' allocable portion is eligible for withdrawal and such withdrawals have been consistently made. Citizens withdrew \$14.1 million and \$22.7 million, during 2014 and 2013, respectively.

The following table presents, at December 31, 2014, securities for which an other-than-temporary impairment (OTTI) has been recognized in reporting periods prior to the year ended December 31, 2014, classified on the basis of lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis (*in thousands*).

Amortized Cost <i>Before OTTI</i>	OTTI Recognized	Amortized Cost <i>After OTTI</i>	Fair Value
\$ 366,230	\$ 260,573	\$ 105,657	\$ 157,775

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

The amortized cost (net of nonadmitted securities), gross unrealized gains and losses and fair value of bonds at December 31, 2014, were as follows (*in thousands*):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Bonds:				
U.S. Treasury and U.S.				
Government Securities	\$ 1,547,514	\$ 1,343	\$ (1,680)	\$ 1,547,177
All Other Government	53,986	242	(78)	54,150
States, Territories and				
Possessions	817,019	5,125	(502)	821,642
Political Subdivisions of States,				
Territories and Possessions	864,537	4,718	(485)	868,770
Special Revenue	4,371,161	16,584	(4,559)	4,383,186
Industrial & Miscellaneous	4,318,112	29,557	(6,661)	4,341,008
Mortgage-backed Securities	249,565	1,650	(123)	251,092
Total	\$ 12,221,894	\$ 59,219	\$ (14,088)	\$ 12,267,025

The amortized cost (net of nonadmitted securities), gross unrealized gains and losses and fair value of bonds at December 31, 2013, were as follows (*in thousands*):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Bonds:				
U.S. Treasury and U.S.				
Government Securities	\$ 1,472,271	\$ 1,988	\$ (5,996)	\$ 1,468,263
All Other Government	23,775	47	(68)	23,754
States, Territories and				
Possessions	1,067,801	9,733	(727)	1,076,807
Political Subdivisions of States,				
Territories and Possessions	992,980	8,601	(606)	1,000,975
Special Revenue	4,876,572	26,746	(8,745)	4,894,573
Industrial & Miscellaneous	4,209,409	46,981	(15,552)	4,240,838
Mortgage-backed Securities	186,181	1,247	(420)	187,008
Total	\$ 12,828,989	\$ 95,343	\$ (32,114)	\$ 12,892,218

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

The unrealized loss position of bonds at December 31, 2014 was as follows (*in thousands*):

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
U.S. Treasury and U.S. Government Securities	\$ 646,971	\$ (639)	\$ 131,522	\$ (1,041)	\$ 778,493	\$ (1,680)
All Other Government States, Territories and Possessions	16,246	(78)	-	-	16,246	(78)
Political Subdivisions of States, Territories and Possessions	118,246	(472)	13,948	(30)	132,194	(502)
Special Revenue	148,774	(481)	1,671	(4)	150,445	(485)
Industrial & Miscellaneous	1,203,673	(3,948)	90,843	(611)	1,294,516	(4,559)
Mortgage-backed Securities	1,508,886	(4,969)	235,522	(1,692)	1,744,408	(6,661)
	54,331	(111)	19,055	(12)	73,386	(123)
Total	\$ 3,697,127	\$ (10,698)	\$ 492,561	\$ (3,390)	\$ 4,189,688	\$ (14,088)

The unrealized loss position of bonds at December 31, 2013 was as follows (*in thousands*):

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
U.S. Treasury and U.S. Government Securities	\$ 568,102	\$ (5,203)	\$ 49,003	\$ (793)	\$ 617,105	\$ (5,996)
All Other Government States, Territories and Possessions	5,922	(68)	1,017	-	6,939	(68)
Political Subdivisions of States, Territories and Possessions	151,760	(681)	29,709	(46)	181,469	(727)
Special Revenue	82,921	(373)	57,084	(233)	140,005	(606)
Industrial & Miscellaneous	803,161	(3,444)	465,299	(5,300)	1,268,460	(8,745)
Mortgage-backed Securities	886,105	(12,203)	382,064	(3,350)	1,268,169	(15,552)
	55,687	(342)	29,635	(78)	85,322	(420)
Total	\$ 2,553,658	\$ (22,314)	\$ 1,013,811	\$ (9,800)	\$ 3,567,469	\$ (32,114)

There were 675 and 500 bond holdings in an unrealized loss position at December 31, 2014 and 2013, respectively.

Proceeds from maturities and sales of bonds during 2014 were \$8.0 billion with gross realized gains of \$35.4 million and gross realized losses of \$3.9 million and during 2013 were \$7.6 billion with gross realized gains of \$36.7 million and gross realized losses of \$4.1 million.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

The amortized cost (net of nonadmitted securities) and fair value of securities at December 31, 2014, by contractual maturity, are shown below (*in thousands*). 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.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity:		
In 2015	\$ 1,301,673	\$ 1,306,706
2016 - 2019	10,411,634	10,440,709
2020 - 2024	41,707	41,865
After 2024	217,315	226,653
Mortgage-backed Securities	249,565	251,092
Total	<u>\$ 12,221,894</u>	<u>\$ 12,267,025</u>

Sources and uses of net investment income (expense) for the years ended December 31, 2014 and 2013, were as follows (*in thousands*):

	<u>2014</u>	<u>2013</u>
Interest income		
Bonds	\$ 133,341	\$ 132,299
Cash, cash equivalents, and short-term investments	1,687	2,809
Total investment income	<u>135,028</u>	<u>135,108</u>
Investment expenses	<u>(6,493)</u>	<u>(6,668)</u>
Net interest income	128,535	128,440
Capital gains		
Bonds	31,514	32,515
Cash, cash equivalents, and short-term investments	21,987	20,313
Net realized gain on sales	<u>53,501</u>	<u>52,828</u>
Interest expense	<u>(180,835)</u>	<u>(200,711)</u>
Net investment income (expense)	<u><u>\$ 1,201</u></u>	<u><u>\$ (19,443)</u></u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Restricted Assets

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

Restricted Asset Category	Gross Restricted			Total Current Year Admitted	Percentage	
	Total from Current Year	Total from Prior Year	Increase (Decrease)		Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Pledged as collateral not captured in other categories	\$ 1,087,145	\$ 707,295	\$ 379,850	\$1,087,145	7.81%	7.81%
On deposit with state	-	9,381	(9,381)	-	0.00%	0.00%
Other restricted assets	25,348	15,339	10,009	25,348	0.20%	0.20%
Total restricted assets	\$ 1,112,493	\$ 732,015	\$ 380,478	\$1,112,493	8.01%	8.01%

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.

NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and LAE reserves for the years ended December 31, 2014 and 2013, was as follows (*in thousands*):

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 1,256,773	\$ 1,419,055
Incurred related to:		
Current accident year	525,725	684,549
Prior accident years	114,365	65,876
	<u>640,090</u>	<u>750,425</u>
Paid related to:		
Current accident year	272,399	352,354
Prior accident years	591,476	560,353
	<u>863,875</u>	<u>912,707</u>
Balance at end of year	<u>\$ 1,032,988</u>	<u>\$ 1,256,773</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

**NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE
RESERVES (CONTINUED)**

As a result of changes in estimates of insured events in prior years, primarily due to the re-estimation of costs within the PLA relating to accident years 2010 and 2011 litigated sinkhole and water loss claims, the provision for loss and LAE increased by approximately \$114.4 million and \$65.9 million, net of reinsurance, in 2014 and 2013, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims. During 2014 and 2013, ceded loss amounts with respect to reinsurance recoverable on paid losses and LAE was \$1.4 million and \$6.7 million, respectively.

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 per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as loss adjustment expenses.

NOTE 6 – 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 considered as 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 \$2.849 billion and \$1.699 billion in the Coastal Account and PLA/CLA, respectively, for 2014, and \$3.043 billion and \$2.203 billion in the Coastal Account and PLA/CLA, respectively, for 2013. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled \$3.269 billion and \$1.851 billion for 2014 and 2013, respectively.

The effect of reinsurance on premiums written and earned is as follows (*in thousands*):

	2014		2013	
	Written	Earned	Written	Earned
Direct premiums	\$ 2,083,870	\$ 2,374,093	\$ 2,761,638	\$ 2,954,580
Ceded premiums	(1,103,934)	(996,252)	(1,059,530)	(1,073,819)
Net premiums	<u>\$ 979,936</u>	<u>\$ 1,377,841</u>	<u>\$ 1,702,108</u>	<u>\$ 1,880,761</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 6 – REINSURANCE AGREEMENTS (CONTINUED)

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10), as well as premium ceded under 100% private quota share arrangements. Ceded losses and LAE incurred were (\$2.5) million and \$2.3 million during 2014 and 2013, respectively.

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

NOTE 7 – 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 (*in thousands*):

Bond Issue	Issuance Date	Face Value	Carrying Value	Stated Interest Rate	Current Year Principal Paid	Current Year Interest Paid
Series 2007A Senior Secured Refunding Bonds (Post-event HRA)	February 26, 2007	\$ 388,930	\$ 392,832	3.750% - 5.000%	\$ 117,220	\$ 20,379
Series 2009A-1 Senior Secured Bonds (Pre-event HRA)	May 7, 2009	746,585	748,244	4.000% - 6.000%	168,055	46,358
Series 2010A-1 Senior Secured Bonds (Pre-event HRA)	April 6, 2010	1,240,000	1,252,182	3.000% - 5.250%	100,000	63,207
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	July 14, 2011	645,000	654,932	3.000% - 5.000%	-	31,577
Series 2011A-3 Senior Secured Bonds (Pre-event HRA)	July 14, 2011	-	-	SIFMA plus 1.65%	150,000	1,278
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	June 21, 2012	1,100,000	1,172,446	3.000% - 5.000%	-	54,779
Series 2012A-3 Senior Secured Bonds (Pre-event PLA/CLA)	June 21, 2012	200,000	200,000	SIFMA plus 1.25%	-	2,606
Total		\$ 4,320,515	\$ 4,420,636		\$ 535,275	\$220,184

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 7 – BONDS PAYABLE (CONTINUED)

A schedule of bond maturities is as follows (*in thousands*):

Years Ending December 31	Series 2007 Bonds	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2012 Bonds	Total
2015	\$ 123,225	\$ -	\$ 410,000	\$ 80,000	\$ 275,000	\$ 888,225
2016	129,540	403,085	305,000	90,000	125,000	1,052,625
2017	136,165	343,500	525,000	-	130,000	1,134,665
2018	-	-	-	125,000	130,000	255,000
2019	-	-	-	175,000	160,000	335,000
After	-	-	-	175,000	480,000	655,000
	\$ 388,930	\$ 746,585	\$ 1,240,000	\$ 645,000	\$ 1,300,000	\$ 4,320,515

A schedule of debt service requirements, including principal and interest, is as follows (*in thousands*):

Years Ending December 31	Principal	Interest	Total
2015	\$ 888,225	\$ 189,633	\$ 1,077,858
2016	1,052,625	141,663	1,194,288
2017	1,134,665	84,491	1,219,156
2018	255,000	54,483	309,483
2019	335,000	39,480	374,480
After	655,000	37,423	692,423
	\$ 4,320,515	\$ 547,173	\$ 4,867,688

Unamortized premium at December 31, 2014 and 2013 was \$100.1 million and \$139.2 million, respectively.

NOTE 8 – 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 \$4.2 million and \$3.8 million for the years ended December 31, 2014 and 2013, respectively.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 9 – 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 \$169.8 million and \$224.0 million during 2014 and 2013, 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 \$50.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$5.9 million and \$8.8 million, during 2014 and 2013, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

NOTE 10 – 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 (Assumption Agreement). 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 2014 and 2013, Citizens ceded \$455.0 million and \$387.6 million, respectively, in premiums to Takeout Companies pursuant to Assumption Agreements.

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 (unless the assumed insured exercises its option to return to Citizens during the assumption period), Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2014 and 2013, net assumed premiums receivable in the amount of \$32.7 million and \$27.1 million, respectively, were due from certain Takeout Companies.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 11 – OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7.3 million and \$8.5 million for the years ended December 31, 2014 and 2013, 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. Future minimum payments under operating leases are as follows (*in thousands*):

2015	\$ 4,873
2016	2,578
2017	2,035
2018	1,122
2019	<u>935</u>
Total	<u>\$ 11,543</u>

NOTE 12 – 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.

In September 2013, Citizens received a subpoena from the Securities and Exchange Commission (SEC) requesting information relating to catastrophe bonds issued by Everglades Re Ltd. in 2012 and 2013. Citizens is voluntarily cooperating with the SEC and is of the belief that any action by the SEC will not materially affect the financial condition of Citizens.

A summary of potentially significant litigation follows:

Davis & Hernandez v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who presented a claim for damage to their residential property from April 2006 to present. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits. Citizens responded to Plaintiff's Third Amended Complaint on October 2, 2013 and litigation is moving forward. Following 10 months of inactive record activity, the court signed its Notice of Failure to Prosecute. In response, Plaintiff filed a Motion for Leave to Amend attaching a proposed 4th Amended Complaint. Citizens responded that it had no objection to the 4th amended complaint, but requested that the court order prohibit any further amendments.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2014 and 2013, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general 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.

NOTE 13 – RECONCILIATION OF SAP TO GAAP

A reconciliation of Citizens' 2014 and 2013 statutory basis net income and accumulated surplus to its GAAP basis (as determined by the Governmental Accounting Standards Board) is as follows (*in thousands*):

	2014	2013
Net income - statutory basis	\$ 351,122	\$ 665,346
Adjustments:		
Change in allowance for doubtful accounts	(1,359)	1,814
Change in FIGA assessment income	6,250	16,046
Change in net unrealized gain on investments	(26,052)	(68,937)
Change in net position - GAAP basis	<u>\$ 329,961</u>	<u>\$ 614,269</u>

	2014	2013
Accumulated surplus - statutory basis	\$ 7,384,028	\$ 7,008,208
Adjustments:		
Nonadmitted assets	49,460	74,590
Provision for reinsurance	556	1,881
FIGA assessment recoverable	(5,463)	(11,714)
Net unrealized gain on investments	77,170	103,222
Net position - GAAP basis	<u>\$ 7,505,751</u>	<u>\$ 7,176,187</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 14 – ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the Citizens Policyholder Surcharge) in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premium. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on assessable insurers and assessable insureds.

The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 2% of such premium of the Coastal account only.

Regular Assessments are levied on assessable insurers, as defined in Section 627.351(6), Florida Statutes, based upon each assessable insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on assessable insurers, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

If the deficit in any year in any account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all assessable insurers, Surplus Lines Agents, and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs.

In November 2012, Citizens received notice of an assessment from the Florida Insurance Guaranty Association (FIGA) totaling \$27.8 million. Amounts recouped from policyholders relating to this assessment were \$6.3 million and \$16.1 million during 2014 and 2013, respectively.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 14 – ASSESSMENTS (CONTINUED)

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015 (see Note 2). The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. However, as of December 31, 2014, Citizens collected approximately \$38.2 million in excess of the original Emergency Assessment receivable. Any current or remaining excess collections have been categorized as “Reserve for future assessments” and are included within Other liabilities on the statutory basis statements of admitted assets, liabilities and accumulated surplus until such time as Citizens’ Board of Governors approves a change to direct these excess collections to be used for any lawful purpose available within Citizens’ Plan of Operation.

NOTE 15 – RECONCILIATION TO ANNUAL STATEMENT

The following table reconciles net income and accumulated surplus as reported in these audited financial statements to the corresponding figures reported in Citizens’ annual statement as of and for the year ended December 31, 2014 (*in thousands*):

	Net income	Accumulated surplus
Per NAIC annual statement	\$ 386,959	\$ 7,384,028
Reclassification adjustment	(35,837)	-
Per audited financial statements	<u>\$ 351,122</u>	<u>\$ 7,384,028</u>

The adjustment noted above related to a reclassification of changes reported to the 2005 emergency assessment receivable from a direct adjustment to surplus to assessment expense within the statement of income. The adjustment had no effect on accumulated surplus.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Admitted Assets, Liabilities and
Accumulated Surplus by Account – Statutory Basis

December 31, 2014

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
	<i>(in thousands)</i>			
Admitted assets				
Cash and invested assets:				
Bonds	\$ 12,221,894	\$ 4,371,407	\$ 1,754,671	\$ 6,095,816
Cash and short-term investments	1,456,597	159,208	190,916	1,106,473
Total cash and invested assets	<u>13,678,491</u>	<u>4,530,615</u>	<u>1,945,587</u>	<u>7,202,289</u>
Investment income due and accrued	74,222	22,948	6,812	44,462
Premiums receivable	117,842	38,234	5,789	73,819
Reinsurance recoverable on paid losses and LAE	923	556	-	367
Other receivables under reinsurance contracts	32,654	19,622	4,878	8,154
Assessment receivable	5,530	4,212	753	565
Other admitted assets	4,586	4,441	16	129
Inter-account receivable (payable)	-	213,500	(36,757)	(176,743)
Total admitted assets	<u>\$ 13,914,248</u>	<u>\$ 4,834,128</u>	<u>\$ 1,927,078</u>	<u>\$ 7,153,042</u>
Liabilities and accumulated surplus				
Liabilities:				
Loss reserves	\$ 738,068	\$ 531,764	\$ 114,201	\$ 92,103
Loss adjustment expense reserves	294,920	212,232	32,115	50,573
Retroactive reinsurance ceded	(1,466)	(1,366)	-	(100)
Unearned premiums	696,086	295,854	46,888	353,344
Unearned assessment income	19,326	-	-	19,326
Taxes and fees (receivable) payable	(1,035)	366	217	(1,618)
Provision for reinsurance	556	537	-	19
Bonds payable	4,420,636	1,206,793	165,654	3,048,189
Interest payable	22,540	4,207	577	17,756
Advance premiums and suspended cash	48,961	19,625	4,222	25,114
Other liabilities	291,628	76,553	3,770	211,305
Total liabilities	<u>6,530,220</u>	<u>2,346,565</u>	<u>367,644</u>	<u>3,816,011</u>
Accumulated surplus	7,384,028	2,487,563	1,559,434	3,337,031
Total liabilities and accumulated surplus	<u>\$ 13,914,248</u>	<u>\$ 4,834,128</u>	<u>\$ 1,927,078</u>	<u>\$ 7,153,042</u>

See independent auditors report on supplementary information

Citizens Property Insurance Corporation
Supplemental Combining Statement of Income by Account – Statutory Basis

Year Ended December 31, 2014

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
	<i>(in thousands)</i>			
Premiums earned	\$ 1,377,841	\$ 772,059	\$ 129,546	\$ 476,236
Losses incurred	441,155	344,094	22,159	74,902
Loss adjustment expenses incurred	198,935	141,948	8,198	48,789
Other underwriting expenses incurred	374,600	169,751	31,951	172,898
Underwriting income	<u>363,151</u>	<u>116,266</u>	<u>67,238</u>	<u>179,647</u>
Net interest income	128,535	44,279	17,417	66,839
Net realized gain on sales	53,501	15,980	7,994	29,527
Interest expense	<u>(180,835)</u>	<u>(33,665)</u>	<u>(4,621)</u>	<u>(142,549)</u>
Net investment income (expense)	1,201	26,594	20,790	(46,183)
Assessment expense	(19,020)	-	-	(19,020)
Other income	5,790	3,033	259	2,498
Net income	<u><u>\$ 351,122</u></u>	<u><u>\$ 145,893</u></u>	<u><u>\$ 88,287</u></u>	<u><u>\$ 116,942</u></u>

See independent auditors report on supplementary information

2014 ANNUAL STATEMENT FOR THE YEAR OF THE Citizens Property Insurance Corporation

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3+4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities	1,519,626,416	11.010	1,519,626,416		1,519,626,416	11.010
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies	27,887,317	0.202	27,887,317		27,887,317	0.202
1.22 Issued by U.S. government sponsored agencies	1,867,018,630	13.527	1,867,018,630		1,867,018,630	13.527
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	53,986,312	0.391	53,986,312		53,986,312	0.391
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	817,019,315	5.920	817,019,315		817,019,315	5.920
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	864,537,311	6.264	864,537,311		864,537,311	6.264
1.43 Revenue and assessment obligations	2,504,142,130	18.144	2,504,142,130		2,504,142,130	18.144
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	353,979	0.003	353,979		353,979	0.003
1.512 Issued or guaranteed by FNMA and FHLMC	94,671,238	0.686	94,671,238		94,671,238	0.686
1.513 All other						
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	154,539,601	1.120	154,539,601		154,539,601	1.120
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All other						
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	3,138,213,489	22.882	3,135,252,184		3,135,252,184	22.921
2.2 Unaffiliated non-U.S. securities (including Canada)	1,182,859,140	8.625	1,182,859,140		1,182,859,140	8.648
2.3 Affiliated securities						
3. Equity interests:						
3.1 Investments in mutual funds						
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated						
3.32 Unaffiliated						
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agricultural						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Mezzanine real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ _____ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ _____ property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities						
9. Securities Lending (Line 10, Asset Page reinvested collateral)				XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	1,489,733,846	10.862	1,456,597,060		1,456,597,060	10.649
11. Other invested assets						
12. Total invested assets	13,714,588,724	100.000	13,678,490,633		13,678,490,633	100.000

SUPPLEMENT FOR THE YEAR 2014 OF THE Citizens Property Insurance Corporation
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES
For The Year Ended December 31, 2014

(To Be Filed by April 1)

Of The Citizens Property Insurance Corporation _____

Address (City, State and Zip Code) Tallahassee, FL 32309-3524 _____

NAIC Group Code 00000 _____ NAIC Company Code 10064 _____ Employer's ID Number 59-3164851 _____

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. _____ \$ 13,914,246,792
2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	CITY OF NEW YORK NY	Bonds	\$ 239,584,037	1.7 %
2.02	STATE OF CALIFORNIA	Bonds	\$ 223,518,698	1.6 %
2.03	STATE OF NEW JERSEY	Bonds	\$ 204,705,456	1.5 %
2.04	STATE OF NEW YORK	Bonds	\$ 181,855,858	1.3 %
2.05	JPMORGAN CHASE & CO.	Bonds	\$ 133,404,969	1.0 %
2.06	STATE OF ILLINOIS	Bonds	\$ 126,688,983	0.9 %
2.07	STATE OF OHIO	Bonds	\$ 125,414,611	0.9 %
2.08	WELLS FARGO & CO.	Bonds	\$ 112,595,725	0.8 %
2.09	AMERICAN EXPRESS	Bonds	\$ 108,356,795	0.8 %
2.10	COMMONWEALTH OF PENNSYLVANIA	Bonds	\$ 108,080,311	0.8 %

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

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC 1	\$ 13,446,392,704	96.6 %	3.07	P/RP-1	\$ 0.0 %
3.02	NAIC 2	\$ 213,949,518	1.5 %	3.08	P/RP-2	\$ 0.0 %
3.03	NAIC 3	\$ 0	0.0 %	3.09	P/RP-3	\$ 0.0 %
3.04	NAIC 4	\$ 0	0.0 %	3.10	P/RP-4	\$ 0.0 %
3.05	NAIC 5	\$ 0	0.0 %	3.11	P/RP-5	\$ 0.0 %
3.06	NAIC 6	\$ 105,657,085	0.8 %	3.12	P/RP-6	\$ 0.0 %

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]

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

4.02 Total admitted assets held in foreign investments _____ \$ 925,259,417 _____ 6.6 %

4.03 Foreign-currency-denominated investments _____ \$ _____ _____ 0.0 %

4.04 Insurance liabilities denominated in that same foreign currency _____ \$ _____ _____ 0.0 %

SUPPLEMENT FOR THE YEAR 2014 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:				
	<u>1</u>	<u>2</u>		
5.01 Countries designated NAIC 1.....	\$ 875,085,197	6.3	%	
5.02 Countries designated NAIC 2.....	\$ 31,463,170	0.2	%	
5.03 Countries designated NAIC 3 or below.....	\$ 18,711,049	0.1	%	
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:				
	<u>1</u>	<u>2</u>		
Countries designated NAIC 1:				
6.01 Country 1: UNITED KINGDOM.....	\$ 221,754,480	1.6	%	
6.02 Country 2: FRANCE.....	\$ 188,142,812	1.4	%	
Countries designated NAIC 2:				
6.03 Country 1: MEXICO.....	\$ 26,544,843	0.2	%	
6.04 Country 2: PANAMA.....	\$ 4,918,327	0.0	%	
Countries designated NAIC 3 or below:				
6.05 Country 1: BRITISH VIRGIN ISLANDS.....	\$ 9,293,385	0.1	%	
6.06 Country 2: UKRAINE.....	\$ 1,600,000	0.0	%	
7. Aggregate unhedged foreign currency exposure.....				
	<u>1</u>	<u>2</u>		
	\$	0.0	%	
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:				
	<u>1</u>	<u>2</u>		
8.01 Countries designated NAIC 1.....	\$	0.0	%	
8.02 Countries designated NAIC 2.....	\$	0.0	%	
8.03 Countries designated NAIC 3 or below.....	\$	0.0	%	
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:				
	<u>1</u>	<u>2</u>		
Countries designated NAIC 1:				
9.01 Country 1:	\$	0.0	%	
9.02 Country 2:	\$	0.0	%	
Countries designated NAIC 2:				
9.03 Country 1:	\$	0.0	%	
9.04 Country 2:	\$	0.0	%	
Countries designated NAIC 3 or below:				
9.05 Country 1:	\$	0.0	%	
9.06 Country 2:	\$	0.0	%	
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	<u>Issuer</u>	<u>NAIC Designation</u>		
10.01 TOTAL CAPITAL INTERNATIONAL SA.....	1	\$ 73,153,697	0.5	%
10.02 SVENSKA HANDELSBANKEN AB.....	1	\$ 50,111,913	0.4	%
10.03 STATOIL ASA.....	1	\$ 48,485,362	0.3	%
10.04 BP CAPITAL MARKETS PLC.....	1	\$ 47,324,806	0.3	%
10.05 BNP PARIBAS SA.....	1	\$ 47,304,902	0.3	%
10.06 CREDIT SUISSE.....	1	\$ 47,031,622	0.3	%
10.07 WESTPAC BANKING CORP.....	1	\$ 43,958,589	0.3	%
10.08 GLAXOSMITHKLINE CAPITAL PLC.....	1	\$ 39,553,506	0.3	%
10.09 COOPERATIEVE CENTRALE RAIFFEISEN.....	1	\$ 31,946,070	0.2	%
10.10 DEUTSCHE BANK AG/LONDON.....	1	\$ 30,129,073	0.2	%

SUPPLEMENT FOR THE YEAR 2014 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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 ☒ No ☐

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

	<u>1</u>	<u>2</u>	
11.02 Total admitted assets held in Canadian investments.....	\$	0.0 %
11.03 Canadian-currency-denominated investments	\$	0.0 %
11.04 Canadian-denominated insurance liabilities.....	\$	0.0 %
11.05 Unhedged Canadian currency exposure	\$	0.0 %

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 ☐ No ☐

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	<u>1</u>	<u>2</u>	<u>3</u>	
12.02 Aggregate statement value of investments with contractual sales restrictions	\$	0.0 %
Largest three investments with contractual sales restrictions:				
12.03	\$	0.0 %
12.04	\$	0.0 %
12.05	\$	0.0 %

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u> <u>Issuer</u>	<u>2</u>	<u>3</u>	
13.02	\$	0.0 %
13.03	\$	0.0 %
13.04	\$	0.0 %
13.05	\$	0.0 %
13.06	\$	0.0 %
13.07	\$	0.0 %
13.08	\$	0.0 %
13.09	\$	0.0 %
13.10	\$	0.0 %
13.11	\$	0.0 %

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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 [] No []

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	<u>1</u>	<u>2</u>	<u>3</u>	
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$	0.0	%
Largest three investments held in nonaffiliated, privately placed equities:				
14.03	\$	0.0	%
14.04	\$	0.0	%
14.05	\$	0.0	%

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 [] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>	<u>2</u>	<u>3</u>	
15.02 Aggregate statement value of investments held in general partnership interests	\$	0.0	%
Largest three investments in general partnership interests:				
15.03	\$	0.0	%
15.04	\$	0.0	%
15.05	\$	0.0	%

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 than 2.5% of the reporting entity's total admitted assets? Yes [] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	<u>1</u>	<u>2</u>	<u>3</u>	
<u>Type (Residential, Commercial, Agricultural)</u>				
16.02	\$	0.0	%
16.03	\$	0.0	%
16.04	\$	0.0	%
16.05	\$	0.0	%
16.06	\$	0.0	%
16.07	\$	0.0	%
16.08	\$	0.0	%
16.09	\$	0.0	%
16.10	\$	0.0	%
16.11	\$	0.0	%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction loans	\$	0.0 %
16.13	Mortgage loans over 90 days past due	\$	0.0 %
16.14	Mortgage loans in the process of foreclosure	\$	0.0 %
16.15	Mortgage loans foreclosed	\$	0.0 %
16.16	Restructured mortgage loans	\$	0.0 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.02 91% to 95%	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.03 81% to 90%	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.04 71% to 80%	\$	0.0 %	\$	0.0 %	\$	0.0 %
17.05 below 70%	\$	0.0 %	\$	0.0 %	\$	0.0 %

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 ☐ No ☐

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description			
1	2	3	
18.02	\$	0.0	%
18.03	\$	0.0	%
18.04	\$	0.0	%
18.05	\$	0.0	%
18.06	\$	0.0	%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments 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 total admitted assets? Yes ☐ No ☐

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

19.02 Aggregate statement value of investments held in mezzanine real estate loans: \$ 0.0 %

Largest three investments held in mezzanine real estate loans:

19.03	\$	0.0	%
19.04	\$	0.0	%
19.05	\$	0.0	%

SUPPLEMENT FOR THE YEAR 2014 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
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:

	<u>Owned</u>			<u>Written</u>		
	<u>1</u>	<u>2</u>		<u>3</u>	<u>4</u>	
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:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
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 exposure for futures contracts:

	<u>At Year-end</u>			<u>At End of Each Quarter</u>		
	<u>1</u>	<u>2</u>		<u>1st Qtr</u> <u>3</u>	<u>2nd Qtr</u> <u>4</u>	<u>3rd Qtr</u> <u>5</u>
23.01 Hedging	\$	0.0	%	\$	\$	\$
23.02 Income generation	\$	0.0	%	\$	\$	\$
23.03 Replications	\$	0.0	%	\$	\$	\$
23.04 Other	\$	0.0	%	\$	\$	\$

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APPENDIX L

AUDITED FINANCIAL STATEMENTS – GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR YEARS ENDED DECEMBER 31, 2014 AND 2013

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Citizens Property Insurance Corporation

Financial Statements

December 31, 2014 and 2013

Citizens Property Insurance Corporation
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Independent Auditor's Report

To the Board of Governors and Management
Citizens Property Insurance Corporation

Report on the Financial Statements

We have audited the accompanying statements of net position of Citizens Property Insurance Corporation ("Citizens"), a component unit of the State of Florida, as of December 31, 2014 and 2013, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information – Management’s Discussion and Analysis and Supplemental Revenues, Expenses and Claim Development Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3–11 and the Supplemental Revenues, Expenses and Claim Development Information on page 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information – Supplemental Combining Statements

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Company’s basic financial statements. The supplemental combining statements of net position and of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental statements referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report on dated May 29, 2015 on our consideration of Citizens internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company’s internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in dark ink and is positioned above the typed name and date.

Jacksonville, Florida
May 29, 2015

Citizens Property Insurance Corporation

Management's Discussion & Analysis

This discussion provides an assessment by management of the current financial position and results of operations for Citizens Property Insurance Corporation (Citizens). Management encourages readers to consider the information presented here in conjunction with additional information included in the accompanying financial statements, notes to the financial statements and supplemental financial information.

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by \$7.5 billion.
- Citizens' total net position increased by \$329.6 million. This increase is largely attributable to net income as further explained below.
- Operating income decreased \$305.5 million during 2014 compared to 2013. This decrease is primarily the result of a decrease of \$502.9 million in net earned premiums due to significant depopulation activity.
- Operating expenses decreased \$197.4 million during 2014 compared to 2013. This decrease is primarily the result of the overall decrease in premiums written and earned as compared to 2013.
- Non-operating expenses decreased \$21.2 million during 2014 compared to 2013 primarily as a result of a net increase in net investment income of \$43.7 million. Interest expense on outstanding debt also decreased by \$19.9 million during 2014 as compared to 2013.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to Citizens' basic financial statements, which consist of the statements of net position, statements of revenues, expenses and changes in net position and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net position* present information on all of Citizens' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of Citizens is improving or deteriorating.

The *statements of revenues, expenses and changes in net position* present information illustrating changes to Citizens' net position during the most recent fiscal year as well as the prior year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Overview of Financial Statements (Continued)

The *statements of cash flows* present information concerning cash receipts and cash payments during the year. The statements illustrate the cash effects of operating, noncapital financing, capital financing and investing activities during the fiscal years presented.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements immediately follow the statements of cash flows.

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning Citizens' revenues, expenses and claims development information for the last ten policy years and combining financial statements.

Reclassifications and Change in Accounting Principle

During the first quarter of 2014, Citizens discontinued the practice of reclassifying certain invested assets between cash and cash equivalents, short-term investments and long-term investments based on remaining maturity at the balance sheet date. Citizens now categorizes all such investments based on remaining maturity at the date of acquisition. The balances within the three categories of invested assets have been reclassified as of December 31, 2013 in order to provide comparability to the presentation within the December 31, 2014 statement of net position. A summary of the effect of the reclassification is included in the exhibit on the following page as of December 31, 2013.

During 2014, Citizens adopted Governmental Accounting Standards Board (GASB) Statement No. 65. In summary, Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities. In doing so, the statement disallows the recognition of certain line items that have historically been reported within Citizens' statements of net position. Transition guidance provides that the effects of the statement be applied retroactively by restating financial statements for all periods presented, with the cumulative effect of the statement reported as an adjustment to net position within the earliest period presented. The effects on Citizens' December 31, 2013 financial statements are summarized in the exhibit below.

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Reclassifications and Change in Accounting Principle (Continued)

	Original Balance 12/31/2013	Change in Accounting Principle - GASB 65	Reclassification of Investments	Restated as of 12/31/2013
Cash and cash equivalents	\$ 1,180,598	\$ -	\$ (1,251,524)	\$ (70,926)
Short-term investments	1,690,797	-	(35,139)	1,655,658
Deferred policy acquisition costs	113,371	(113,371)	-	-
Deferred financing costs	67,432	(67,432)	-	-
Long-term investments	11,601,585	-	1,286,663	12,888,248
Unearned assessment income	(67,313)	23,712	-	(43,601)
Assessment income	56,442	(14,229)	-	42,213
Other underwriting expenses *	(492,492)	30,808	-	(461,684)
Interest expense	(217,432)	16,721	-	(200,711)
Line of credit fees and note issuance costs	(6,575)	6,575	-	-
Net position	(7,333,278)	157,091	-	(7,176,187)

* Includes servicing company fees, agent commissions, taxes and fees, processing and other fees and other underwriting expenses.

Certain other balances in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

A summary of Citizens' Statements of Net Position is presented below (*in thousands*):

	2014	2013	Change (%)
Assets			
Current assets	\$ 2,063,533	\$ 2,060,270	0%
Capital assets	8,079	12,362	-35%
Other noncurrent assets	12,273,797	13,061,344	-6%
Total assets	<u>\$ 14,345,409</u>	<u>\$ 15,133,976</u>	<u>-5%</u>
Liabilities			
Current liabilities	\$ 3,561,452	\$ 3,513,931	1%
Noncurrent liabilities	3,278,206	4,443,858	-26%
Total liabilities	<u>6,839,658</u>	<u>7,957,789</u>	<u>-14%</u>
Net position			
Invested in capital assets	8,079	12,632	-36%
Restricted	25,348	15,339	65%
Unrestricted	7,472,324	7,148,216	5%
Total net position	<u>7,505,751</u>	<u>7,176,187</u>	<u>5%</u>
Total liabilities and net position	<u>\$ 14,345,409</u>	<u>\$ 15,133,976</u>	<u>-5%</u>

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis

Assets

Total assets decreased \$788.6 million, or 5%, during 2014 primarily due to repayments of principal on notes payable and a decrease in net premium receipts as compared to 2013. During 2013, total assets decreased \$773.3 million, or 5%, primarily due to repayments of principal on the 2007A, 2010A, and 2012A series debt obligations and payments for losses and loss adjustment expenses (LAE), partially offset by collections of net premiums during 2013. Certain investments, representing less than 1% of total cash and invested assets, continue to be held in legacy assets for which Citizens continues to receive payments of principal and interest.

Current assets include cash, cash equivalents, and short-term investments of \$1.5 billion and \$1.6 billion at December 31, 2014 and 2013, respectively. Long-term investments totaled \$12.3 billion and \$12.9 billion at December 31, 2014 and 2013, respectively. The decrease in invested assets of \$696.6 million is the result of repayments of principal on debt obligations, payments for losses and LAE and a decrease in net premiums collected of \$692.9 million, primarily as a result of depopulation. During 2013, invested assets decreased \$570.2 million as a result of principal and interest payments on outstanding debt in addition to loss and LAE payments of \$912.7 million.

Capital assets decreased \$4.3 million during 2014, primarily as a result of the recognition of depreciation expenses of \$6.6 million, partially offset by capital acquisitions. Capital assets decreased \$4.1 million, or 25%, during 2013. This decrease is primarily due to cyclical reduction in capital asset purchases as well as depreciation on capital assets purchased during prior years.

Liabilities

Total liabilities decreased \$1.1 billion, or 14%, during 2014. This decrease is largely the result of decreases in long-term debt as well as decreases in net loss and LAE reserves and unearned premiums. During 2013, total liabilities decreased \$1.4 billion, or 15%, primarily as a result of a decrease of \$871.5 million in debt obligations outstanding.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, unearned premium, and the current portion of long-term debt. Loss and LAE reserves decreased \$223.6 million during 2014. Loss and LAE reserves decreased \$393.5 million, or 11%, from 2012 to 2013. Net loss and LAE reserves related to the 2004 and 2005 hurricanes were \$45.6 million and \$68.2 million as of December 31, 2014 and 2013, respectively. It is expected that these loss and LAE reserves will continue to run-off into 2015 and likely beyond.

Loss and LAE reserves not related to hurricanes decreased by \$201 million to \$985.9 million as of December 31, 2014 from \$1.19 billion at December 31, 2013 (\$1.33 billion as of December 31,

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis (Continued)

Liabilities (Continued)

2012). The decrease is the result of a decrease in exposure and the number of reported claims, partially offset by adverse development on reported sinkhole claims.

Unearned premiums decreased \$290 million and \$193 million as compared to the prior year end as of December 31, 2014 and 2013, respectively. These decreases are consistent with an overall decrease in direct premiums written as a result of successful depopulation and the implementation of the Clearinghouse Program.

Operating Revenue

A summary of Citizens Statements of Revenues, Expenses and Changes in Net Position and certain key financial ratios are presented below (*in thousands*):

	<u>2014</u>	<u>2013</u>	<u>Change (%)</u>
Operating revenue			
Premiums earned	\$ 1,377,841	\$ 1,880,761	-27%
Operating expenses			
Losses and loss adjustment expenses incurred	640,090	750,426	-15%
Other underwriting expenses	374,600	461,684	-19%
Total expenses	<u>1,014,690</u>	<u>1,212,110</u>	<u>-16%</u>
Operating income	363,151	668,651	-46%
Non-operating revenues (expenses)	<u>(33,190)</u>	<u>(54,382)</u>	<u>-39%</u>
Change in net position	<u>\$ 329,961</u>	<u>\$ 614,269</u>	<u>-46%</u>
Policies in-force	661,161	1,021,694	-35%
Policies serviced	<u>1,358,040</u>	<u>1,589,628</u>	<u>-15%</u>
Underwriting ratios			
Loss and LAE ratio (calendar year)	46%	40%	6%
Expense ratio	27%	25%	2%
Combined ratio	73%	65%	8%

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis (Continued)

Operating Revenue (Continued)

Direct written premiums decreased approximately \$677.8 million, or 25%, for the year ended December 31, 2014 compared to 2013. The decrease is the result of a continued decrease in policies in-force (35%) due to successful depopulation during the last quarter of 2013 and in total for 2014. Direct written premiums decreased approximately \$419.1 million, or 13%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This decrease is the result of a 22% decrease in policies in-force due to high depopulation during 2013, partially offset by the continued implementation of the glide path rate increase. Coverage reductions or removals implemented in mid-2012 have also contributed to an overall decrease in direct written premiums.

Premiums ceded to the FHCF decreased \$45.8 million for the year ended December 31, 2014 as compared to 2013 (\$345.1 million to \$390.9 million). This decrease is primarily the result of a decrease in exposure and policies in-force due to depopulation and the implementation of the Clearinghouse Program. Likewise, FHCF premiums ceded decreased \$84.3 million for the year ended December 31, 2013 as compared to 2012 as a result of a decrease in exposure for eligible risks.

Ceded premiums to private reinsurers increased \$22.8 million, or 8%, for the year ended December 31, 2014. This increase is primarily driven by an increase in the amount of coverage purchased through traditional and capital markets (\$3.2 billion vs. \$1.85 billion), partially offset by decreases in the relative cost of coverage purchased. For the year ended December 31, 2013, ceded premium to private reinsurers decreased \$53.0 million, or 16% as compared to 2012. Citizens entered into catastrophe excess of loss reinsurance treaties with private reinsurers in both 2013 and 2012. The amount of risk transferred in 2012 was \$1.5 billion as compared to the amount of risk transferred in 2013 of \$1.85 billion, reflecting an overall decrease in the cost of reinsurance purchased during 2013.

Ceded written premiums to takeout companies increased \$67.4 million and \$125.5 million during 2014 and 2013 as compared to their respective prior years. These increases were the result of record depopulation activity in which 416,623 and 365,767 policies were removed through depopulation in 2014 and 2013, respectively.

Operating Expenses

Losses and LAE incurred decreased \$110.3 million, or 15%, during 2014 as compared to 2013. This decrease is primarily the result of a significant decrease in exposure due to the removal of risks through depopulation in addition to modest favorable development on catastrophe related loss and LAE claims. Losses and LAE incurred decreased \$323.2 million, or 30%, during 2013 compared to 2012. A reduction in the number of reported sinkhole claims, minimal development of prior year sinkhole reserves, and a relatively modest storm season all contributed to the reduction in losses and LAE incurred.

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Financial Analysis (Continued)

Operating Expenses (Continued)

Underwriting expenses, excluding losses and LAE incurred, decreased \$87 million and \$100.8 million during the years ended December 31, 2014 and 2013, respectively, as compared to the prior year. Certain underwriting expenses such as agent commissions and premium taxes, are incurred as a percentage of direct written premium and will increase or decrease proportionately.

Non-operating Expenses

Non-operating expenses consist mainly of assessment income (expense), net investment income, and interest expense. Non-operating expenses decreased \$21.2 million for the year ended December 31, 2014 as compared to 2013 and decreased \$165.3 million during 2013 compared to 2012. The decreases are primarily the result of changes in net investment income and assessment income (expense). For each 2014 and 2013, net investment income included a decrease in net unrealized gains, which represents the difference between fair value and amortized cost of all invested assets. Net decreases in unrealized holding gains were \$26 million and \$69 million for 2014 and 2013, respectively.

Economic Factors

Citizens' management performs an evaluation of pre-event liquidity needs in advance of each hurricane season. As a governmental entity, Citizens has the ability to issue municipal debt on a taxable or tax-exempt basis. Pre-event bond proceeds may be accessed as needed and as permitted by the bond documents. Bank credit lines may also be a component of the pre-event liquidity program. As described in Note 7 Citizens issued fixed rate tax-exempt debt in 2012, 2011, 2010, 2009, and 2008 to fulfill its liquidity needs.

Citizens' bond ratings are A1 / A+ / AA- from Moody's / Standard & Poor's / Fitch. Citizens' Short-Term ratings are MIG1 / SP-1+ / F-1+ from Moody's / Standard & Poor's / Fitch. In 2012, Moody's, Standard & Poor's and Fitch have Stable outlooks on Citizens' credit ratings for all business lines. The ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York, New York, 10041; and Fitch, Inc., One State Street Plaza, New York, NY 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant.

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Economic Factors (Continued)

During 2014, management continued to administer programs designed to reduce the number of policies written by Citizens. Citizens' statutory mission includes providing property insurance to applicants who are in good faith entitled to obtain affordable insurance through the voluntary market but are unable to do so. Citizens' depopulation program is designed to return policies to the voluntary market. The private market has responded by removing policies from the Personal Lines Account, the Commercial Lines Account and the Coastal Account; depopulation tends to be most significant for the Personal Lines Account. During the last five years, policy counts removed from the PLA, CLA and Coastal Account were as follows:

	<u>PLA</u>	<u>CLA</u>	<u>Coastal Account</u>
2014	323,167	2,493	90,963
2013	301,383	-	64,384
2012	252,968	-	24,034
2011	45,827	-	7,750
2010	57,561	-	2,231

Depopulation activity for the year ended 2014 exceeded that of any prior year on record for Citizens, with approximately 78% of the policies removed being in the PLA. The year ended December 31, 2014 was the first in recent history in which policies were removed from the CLA.

Citizens' enabling legislation and Plan of Operations established a process by which Citizens Board of Governors levies assessments to recover any deficits incurred in a given year. Citizens' determination of the amount of assessment is subject to the verification of the mathematical calculation by the Florida Office of Insurance Regulation (the OIR). Citizens' ability to assess provides some assurance of its financial stability.

Subsequent Events

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by Citizens' Board of Governors at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring future principal and interest of approximately \$400.5 million to a trustee escrow account, from which all remaining future principal and interest payments will be made. Citizens is no longer legally obligated to make any future principal and interest payments to the bondholders. The recognition of future interest expenses was accelerated and recognized as a loss on defeasance within the January 2015 financial statements. The net effect on net position, as a result of the defeasance, is an increase of approximately \$1.6 million

Citizens Property Insurance Corporation

Management's Discussion & Analysis

Subsequent Events (Continued)

Effective March 5, 2015, the Office issued an order terminating the 2005 Emergency Assessment thereby requiring all insurers that are required to collect the 2005 Emergency Assessment (including Citizens) to cease collections by July 1, 2015 on both new and renewal policies. This order was issued following the decision by Citizens' Board of Governors to terminate the assessment in connection with the legal defeasance of Citizens' 2007A post-event bonds.

Citizens Property Insurance Corporation

Statements of Net Position

	December 31,	
	2014	2013
	<i>(in thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ (57,179)	\$ (70,926)
Short-term investments	1,559,730	1,655,658
Restricted cash and cash equivalents	25,348	15,339
Investment income due and accrued	74,222	81,873
Prepaid reinsurance premiums	308,957	201,275
Reinsurance recoverable on paid losses and LAE	923	2,351
Premiums receivable	117,842	147,567
Premiums receivable from assuming companies	32,654	27,133
Other current assets	1,036	-
Total current assets	<u>2,063,533</u>	<u>2,060,270</u>
Noncurrent assets:		
Long-term investments	12,263,861	12,888,248
Capital assets	8,079	12,362
Assessments receivable	67	165,181
Other assets	9,869	7,915
Total noncurrent assets	<u>12,281,876</u>	<u>13,073,706</u>
Total assets	<u><u>\$ 14,345,409</u></u>	<u><u>\$ 15,133,976</u></u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Position

	December 31,	
	2014	2013
	<i>(in thousands)</i>	
Liabilities and net position		
Current liabilities:		
Loss reserves	\$ 736,602	\$ 951,703
Loss adjustment expense reserves	294,920	303,444
Unearned premiums	1,005,043	1,295,266
Current portion of unearned assessment income	11,839	20,379
Reinsurance premiums payable	125,517	140,985
Advance premiums and suspended cash	48,961	70,440
Interest payable	22,540	25,846
Taxes and fees payable	-	3,143
Current portion of long-term debt	1,188,163	574,402
Other current liabilities	127,867	128,323
Total current liabilities	<u>3,561,452</u>	<u>3,513,931</u>
Noncurrent liabilities:		
Unearned assessment income	7,487	23,222
Long-term debt	3,232,473	4,420,636
Reserve for future assessments	38,246	-
Total noncurrent liabilities	<u>3,278,206</u>	<u>4,443,858</u>
Total liabilities	<u>6,839,658</u>	<u>7,957,789</u>
Net position:		
Invested in capital assets	8,079	12,632
Restricted	25,348	15,339
Unrestricted	7,472,324	7,148,216
Total net position	<u>7,505,751</u>	<u>7,176,187</u>
Total liabilities and net position	<u><u>\$ 14,345,409</u></u>	<u><u>\$ 15,133,976</u></u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2014	2013
	<i>(in thousands)</i>	
Operating revenue:		
Premiums earned	\$ 1,377,841	\$ 1,880,761
Operating expenses:		
Losses incurred	441,155	502,376
Loss adjustment expenses incurred	198,935	248,050
Service company fees	5,891	8,792
Agent commissions	169,764	224,042
Taxes and fees	27,829	41,323
Processing and other fees	760	1,335
Other underwriting expenses	170,356	186,192
	<u>1,014,690</u>	<u>1,212,110</u>
Operating income	363,151	668,651
Nonoperating revenues (expenses):		
Net investment income	155,984	112,333
Interest expense	(180,835)	(200,711)
Assessment (expense) income	(12,771)	42,213
Other income (expense)	4,432	(8,217)
Total nonoperating expense	<u>(33,190)</u>	<u>(54,382)</u>
Change in net position	329,961	614,269
Net position, beginning of year	7,176,187	6,757,925
Cumulative effect of a change in accounting principle (Note 2)	-	(196,966)
Net position, adjusted	<u>7,176,187</u>	<u>6,560,959</u>
Other changes in net position	<u>(397)</u>	<u>959</u>
Net position, end of year	<u><u>\$ 7,505,751</u></u>	<u><u>\$ 7,176,187</u></u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation

Statements of Cash Flows

	Years Ended December 31,	
	2014	2013
	<i>(in thousands)</i>	
Cash flows from operating activities		
Premiums collected, net of reinsurance	\$ 967,196	\$ 1,660,111
Net losses and loss adjustment expenses paid	(862,287)	(921,033)
Payments for underwriting expenses	(346,003)	(457,560)
Net cash (used in) provided by operating activities	<u>(241,094)</u>	<u>281,518</u>
Cash flows from noncapital financing activities		
Debt redemption	(535,275)	(871,530)
Interest paid	(223,269)	(250,385)
Assessment income received	128,068	177,393
Net cash used in noncapital financing activities	<u>(630,476)</u>	<u>(944,522)</u>
Cash flows from capital and related financing activities		
Capital assets acquired	(2,359)	(2,290)
Net cash used in capital and related financing activities	<u>(2,359)</u>	<u>(2,290)</u>
Cash flows from investing activities		
Proceeds from investments sold, matured or repaid	19,463,189	16,708,483
Investments acquired	(18,842,252)	(16,386,776)
Interest income received	276,748	314,903
Change in restricted cash	(10,009)	(4,227)
Net cash provided by investing activities	<u>887,676</u>	<u>632,383</u>
Net change in cash and cash equivalents	13,747	(32,911)
Cash and cash equivalents:		
Beginning of year	<u>(70,926)</u>	<u>(38,015)</u>
End of year	<u>\$ (57,179)</u>	<u>\$ (70,926)</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation

Statements of Cash Flows

	Years Ended December 31,	
	2014	2013
	<i>(in thousands)</i>	
Reconciliation of operating income to net cash		
(used in) provided by operating activities:		
Operating income	\$ 363,151	\$ 668,651
Adjustments to reconcile net cash (used in) provided by operating activities:		
Depreciation expense	6,651	6,437
(Increase) decrease in operating assets:		
Prepaid reinsurance premiums	(107,682)	14,288
Reinsurance recoverable	1,428	(6,700)
Premiums receivable	28,692	14,699
Other assets	(1,950)	1,643
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(223,625)	(163,908)
Unearned premiums	(290,223)	(192,943)
Reinsurance premiums payable	(15,468)	(48,549)
Advance premiums and suspended cash	(21,478)	(15,384)
Taxes and fees payable	(4,179)	(2,846)
Other current liabilities	23,589	6,130
Net cash (used in) provided by operating activities	<u>\$ (241,094)</u>	<u>\$ 281,518</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 1 – GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and to add affordability as an element of Citizens' statutory mission.

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' President and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, Citizens is a component unit of the State of Florida, and its financial activity is reported in the state's Comprehensive Annual Financial Report by discrete presentation.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 1 – GENERAL (CONTINUED)

The financial statements presented herein relate solely to the financial position and results of operations of Citizens and are not intended to present the financial position of the State of Florida or the results of its operations or its cash flows.

Citizens has determined that it has no component units that should be included in its separately reported financial statements. However, the Florida Market Assistance Plan (FMAP) is a financially related entity. FMAP is a 501(c)(6) entity created by Section 627.3515, Florida Statutes. FMAP was created for the purpose of assisting in the placement of applicants who are unable to procure property or casualty insurance coverage from authorized insurers when such insurance is otherwise generally available. As provided in FMAP's enabling legislation, each person serving on the Board of Citizens also serves on the Board of FMAP. In addition, Citizens is required to fund any deficit incurred by FMAP in performing its statutory purpose.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the Coastal Account. A brief history of each account follows:

Personal Lines Account History – The Florida Residential Property and Casualty Joint Underwriting Association (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 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 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 Commercial Lines Account.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 1 – GENERAL (CONTINUED)

Coastal Account History – The Florida Windstorm Underwriting Association, which was a residual market mechanism for windstorm and hail coverage in select areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. 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. 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 under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies and practices of Citizens conform to accounting principles generally accepted in the United States applicable to a proprietary fund of a government unit. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Citizens applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements, interpretations and codification, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Citizens' has also elected to apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

GASB Statement No. 34 established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. It requires net assets to be classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds. As of December 31, 2014 and 2013, Citizens did not

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

have any outstanding debt that was attributable to capital assets.

- Restricted net position – This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus

The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of Citizens are included in the statements of net position. The Statements of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. The Statements of Cash Flows provides information about how Citizens finances and meets the cash flow needs of its activities.

Reclassifications and Change in Accounting Principle

During the first quarter of 2014, Citizens discontinued the practice of reclassifying certain invested assets between cash and cash equivalents, short-term investments and long-term investments based on remaining maturity at the balance sheet date. Citizens now categorizes all such investments based on remaining maturity at the date of acquisition. The balances within the three categories of invested assets have been reclassified as of December 31, 2013 in order to provide comparability to the presentation within the December 31, 2014 statement of net position. A summary of the effect of the adjustment is included in the exhibit below as of December 31, 2013.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications and Change in Accounting Principle (continued)

During 2014, Citizens adopted Governmental Accounting Standards Board (GASB) Statement No. 65. In summary, Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or inflows of resources, certain items that were previously reported as assets and liabilities. In doing so, the Statement disallows the recognition of certain line items that have historically been reported within Citizens' statements of net position. Transition guidance provides that the effects of the statement be applied retroactively by restating financial statements for all periods presented, with the cumulative effect of the statement reported as an adjustment to net position within the earliest period presented. The effects on Citizens December 31, 2013 financial statements are summarized in the exhibit below.

	Original Balance 12/31/2013	Change in Accounting Principle - GASB 65	Reclassification of Investments	Restated as of 12/31/2013
Cash and cash equivalents	\$ 1,180,598	\$ -	\$ (1,251,524)	\$ (70,926)
Short-term investments	1,690,797	-	(35,139)	1,655,658
Deferred policy acquisition costs	113,371	(113,371)	-	-
Deferred financing costs	67,432	(67,432)	-	-
Long-term investments	11,601,585	-	1,286,663	12,888,248
Unearned assessment income	(67,313)	23,712	-	(43,601)
Assessment income	56,442	(14,229)	-	42,213
Other underwriting expenses *	(492,492)	30,808	-	(461,684)
Interest expense	(217,432)	16,721	-	(200,711)
Line of credit fees and note issuance costs	(6,575)	6,575	-	-
Net position	(7,333,278)	157,091	-	(7,176,187)

* Includes servicing company fees, agent commissions, taxes and fees, processing and other fees and other underwriting expenses.

Certain other balances in the 2013 financial statements have been reclassified to conform to the 2014 presentation.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. Demand deposits and highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash and cash equivalents. Cash and cash equivalents include amounts on deposit in excess of insured limits through the Federal Deposit Insurance Corporation. Management does not consider this to represent a significant credit risk to Citizens.

Short-term investments consist of various money market funds, commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency notes. Short-term investments are classified as all securities with original maturities of twelve months or less at the time of acquisition.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents, and Investments (Continued)

Long-term investments consist solely of debt securities issued by municipal bodies, U.S. Treasury, U.S. government agencies, and corporate bonds with an original maturity greater than twelve months at the time of acquisition. Such investments are recorded at fair value, which is generally based on independent quoted market prices. If quoted market prices are not available, broker quotes or an estimation of the current liquidation values is determined through a collaborative process among various pricing experts and sources in the marketplace. Changes in fair value are reflected as a component of net investment income.

Capital Assets

Depreciation and amortization expense was \$6.7 million and \$6.4 million for the years ended December 31, 2014, and 2013, respectively. 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
Capitalized office equipment and automobiles:	5 years
Furniture and equipment:	7 years
Leasehold improvements:	10 years

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, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. 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 loss adjustment expense reserves.

Premiums

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period are recorded as unearned premiums.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums (Continued)

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Company's 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. At December 31, 2014 and 2013, 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. An allowance for doubtful accounts is recorded for the estimated uncollectible amounts, and amounted to \$3.5 million and \$2.1 million at December 31, 2014 and 2013, respectively.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses, loss adjustment expenses and necessary costs incurred to provide and administer personal and commercial property insurance coverage and to carry out programs for the reduction of new and renewal writings.

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 recognizes revenue for the amount of policy surcharges that are charged to policyholders on subsequent billings to recoup any assessment levied by FIGA.

Assessments are also levied by the Florida Hurricane Catastrophe Fund (FHCF), which are in turn payable by Citizens' insureds. Citizens collects the FHCF assessments from its insureds and remits them to the FHCF.

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 of Governors and the Office and levied by Citizens (see Note 14). Assessment receivables are considered to be fully collectible.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction to loss and LAE reserves in accordance with GASB. Reinsurance recoverables on paid losses and LAE are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply, while depopulation premiums ceded are earned pro-rata over the life of the underlying policies. Premiums ceded include both FHCF and private catastrophic reinsurance purchases and depopulation premiums.

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 57.7% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach at December 31, 2014. Approximately 12.8% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties at December 31, 2014. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. See Note 14 for further information.

Concentration of Credit Risk

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. As of December 31, 2014, management believes Citizens had no significant concentrations of credit risk other than those disclosed in Note 4.

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 in 2014 or 2013.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by Citizens' Board of Governors at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring future principal and interest of approximately \$400.5 million to a trustee escrow account, from which all remaining future principal and interest payments will be made. Citizens is no longer legally obligated to make any future principal and interest payments to the bondholders. The recognition of future interest expenses was accelerated and recognized as a loss on defeasance within the January 2015 financial statements. The net effect on net position, as a result of the defeasance, is an increase of approximately \$1.6 million.

Effective March 5, 2015, the Office issued an order terminating the 2005 Emergency Assessment thereby requiring all insurers that are required to collect the 2005 Emergency Assessment (including Citizens) to cease collections by July 1, 2015 on both new and renewal policies. This order was issued following the decision by Citizens' Board of Governors to terminate the assessment in connection with the legal defeasance of Citizens' 2007A post-event bonds.

Citizens has evaluated subsequent events for disclosure and recognition through May 29, 2015, the date on which these financial statements were available to be issued. With the exception of those items noted above, there were no additional events requiring disclosure.

NOTE 3 – 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. 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 Citizens' 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.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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. During the current reporting period, no such transfers occurred.

At December 31, 2014, all investments held by Citizens are categorized as Level 2. Citizens has no assets that are financial instruments categorized as Level 3 and Citizens has no liability-based financial instruments.

NOTE 4 – INVESTMENTS

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 will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- Liquidity Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund.
- Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 4 – INVESTMENTS (Continued)

Citizens investment policy for bond proceeds is at least or more restrictive than the bond documents require.

- **Credit Risk Disclosure** - Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2014. (See discussion of rating agencies in "Economic Factors" under "Management's Discussion & Analysis").

Rating	Fair Value (in thousands)
A1	\$ 1,181,116
A2	1,730,099
A3	609,121
Aa1	1,279,607
Aa2	1,305,054
Aa3	1,191,537
Aaa	4,986,529
Baa1	239,845
Baa2	20,505
Baa3	3,808
WR	250
NR	1,276,120
	<u><u>\$ 13,823,591</u></u>

- **Custodial Risk Credit** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Citizens would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Citizens had no investments with custodial credit risk as of December 31, 2014 and 2013, respectively. All investments were held by Citizens or its agent in Citizens' name.
- **Concentration of Credit Risk** – An increased risk of loss occurs as more investments are acquired from one issuer or a group of insurers with 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 Property Insurance Corporation

Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

- **Interest Rate Risk** – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s fair value. Citizens measures this risk by using the weighted average maturity method. Citizens’ investment policy requires that the weighted average maturity of the Liquidity Fund and Claims Paying Fund portfolios not exceed 365 days and 3.5 years, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration.
- **Foreign Currency Risk** – Citizens had no investments with foreign currency risk at December 31, 2014 and 2013, respectively. All investments are settled in U.S. dollars.

The following tables provide a summary of investments by type as of December 31, 2014 and 2013 at fair value and amortized cost.

As of December 31, 2014:

Description	Fair Value	Amortized Cost	Net Unrealized Gain (Loss)
Financial Instruments - Assets			
U.S. treasury	\$ 1,557,106	\$ 1,557,513	\$ (407)
All other government	56,126	56,012	113
States, territories & possessions	821,477	817,222	4,255
Political subdivisions	870,126	866,075	4,051
Special revenue	4,476,654	4,465,765	10,889
Industrial & miscellaneous	5,632,103	5,627,477	4,625
Asset backed securities:			-
Residential & commercial mortgage backed	252,224	250,699	1,526
Industrial & miscellaneous	157,775	105,657	52,118
Total	\$ 13,823,591	\$ 13,746,420	\$ 77,170

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

As of December 31, 2013:

Description	Fair Value	Amortized Cost	Net Unrealized Gain (Loss)
Financial Instruments - Assets			
U.S. treasury	\$ 1,532,329	\$ 1,536,436	\$ (4,107)
All other government	23,775	23,775	-
States, territories & possessions	1,079,076	1,070,691	8,385
Political subdivisions	1,014,183	1,006,772	7,411
Special revenue	5,032,776	5,016,339	16,437
Industrial & miscellaneous	5,477,924	5,465,424	12,500
Asset backed securities:	-		
Residential & commercial mortgage backed	187,007	186,181	826
Industrial & miscellaneous	196,836	135,068	61,768
Total	<u>\$ 14,543,906</u>	<u>\$ 14,440,686</u>	<u>\$ 103,220</u>

The following tables summarize unrealized losses on investments by the length of time that the securities have continuously been in unrealized loss positions as of December 31, 2014 and 2013 (*in thousands*).

As of December 31, 2014:	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury & Agency	\$ 461,613	\$ (679)	\$ 230,054	\$ (1,364)	\$ 691,667	\$ (2,043)
All Other Government	16,682	(68)	-	-	16,682	(68)
States, Territories and Possessions	123,826	(522)	15,275	(55)	139,101	(576)
Political Subdivisions	154,137	(527)	11,802	(13)	165,939	(540)
Special Revenue	1,023,529	(2,367)	388,413	(2,816)	1,411,942	(5,183)
Industrial & Miscellaneous	1,443,311	(4,687)	712,428	(4,628)	2,155,739	(9,315)
Mortgage-backed Securities	54,331	(111)	19,055	(12)	73,386	(123)
Total	<u>\$ 3,277,429</u>	<u>\$ (8,961)</u>	<u>\$ 1,377,027</u>	<u>\$ (8,888)</u>	<u>\$ 4,654,456</u>	<u>\$ (17,848)</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

As of December 31, 2013:	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury & Agency	\$ 659,796	\$ (5,736)	\$ 21,632	\$ (315)	\$ 681,428	\$ (6,051)
All Other Government	5,922	(68)	-	-	5,922	(68)
States, Territories and Possessions	167,930	(736)	20,265	(104)	188,195	(840)
Political Subdivisions	110,850	(460)	53,005	(274)	163,855	(734)
Special Revenue	1,114,202	(4,914)	258,555	(4,259)	1,372,757	(9,173)
Industrial & Miscellaneous	1,513,649	(16,776)	59,751	(641)	1,573,401	(17,416)
Mortgage-backed Securities	55,687	(342)	29,635	(78)	85,322	(420)
Total	<u>\$ 3,628,036</u>	<u>\$ (29,032)</u>	<u>\$ 442,843</u>	<u>\$ (5,671)</u>	<u>\$ 4,070,880</u>	<u>\$ (34,702)</u>

The fair value and amortized cost of securities at December 31, 2014, by contractual maturity, are shown below (*in thousands*). 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.

	Fair Value	Amortized Cost
Maturity:		
In 2015	\$ 2,901,859	\$ 2,858,765
2016 - 2019	10,400,885	10,377,934
2020 - 2024	41,858	41,707
After 2024	226,765	217,315
Mortgage-backed securities	252,224	250,699
Total	<u>\$ 13,823,591</u>	<u>\$ 13,746,420</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

Sources and uses of investment income for the years ended December 31, 2014 and 2013 were as follows (*in thousands*):

	2014	2013
Income earned		
Bonds	\$133,341	\$132,298
Cash, cash equivalents, and short-term investments	1,687	2,809
Total gross investment income earned	<u>135,028</u>	<u>135,107</u>
Capital gains		
Bonds	31,514	32,515
Cash, cash equivalents, and short-term investments	21,987	20,313
Total realized gains on sales	<u>53,501</u>	<u>52,828</u>
Market value adjustment	(26,052)	(68,937)
Investment expenses	(6,493)	(6,665)
Net investment income	<u>\$155,984</u>	<u>\$112,333</u>

NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the net liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2014 and 2013 were as follows (*in thousands*):

	2014	2013
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,267,302	\$ 1,434,337
Less reinsurance recoverables on reserves	<u>(12,155)</u>	<u>(15,282)</u>
Net loss and loss adjustment expense reserves, beginning of year	1,255,147	1,419,055
Incurred related to:		
Current accident year	525,725	684,549
Prior accident years	<u>114,365</u>	<u>65,877</u>
	640,090	750,426
Paid related to:		
Current accident year	272,398	352,354
Prior accident years	<u>591,478</u>	<u>560,353</u>
	863,876	912,707
Change in retroactive reinsurance reserves ceded	<u>161</u>	<u>(1,627)</u>
Net loss and loss adjustment expense reserves, end of year	1,031,522	1,255,147
Add reinsurance recoverables on reserves	<u>7,090</u>	<u>12,155</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,038,612</u>	<u>\$ 1,267,302</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES (CONTINUED)

As a result of changes in estimates of insured events in prior years, primarily due to the re-estimation of costs within the PLA relating to accident years 2010 and 2011 litigated sinkhole and water loss claims, the provision for loss and LAE increased by approximately \$114.4 million and \$65.9 million, net of reinsurance, in 2014 and 2013, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims.

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 per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as loss adjustment expenses.

NOTE 6 – 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 considered as 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 \$2.849 billion and \$1.699 billion in the Coastal Account and PLA/CLA, respectively, for 2014, and \$3.043 billion and \$2.203 billion in the Coastal Account and PLA/CLA, respectively, for 2013. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled \$3.269 billion and \$1.851 billion for 2014 and 2013, respectively.

The effect of reinsurance on premiums written and earned is as follows (*in thousands*):

	2014		2013	
	Written	Earned	Written	Earned
Direct premiums	\$ 2,083,870	\$ 2,374,093	\$ 2,761,638	\$ 2,954,580
Ceded premiums	(1,103,934)	(996,252)	(1,059,530)	(1,073,819)
Net premiums	<u>\$ 979,936</u>	<u>\$ 1,377,841</u>	<u>\$ 1,702,108</u>	<u>\$ 1,880,761</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 6 – REINSURANCE AGREEMENTS (CONTINUED)

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10), as well as premium ceded under 100% private quota share arrangements. Ceded losses and LAE incurred were (\$2.5) million and \$2.3 million during 2014 and 2013, respectively.

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

NOTE 7 – LONG-TERM DEBT

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 (*in thousands*):

Bond Issue	Issuance Date	Face Value	Carrying Value	Stated Interest Rate	Current Year Principal Paid	Current Year Interest Paid
Series 2007A Senior Secured Refunding Bonds (Post-event HRA)	February 26, 2007	\$ 388,930	\$ 392,832	3.750% - 5.000%	\$ 117,220	\$ 20,379
Series 2009A-1 Senior Secured Bonds (Pre-event HRA)	May 7, 2009	746,585	748,244	4.000% - 6.000%	168,055	46,358
Series 2010A-1 Senior Secured Bonds (Pre-event HRA)	April 6, 2010	1,240,000	1,252,182	3.000% - 5.250%	100,000	63,207
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	July 14, 2011	645,000	654,932	3.000% - 5.000%	-	31,577
Series 2011A-3 Senior Secured Bonds (Pre-event HRA)	July 14, 2011	-	-	SIFMA plus 1.65%	150,000	1,278
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	June 21, 2012	1,100,000	1,172,446	3.000% - 5.000%	-	54,779
Series 2012A-3 Senior Secured Bonds (Pre-event PLA/CLA)	June 21, 2012	200,000	200,000	SIFMA plus 1.25%	-	2,606
Total		\$ 4,320,515	\$ 4,420,636		\$ 535,275	\$220,184

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 7 – LONG-TERM DEBT (CONTINUED)

A schedule of bond maturities is as follows (*in thousands*):

Years Ending December 31	Series 2007 Bonds	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2012 Bonds	Total
2015	\$ 123,225	\$ -	\$ 410,000	\$ 80,000	\$ 275,000	\$ 888,225
2016	129,540	403,085	305,000	90,000	125,000	1,052,625
2017	136,165	343,500	525,000	-	130,000	1,134,665
2018	-	-	-	125,000	130,000	255,000
2019	-	-	-	175,000	160,000	335,000
After	-	-	-	175,000	480,000	655,000
	\$ 388,930	\$ 746,585	\$ 1,240,000	\$ 645,000	\$ 1,300,000	\$ 4,320,515

A schedule of debt service requirements, including principal and interest, is as follows (*in thousands*):

Years Ending December 31	Principal	Interest	Total
2015	\$ 888,225	\$ 189,633	\$ 1,077,858
2016	1,052,625	141,663	\$ 1,194,288
2017	1,134,665	84,491	\$ 1,219,156
2018	255,000	54,483	\$ 309,483
2019	335,000	39,480	\$ 374,480
After	655,000	37,423	\$ 692,423
	\$ 4,320,515	\$ 547,173	\$ 4,867,688

Unamortized premium at December 31, 2014 and 2013 was \$100.1 million and \$139.2 million, respectively.

NOTE 8 – 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 were \$169.8 million and \$224 million during 2014 and 2013, 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 \$50.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$5.9 million and \$8.8 million, during 2014 and 2013, respectively.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 9 – RETIREMENT PLAN

Deferred Compensation 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 \$4.2 million and \$3.8 million for the years ended December 31, 2014 and 2013, respectively.

NOTE 10 – 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 as part of a bulk assumption (Assumption Agreement). 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 2014 and 2013, Citizens ceded \$455.0 million and \$387.6 million in premiums to Takeout Companies pursuant to Assumption Agreements.

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 (unless the assumed insured exercises its option to return to Citizens during the assumption period), Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2014 and 2013, net assumed premiums receivable in the amount of \$32.7 million and \$27.1 million, respectively were due from certain Takeout Companies.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 11 – OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$7.3 million and \$8.5 million for the years ended December 31, 2014 and 2013, 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. Future minimum payments under operating leases are as follows (*in thousands*):

2015	\$ 4,874
2016	2,578
2017	2,035
2018	1,122
2019	<u>935</u>
Total	<u>\$ 11,544</u>

NOTE 12 – 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.

In September 2013, Citizens received a subpoena from the Securities and Exchange Commission (SEC) requesting information relating to catastrophe bonds issued by Everglades Re Ltd. in 2012 and 2013. Citizens is voluntarily cooperating with the SEC and is of the belief that any action by the SEC will not materially affect the financial condition of Citizens.

A summary of potentially significant litigation follows:

Davis & Hernandez v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who presented a claim for damage to their residential property from April 2006 to present. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits. Citizens responded to Plaintiff's Third Amended Complaint on October 2, 2013 and litigation is moving forward. Following 10 months of inactive record activity, the court signed its Notice of Failure to Prosecute. In response, Plaintiff filed a Motion for Leave to Amend attaching a proposed 4th Amended Complaint. Citizens responded that it had no objection to the 4th amended complaint, but requested that the court order prohibit any further amendments.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2014 and 2013, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general 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.

NOTE 13 – RECONCILIATION OF SAP TO GAAP

A reconciliation of Citizens' 2014 and 2013 statutory basis net income and accumulated surplus to its GAAP basis (as determined by the Governmental Accounting Standards Board) is as follows (*in thousands*):

	2014	2013
Net income - statutory basis	\$ 351,122	\$ 665,346
Adjustments:		
Change in allowance for doubtful accounts	(1,359)	1,814
Change in FIGA assessment income	6,250	16,046
Change in net unrealized gain on investments	(26,052)	(68,937)
Change in net position - GAAP basis	<u>\$ 329,961</u>	<u>\$ 614,269</u>

	2014	2013
Accumulated surplus - statutory basis	\$ 7,384,028	\$ 7,008,208
Adjustments:		
Nonadmitted assets	49,460	74,590
Provision for reinsurance	556	1,881
FIGA assessment recoverable	(5,463)	(11,714)
Net unrealized gain on investments	77,170	103,222
Net position - GAAP basis	<u>\$ 7,505,751</u>	<u>\$ 7,176,187</u>

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 14 – ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the Citizens Policyholder Surcharge) in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premium. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on assessable insurers and assessable insureds, each as defined herein. The Regular Assessment is applied as a uniform percentage of the policy premium up to 2% of such premium of the Coastal Account only. Effective July 1, 2012, the Regular Assessment was eliminated for the PLA and CLA accounts and was reduced from 6% to 2% for the Coastal Account.

Regular Assessments are levied on assessable insurers, as defined in Section 627.351(6), Florida Statutes, based upon each assessable insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on assessable insurers, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

If the deficit in any year in any Account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all Assessable Insurers, Surplus Lines Agents and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the Account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs. The Regular Assessment base excludes Citizens policies (while the Emergency Assessment base includes Citizens policies). Prior to the enactment of the 2007 Legislation, the Regular Assessment base for each Account included only property lines of business.

Citizens Property Insurance Corporation

Notes to Financial Statements

NOTE 14 – ASSESSMENTS (CONTINUED)

The Legislature, in Section 44 of 2006 SB 1980, appropriated \$715 million to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of \$87.2 million and \$4.6 million, respectively. The balance of \$623.2 million then partially reduced the High Risk Account deficit and Regular Assessment. The remaining \$163.1 million High Risk Account Regular Assessment and the \$887.5 million Emergency Assessment were approved in 2006. Subsequent to the issuance of the 2007A post-event note, an additional \$496.9 million of financing costs were added to the balance of the assessment for a total of \$1.384 billion.

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. However, as of December 31, 2014, Citizens collected approximately \$38.2 million in excess of the original Emergency Assessment receivable. Any current or remaining excess collections have been categorized as "Reserve for future assessments" and are included in the accompanying statements of net position until such time as Citizens' Board of Governors approves a change to direct these excess collections to be used for any lawful purpose available within Citizens' Plan of Operation.

In November 2012, Citizens received a notice of assessment from the Florida Insurance Guaranty Association (FIGA) amounting to \$27.8 million. In December 2012, Citizens remitted payment for this assessment and subsequently obtained approval from the Office of Insurance Regulation for recoupment through future policy surcharges on new and renewal policies. No asset has been recorded within Citizens statements of net position for the periods ended December 31, 2014 and 2013, in accordance with applicable accounting guidance.

NOTE 15 - RESTRICTED CASH

Restricted cash and surplus represents assessments that were, in accordance with the Act, 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.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Position

December 31, 2014

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
	<i>(in thousands)</i>			
Assets				
Current assets:				
Cash and cash equivalents	\$ (57,179)	\$ (79,836)	\$ 15,188	\$ 7,469
Short-term investments	1,559,730	247,303	175,729	1,136,698
Restricted cash and cash equivalents	25,348	-	-	25,348
Investment income due and accrued	74,222	22,948	6,812	44,462
Prepaid reinsurance premiums	308,957	155,951	27,967	125,039
Reinsurance recoverable on paid losses and LAE	923	556	-	367
Premiums receivable	117,842	38,234	5,789	73,819
Premiums receivable from assuming companies	32,654	19,622	4,878	8,154
Other current assets	1,036	(366)	(216)	1,618
Total current assets	<u>2,063,533</u>	<u>404,412</u>	<u>236,147</u>	<u>1,422,974</u>
Noncurrent assets:				
Long-term investments	12,263,861	4,386,252	1,756,438	6,121,171
Capital assets	8,079	8,079	-	-
Assessments receivable	67	8	724	(665)
Other assets	9,869	9,724	16	129
Inter-account receivable (payable)	-	213,500	(36,757)	(176,743)
Total noncurrent assets	<u>12,281,876</u>	<u>4,617,563</u>	<u>1,720,421</u>	<u>5,943,892</u>
Total assets	<u>\$ 14,345,409</u>	<u>\$ 5,021,975</u>	<u>\$ 1,956,568</u>	<u>\$ 7,366,866</u>
Liabilities and net assets				
Current liabilities:				
Net loss reserves	\$ 736,602	\$ 530,398	\$ 114,201	\$ 92,003
Net loss adjustment expense reserves	294,920	212,232	32,115	50,573
Unearned premiums	1,005,043	451,805	74,855	478,383
Current portion of unearned assessment income	11,839	-	-	11,839
Reinsurance premiums payable	125,517	-	-	125,517
Advance premiums and suspended cash	48,961	19,625	4,222	25,114
Interest payable	22,540	4,207	577	17,756
Current portion of long-term debt	1,188,163	257,848	35,394	894,921
Other current liabilities	127,867	76,551	3,773	47,543
Total current liabilities	<u>3,561,452</u>	<u>1,552,666</u>	<u>265,137</u>	<u>1,743,649</u>
Noncurrent liabilities:				
Unearned assessment income	7,487	-	-	7,487
Long-term debt	3,232,473	948,945	130,260	2,153,268
Reserve for future assessments	38,246	-	-	38,246
Total noncurrent liabilities	<u>3,278,206</u>	<u>948,945</u>	<u>130,260</u>	<u>2,199,001</u>
Total liabilities	<u>6,839,658</u>	<u>2,501,611</u>	<u>395,397</u>	<u>3,942,650</u>
Net position:				
Invested in capital assets	8,079	8,079	-	-
Restricted	25,348	-	-	25,348
Unrestricted	7,472,324	2,512,285	1,561,171	3,398,868
Total net positions	<u>7,505,751</u>	<u>2,520,364</u>	<u>1,561,171</u>	<u>3,424,216</u>
Total liabilities and net position	<u>\$ 14,345,409</u>	<u>\$ 5,021,975</u>	<u>\$ 1,956,568</u>	<u>\$ 7,366,866</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2014

	<u>Combined</u>	<u>Personal Lines Account</u>	<u>Commercial Lines Account</u>	<u>Coastal Account</u>
	<i>(in thousands)</i>			
Operating revenue:				
Premiums earned	\$ 1,377,841	\$ 772,059	\$ 129,546	\$ 476,236
Operating expenses:				
Losses incurred	441,155	344,094	22,159	74,902
Loss adjustment expenses incurred	198,935	141,948	8,198	48,789
Service company fees	5,891	3,961	-	1,930
Agent commissions	169,764	65,462	18,165	86,137
Taxes and fees	27,829	12,676	2,542	12,611
Processing and other fees	760	-	672	88
Other underwriting expenses	170,356	87,652	10,572	72,132
Total operating expenses	<u>1,014,690</u>	<u>655,793</u>	<u>62,308</u>	<u>296,589</u>
Operating income	363,151	116,266	67,238	179,647
Nonoperating revenues (expenses):				
Net investment income	155,984	59,369	21,863	74,752
Interest expense	(180,835)	(33,665)	(4,621)	(142,549)
Assessment income	(12,771)	3,172	404	(16,347)
Other income	4,432	2,856	231	1,345
Total nonoperating income (expense)	<u>(33,190)</u>	<u>31,732</u>	<u>17,877</u>	<u>(82,799)</u>
Change in net position	329,961	147,998	85,115	96,848
Net position, beginning of year	7,176,187	2,372,366	1,476,056	3,327,765
Other changes in net position	(397)	-	-	(397)
Net position, end of year	<u><u>\$ 7,505,751</u></u>	<u><u>\$ 2,520,364</u></u>	<u><u>\$ 1,561,171</u></u>	<u><u>\$ 3,424,216</u></u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Supplemental Revenues, Expenses and Claim Development Information
(in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net earned premiums and investment revenue	\$ 1,143,973	\$ 2,289,760	\$ 3,417,277	\$ 2,268,368	\$ 1,822,227	\$ 2,088,293	\$ 2,452,744	\$ 2,526,541	\$ 1,993,094	\$ 1,533,825
Unallocated expenses	227,795	321,522	569,661	442,570	342,840	293,047	366,109	507,579	495,680	366,261
Estimated incurred claims and expense, end of policy year	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549	525,725
Paid (cumulative) as of:										
End of policy year	1,005,020	157,640	353,312	413,175	307,072	330,603	501,310	516,059	352,354	272,398
One year later	2,114,174	291,045	555,540	622,104	472,476	553,965	799,332	785,930	520,164	
Two years later	2,227,283	326,997	625,868	675,168	532,779	643,424	965,456	900,022		
Three years later	2,286,765	341,906	661,758	698,220	553,356	702,357	1,120,696			
Four years later	2,328,746	350,721	677,041	709,550	566,641	798,270				
Five years later	2,350,722	355,658	683,229	732,381	587,168					
Six years later	2,373,190	357,534	688,043	738,610						
Seven years later	2,426,212	358,381	693,600							
Eight years later	2,446,868	360,091								
Nine years later	2,469,607									
Reestimated incurred claims and expense:										
End of policy year	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549	525,725
One year later	2,205,877	354,194	678,130	753,244	651,058	876,415	1,237,713	1,068,384	648,934	
Two years later	2,374,726	359,950	693,332	750,380	624,955	886,308	1,259,076	1,045,511		
Three years later	2,406,456	358,122	697,792	738,966	622,057	893,876	1,342,169			
Four years later	2,413,674	360,230	701,651	738,733	622,963	962,361				
Five years later	2,406,633	360,996	700,302	747,942	634,117					
Six years later	2,476,606	360,694	702,670	749,604						
Seven years later	2,494,017	361,555	705,898							
Eight years later	2,497,925	364,139								
Nine years later	2,506,632									
Increase (decrease) in estimated incurred claims and expense from end of policy year	8,707	2,584	3,228	1,662	11,154	68,485	83,093	(22,873)	(35,615)	525,725

See accompanying notes to financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Governors
Citizens Property Insurance Corporation

We have audited the basic financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the year ended December 31, 2014, and have issued our report thereon dated May 29, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Citizens' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citizens' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Citizens' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Citizens' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Governors, others within the entity, and Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Jacksonville, Florida
May 29, 2015

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In the opinion of Greenberg Traurig, P.A., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2015A Bonds (as defined below) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Series 2015A Bonds and the income thereon are exempt from taxation under the laws of the State of Florida, except estate taxes imposed by Chapter 198, Florida Statutes, as amended, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, as amended. Interest on the Series 2015A Bonds may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects, see “TAX MATTERS” herein.

CITIZENS PROPERTY INSURANCE CORPORATION
COASTAL ACCOUNT
SENIOR SECURED BONDS



\$700,000,000
SERIES 2015A-1

\$300,000,000
SERIES 2015A-2
(SIFMA Floating Rate Notes)

Dated: Date of Delivery

Due: As shown on inside cover

The Citizens Property Insurance Corporation Coastal Account Senior Secured Bonds, Series 2015A-1 (the “Series 2015A-1 Bonds”) and Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes) (the “Series 2015A-2 Bonds” and, together with the Series 2015A-1 Bonds, the “Series 2015A Bonds”), are limited obligations of Citizens Property Insurance Corporation (“Citizens”) and are being issued solely for the purpose of providing resources to the Coastal Account (the “Coastal Account”), as more fully described herein. Citizens is a legislatively-created government entity that provides residential and commercial property and casualty insurance coverage for the owners of certain properties in the State of Florida (the “State”) as specified in Section 627.351(6), Florida Statutes, as amended (the “Act”).

Pursuant to the Act, all revenues, assets, liabilities and losses of Citizens are divided into three separate accounts (collectively, the “Accounts” and each an “Account”) as more fully described herein: the Coastal Account, the Personal Lines Account (the “PLA”) and the Commercial Lines Account (the “CLA”). Creditors of the Coastal Account do not have a claim against or recourse to the PLA or the CLA and creditors of the PLA and the CLA do not have a claim against or recourse to the Coastal Account.

The Series 2015A Bonds are being issued for the benefit of the Coastal Account only and will not be an obligation of or have a claim against the PLA or the CLA. The Series 2015A Bonds will be direct and general obligations of the Coastal Account payable from and secured solely by the Pledged Revenues as provided in the Indenture referred to herein. The Series 2015A Bonds constitute Senior Secured Obligations under the Pledge and Security Agreement, described herein, and are secured by Collateral distributions on a parity with all other Senior Secured Obligations. See “PLEDGE AND SECURITY AGREEMENT” herein. The Series 2015A Bonds do not and will not represent or constitute a debt or pledge of the faith and credit or the taxing power of the State of Florida or of any political subdivision, municipality or other local agency thereof. Citizens has no taxing power.

The Series 2015A-1 Bonds and the Series 2015A-2 Bonds are being issued on a parity with each other and with certain outstanding obligations of the Coastal Account, as more fully described herein. In addition, Citizens may issue additional obligations on a parity with the Series 2015A Bonds in the future. See “SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Additional Indenture Obligations” herein.

The Series 2015A Bonds are being issued and secured under and pursuant to a Trust Indenture, dated as of August 6, 1997 (the “Original Indenture”), between Citizens and Regions Bank, Jacksonville, Florida, as successor trustee (the “Indenture Trustee”), as amended and supplemented, and particularly as supplemented by a Tenth Supplemental Indenture dated as of June 1, 2015, between Citizens and the Indenture Trustee (the “Tenth Supplemental Indenture” and, together with the Original Indenture, as amended and supplemented, the “Indenture”). The proceeds derived from the sale of the Series 2015A-1 Bonds and the Series 2015A-2 Bonds will be used to (i) make deposits to the Series 2015A Bonds Proceeds Subaccount to provide funds to, among other things, pay from time to time policy claims and other liabilities and expenses giving rise to any one or more Liquidity Shortfalls (as defined herein) within the Coastal Account, and (ii) pay the costs of issuance of each subseries of the Series 2015A Bonds. See “APPLICATION OF PROCEEDS OF THE SERIES 2015A BONDS” herein.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE “PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE” HEREIN AND “APPENDIX J – FORM OF MASTER TRUST INDENTURE”. PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

The Series 2015A Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”) under the book-entry-only system maintained by DTC as described herein. See “DESCRIPTION OF THE SERIES 2015A BONDS – Book-Entry-Only System” herein. Individual purchases of Series 2015A Bonds will be made in book-entry form only in the denominations of \$5,000 and integral multiples thereof. Interest on the Series 2015A-1 Bonds is payable on December 1, 2015 and semiannually on each June 1 and December 1 thereafter. Interest on the Series 2015A-2 Bonds is payable monthly in arrears on the first day of each calendar month commencing on August 1, 2015.

The Series 2015A Bonds are subject to optional redemption in whole or in part at par prior to maturity as described herein. See “DESCRIPTION OF THE SERIES 2015A BONDS – Optional Redemption” herein.

THIS COVER AND INSIDE COVER PAGE CONTAIN CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THEY ARE NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELATING TO AN INVESTMENT IN THE SERIES 2015A BONDS. INVESTORS ARE ADVISED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY BEFORE MAKING AN INVESTMENT DECISION. SEE “RISK FACTORS” HEREIN.

The Series 2015A Bonds are offered when, as and if issued by Citizens and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Greenberg Traurig, P.A., Miami, Florida, Bond Counsel. Certain legal matters will be passed upon for Citizens by Daniel Y. Sumner, as Citizens’ General Counsel, and by Bryant Miller Olive P.A., Tallahassee, Florida, as Disclosure Counsel, and for the Underwriters by their counsel, Nabors, Giblin & Nickerson, P.A., Tampa, Florida. Raymond James & Associates, Inc. has served as Financial Advisor to Citizens. The Series 2015A Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about June 2, 2015.

BofA MERRILL LYNCH
(Bookrunner for Series 2015A-1)

Jefferies
Ramirez & Co., Inc.

CITIGROUP

Morgan Stanley
Stifel, Nicolaus & Company, Incorporated

J.P. MORGAN
(Bookrunner for Series 2015A-2)

RBC Capital Markets
Wells Fargo Securities

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS, PRICES AND INITIAL CUSIP NUMBERS

\$700,000,000 COASTAL ACCOUNT SENIOR SECURED BONDS, SERIES 2015A-1

Maturities		Interest			Initial
(June 1)	Amounts	Rates	Yields⁽¹⁾	Prices⁽¹⁾	CUSIP
					Numbers⁽²⁾
2018	\$ 5,000,000	3.000%	1.510%	103.638	176553GY5
2018	45,000,000	5.000	1.510	108.521	176553HC2
2020	5,000,000	4.000	2.100	108.113	176553GW9
2020	145,000,000	5.000	2.100	112.383	176553GZ2
2022	5,000,000	4.000	2.660	107.947	176553GX7
2022	220,000,000	5.000	2.660	113.877	176553HA6
2025	275,000,000	5.000	3.200	114.641	176553HB4

\$300,000,000 COASTAL ACCOUNT SENIOR SECURED BONDS, SERIES 2015A-2 (SIFMA Floating Rate Notes)

Maturities		Interest Rates		Initial
(June 1)	Amounts	(Variable)⁽³⁾	Prices	CUSIP
				Numbers⁽²⁾
2018	\$150,000,000	0.960%	100.000	176553HD0
2020	150,000,000	1.060	100.000	176553HE8

(1) Yields and prices calculated to each respective call date at par. See “DESCRIPTION OF THE SERIES 2015A BONDS – Optional Redemption” herein.

(2) CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. Citizens, the Financial Advisor, the Underwriters, the Indenture Trustee and their agents take no responsibility for the accuracy of such data.

(3) Based on the initial SIFMA Rate of 0.11% plus a spread of 0.85% for the Series 2015A-2 Bonds maturing on June 1, 2018 and plus a spread of 0.95% for the Series 2015A-2 Bonds maturing on June 1, 2020. See “DESCRIPTION OF THE SERIES 2015A BONDS – Determination of Series 2015A-2 Interest Rate” herein for a description of the Adjusted SIFMA Rate and the determination thereof.

No dealer, broker, salesman or other person has been authorized by Citizens or by the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any offer, solicitation or sale of the Series 2015A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained in this Official Statement (which includes the Appendices) has been obtained by Citizens from DTC and other sources believed to be reliable. No representation is made by Citizens, however, as to the accuracy or completeness of such information, and nothing contained in this Official Statement is, or shall be relied upon as, a promise or representation as to such information by Citizens. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of the Series 2015A Bonds and may not be reproduced or used, in whole or in part, for any other purposes. The information herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or in the affairs of Citizens since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2015A BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

UPON ISSUANCE, THE SERIES 2015A BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR WILL THE INDENTURE BE QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2015A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2015A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

**CITIZENS PROPERTY INSURANCE CORPORATION
BOARD OF GOVERNORS**

Christopher Gardner – Chairman
Donald Glisson, Jr. – Vice Chairman
Gary Aubuchon
Bette Brown
Juan Cocuy
Jim Henderson
James Holton
Freddie Schinz
J. John Wortman

SENIOR MANAGEMENT

Barry Gilway – President/CEO and Executive Director
Jennifer Montero – Chief Financial Officer
Kelly Booten – Chief Systems and Operations Officer
Joe Martins – Chief Internal Auditor
John Rollins – Chief Risk Officer
Jay Adams – Chief Claims Officer
Daniel Y. Sumner – General Counsel

BOND COUNSEL

Greenberg Traurig, P.A.
Miami, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.
Tallahassee, Florida

FINANCIAL ADVISOR

Raymond James & Associates, Inc.
St. Petersburg, Florida

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APPENDIX J – FORM OF MASTER TRUST INDENTURE

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OFFICIAL STATEMENT

relating to
CITIZENS PROPERTY INSURANCE CORPORATION
COASTAL ACCOUNT
SENIOR SECURED BONDS

\$700,000,000
SERIES 2015A-1

\$300,000,000
SERIES 2015A-2
(SIFMA Floating Rate Notes)

INTRODUCTION

This Official Statement, dated as shown on the cover page hereof, of Citizens Property Insurance Corporation ("Citizens") is provided to furnish information concerning the \$700,000,000 Coastal Account Senior Secured Bonds, Series 2015A-1 (the "Series 2015A-1 Bonds") and the \$300,000,000 Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes) (the "Series 2015A-2 Bonds" and, together with the Series 2015A-1 Bonds, the "Series 2015A Bonds"). See "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" and "APPENDIX B – COMPOSITE FORM OF THE PLEDGE AND SECURITY AGREEMENT" attached hereto for the definition of certain capitalized terms used herein and for a more complete description of the Series 2015A Bonds.

Citizens Property Insurance Corporation

Citizens is a legislatively-created government entity which provides residential and commercial property and casualty insurance coverage for the owners of certain properties in the State of Florida (the "State") as specified in Section 627.351(6), Florida Statutes, as amended (the "Act"). The Act has frequently been amended by the Legislature and was most recently amended during the 2015 regular legislative session (provided, however, the period during which the Governor may veto such legislation has not yet expired).

Citizens resulted from a legislatively-mandated combination of the Florida Residential Property and Casualty Joint Underwriting Association ("FRPCJUA") and the Florida Windstorm Underwriting Association ("FWUA"). Citizens operates pursuant to a Plan of Operation (the "Plan") which may be amended by Citizens and is subject to approval by the Financial Services Commission (the "Commission") of the State without the consent of Bondholders. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State. See "CITIZENS PROPERTY INSURANCE CORPORATION" herein. See "APPENDIX E – CITIZENS PROPERTY INSURANCE CORPORATION PLAN OF OPERATION" attached hereto for a copy of the current Plan approved by the Commission on October 10, 2013. Citizens is supervised by a nine member Board of Governors.

The Series 2015A Bonds

The Series 2015A Bonds are being issued to provide "pre-event" liquidity for the Coastal Account (the "Coastal Account"). Citizens will retain and invest the net proceeds of the Series 2015A Bonds in Non-AMT Tax-Exempt Securities, each of which constitute Permitted Investments as described herein, pending their need to pay policy claims and other liabilities and expenses in the Coastal Account resulting from future storms. See "APPENDIX I - CITIZENS' INVESTMENT POLICIES" attached hereto. The Series 2015A Bonds

are being issued by Citizens under and pursuant to a Trust Indenture, dated as of August 6, 1997 (the "Original Indenture"), between Citizens, as the successor to the FWUA, and Regions Bank, Jacksonville, Florida, as trustee (together with any successor trustee, the "Indenture Trustee"), as amended and supplemented, and particularly as supplemented by a Tenth Supplemental Indenture dated as of June 1, 2015, between Citizens and the Indenture Trustee (the "Tenth Supplemental Indenture" and together with the Original Indenture, as amended and supplemented, the "Indenture"). Terms used in this Official Statement in capitalized form and not otherwise defined in this Official Statement, except in the section herein entitled "PLEDGE AND SECURITY AGREEMENT," have the meanings assigned to them in the Indenture. See "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

Other Indebtedness

The Series 2015A Bonds will be secured and payable from the Pledged Revenues (as defined herein), in the manner and to the extent provided in the Indenture and described herein, on a parity with Citizens' Coastal Account Senior Secured Bonds Series 2011A-1, issued in the aggregate principal amount of \$645,000,000, and currently outstanding in the aggregate principal amount of \$645,000,000 (the "Series 2011A-1 Bonds"), High-Risk Account Senior Secured Bonds, Series 2010A-1, issued in the aggregate principal amount of \$1,550,000,000 and currently outstanding in the aggregate principal amount of \$1,240,000,000 (the "Series 2010A-1 Bonds"), High-Risk Account Senior Secured Bonds, Series 2009A-1, issued in the aggregate principal amount of \$1,021,000,000 and currently outstanding in the aggregate principal amount of \$746,585,000 (the "Series 2009A-1 Bonds" and, together with the Series 2011A-1 Bonds and the Series 2010A-1 Bonds, the "Prior Parity Bonds"), and any Additional Indenture Obligations that may be issued from time to time under the Indenture on a parity with the Prior Parity Bonds. Prior to May 17, 2011, the Coastal Account was entitled the High-Risk Account. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE

OBLIGATIONS", "ESTIMATED DEBT SERVICE SCHEDULE FOR THE PRIOR PARITY BONDS AND SERIES 2015A BONDS", herein and "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

Security and Pledged Revenues

The Series 2015A Bonds are secured by and payable from Pledged Revenues under the Indenture. The Indenture generally defines Pledged Revenues, with certain exceptions, to include (A) the Indenture Trustee's undivided fractional interest in the following amounts deposited with the Collateral Trustee under the Pledge and Security Agreement described herein: (i) net premiums and surcharges collected by Citizens in respect of the Coastal Account (including the Citizens Policyholder Surcharge); (ii) Regular Assessments; (iii) Emergency Assessments; and (iv) Florida Hurricane Catastrophe Fund ("FHCF") Reimbursements as to which Citizens has made Draws from the Proceeds Account; and (B) moneys and investments held from time to time in the Accounts and Subaccounts established under the Indenture as described herein, including, without limitation, investment earnings thereon. The Series 2015A Bonds constitute Senior Secured Obligations under the Pledge and Security Agreement. See "PLEDGE AND SECURITY AGREEMENT," "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS," and "THE COASTAL ACCOUNT – Assessments, Surcharge and Other Funds" herein. See, also, "ESTIMATED SOURCES AND USES" herein, which describes the amount of Series 2015A Bond proceeds being deposited into Series 2015A Proceeds Subaccount which amounts are included as a portion of Pledged Revenues.

THE SERIES 2015A BONDS AND THE INTEREST THEREON WILL BE DIRECT AND GENERAL OBLIGATIONS OF CITIZENS' COASTAL ACCOUNT, SECURED SOLELY BY THE PLEDGED REVENUES AS MORE FULLY DESCRIBED HEREIN. THE SERIES 2015A BONDS DO NOT AND WILL NOT REPRESENT OR CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWER OF THE STATE OF FLORIDA OR OF ANY POLITICAL SUBDIVISION, MUNICIPALITY OR OTHER LOCAL AGENCY THEREOF. NEITHER THE STATE OF FLORIDA NOR ANY POLITICAL SUBDIVISION THEREOF WILL BE OBLIGATED TO PAY THE PRINCIPAL OF THE SERIES 2015A BONDS, THE INTEREST THEREON OR OTHER COSTS INCIDENT THERETO. CITIZENS HAS NO TAXING POWER. THE SERIES 2015A BONDS ARE BEING ISSUED FOR THE BENEFIT OF THE COASTAL ACCOUNT ONLY AND WILL NOT BE OBLIGATIONS OF OR HAVE A CLAIM AGAINST THE PERSONAL LINES ACCOUNT (THE "PLA") OR THE COMMERCIAL LINES ACCOUNT (THE "CLA") OF CITIZENS.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND

SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

No Reserve Account

No Reserve Subaccount is being established for the Series 2015A Bonds. Funds in any existing Reserve Subaccount will be applied solely to cure any deficiencies in amounts available to pay the principal of and interest on the corresponding Series (or subseries) of Bonds for which the Reserve Subaccount was established; provided, however, that amounts in a Reserve Subaccount will be applied to cure any such deficiencies only after applying any amounts available in the General Reserve Account and the Program Costs Account (as provided in the Indenture). Presently, there are no funds on deposit in the General Reserve Account and the Program Costs Account. Each Series (or subseries) of Bonds will not be secured by or payable from any moneys or investments in the Reserve Account or any subaccount therein other than the moneys and investments in the Reserve Subaccount relating to that specific Series (or subseries) of Bonds. Reserve Subaccounts have been previously established for the Series 2011A-1 Bonds, the Series 2010A-1 Bonds and the Series 2009A-1 Bonds.

Other Matters

Greenberg Traurig, P.A., as Bond Counsel, proposes to deliver an opinion in substantially the form attached hereto as APPENDIX F in connection with the issuance of the Series 2015A Bonds. The actual legal opinion to be delivered may vary from that text as necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution thereof by recirculation of the Official Statement or otherwise will create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date. See "CERTAIN LEGAL MATTERS" herein.

The Series 2015A Bonds are being issued pursuant to the Act and a resolution authorizing the issuance of the Series 2015A Bonds adopted on April 7, 2015 by the Board of Governors of Citizens (the "Resolution").

The Series 2015A Bonds are being issued in book-entry only form in denominations equal to \$5,000 and integral multiples thereof, and when issued, will be registered in the name of Cede & Co., as Bondholder and securities depository nominee of The Depository Trust Company, New York, New York ("DTC"), as described herein. Individual purchases of beneficial interests in the Series 2015A Bonds will be made in book-entry form only through Direct Participants, as described herein. Interest on the Series 2015A-1 Bonds is payable on December 1, 2015 and semiannually on each June 1 and December 1 thereafter. Interest on the Series 2015A-2 Bonds is payable monthly on the first day of each calendar month commencing on August 1, 2015. See "DESCRIPTION OF THE SERIES 2015A BONDS" herein and "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

The Series 2015A Bonds are subject to optional redemption in whole or in part at par prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2015A BONDS – Optional Redemption" herein.

For a discussion of risk factors associated with the Series 2015A Bonds, see "RISK FACTORS" herein.

For statistical and demographic information about the State of Florida, see "APPENDIX H – GENERAL INFORMATION FOR THE STATE OF FLORIDA" attached hereto.

The foregoing introduction contains only a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Investors are advised to read this Official Statement in its entirety before making an investment decision.

Copies of documents and reports not reproduced in this Official Statement may be obtained from the Accounting and Finance Department, Citizens Property Insurance Corporation, 2312 Killearn Center Blvd., Bldg. A, Tallahassee, Florida, 32309, 850-513-3955.

PLAN OF FINANCING

The Series 2015A Bonds

The Series 2015A Bonds are being issued to provide resources to help Citizens meet its potential liquidity and claims paying needs in the Coastal Account for the 2015 hurricane season and thereafter. The net proceeds of the Series 2015A Bonds will be held and invested in Permitted Investments consisting of Non-AMT Tax-Exempt Securities by Citizens pending their use to pay policy claims and other liabilities and expenses that cause a Liquidity Shortfall (as defined herein) within the Coastal Account. Although the Series 2015A Bonds are secured by the Pledged Revenues (see "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS" herein), Citizens expects that until and unless the proceeds are used to pay such claims, it will pay the interest on the Series 2015A Bonds from investment earnings on the proceeds of the Series 2015A Bonds and net premium revenue. See "INVESTMENTS", "APPENDIX I - CITIZENS' INVESTMENT POLICIES" and "RISK FACTORS – Investment Risk" herein. The Series 2015A Bonds will be issued on a parity basis with the Prior Parity Bonds and any Additional Indenture Obligations that may be issued from time to time.

Citizens' plan of finance anticipates that if the proceeds of the Series 2015A Bonds or other "pre-event" Additional Indenture Obligations are spent to pay claims, then Citizens Policyholder Surcharges, FHCF Reimbursements, Regular Assessments and/or Emergency Assessments would be used to reimburse the Proceeds Account for the amounts disbursed to pay claims. Citizens could then make a new Draw or Draws on these moneys over the life of such obligations as needed to pay claims, with an analogous reimbursement process taking place each time; provided however, reimbursement of a prior Draw is not a prerequisite to Citizens' ability to make additional Draws. Under the terms of the Indenture, before any moneys can be withdrawn from the Proceeds Account to pay claims of policyholders, Citizens must sign a Draw Certificate specifying the purpose of the Draw and specifying the Collateral against, or in anticipation of, which the Draw is being made. Citizens must further certify in such Draw Certificate that, after making the Draw, it will have sufficient moneys to pay all Debt Service Charges (as defined in the Indenture) on the outstanding Indenture Obligations, including the Series 2015A Bonds, as they become due and payable. A new Draw Certificate with the certifications described above is a prerequisite for each additional Draw. See "APPENDIX A –

COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto for a further description of the requirements to make a Draw including the form of the Draw Certificate.

Under this plan of finance, principal payments on the Series 2015A Bonds would be paid from moneys on hand in the Series 2015A Bonds Proceeds Subaccount at the time principal was due. However, should losses large enough to cause a Plan Year Deficit giving rise to Emergency Assessments occur, Citizens could make a Draw against, or in anticipation of, Emergency Assessments and use the revenues from such Emergency Assessments to pay the principal and interest on the Indenture Obligations, including the Series 2015A Bonds, as they become due and payable. See "THE COASTAL ACCOUNT – Assessments, Surcharge, and Other Funds" herein.

Plan Year Deficit

Citizens' Plan defines "Plan Year Deficit" to mean the amount by which the negative Operating Result of an Account for a Plan Year exceeds the Surplus of such Account, as adjusted pursuant to the Plan (the "Plan Year Deficit"). The Operating Result of an Account is calculated based primarily on the claims paid plus operating and other expenses of an Account less reinsurance accrued and received or payable to Citizens by the FHCF or other reinsurance counterparties. As described herein, Citizens must levy assessments to cure any Plan Year Deficit. See "THE COASTAL ACCOUNT – Assessments, Surcharge and Other Funds" herein, for a description of the requirements to levy assessments following a Plan Year Deficit.

The Plan provides that, for purposes of making a Draw on the Proceeds Account to pay policy claims and other liabilities and expenses, the Operating Result of an Account is calculated by disregarding the reinsurance reimbursements from the FHCF that have accrued to Citizens but which Citizens has not yet received (the "FHCF Reimbursements"). A Plan Year Deficit resulting from the calculation disregarding the FHCF Reimbursements is herein referred to as a "Liquidity Shortfall." In the event that there is a Liquidity Shortfall, a Draw may be made on the Proceeds Account in anticipation of receipt of the FHCF Reimbursements. When such FHCF Reimbursements are received, Citizens is required to deposit such moneys to the Proceeds Account and can draw such moneys repeatedly to pay claims as described above. A Liquidity Shortfall does not necessarily give rise to a Plan Year Deficit for assessment purposes, and therefore may not trigger assessments by Citizens if the Liquidity Shortfall can be cured solely by the receipt of FHCF Reimbursements.

Claims Paying Resources of Citizens

Citizens has at its disposal to pay policy claims most of the typical financial resources available to all property and casualty insurance companies that conduct business in the State, and in addition, has assessment powers granted to Citizens under the Act.

The following table lists the resources available to Citizens to pay claims:

Insurance Companies Typical Financial Resources

- Prior Years' Operating Surplus
- Investment Income
- Net Insurance Premiums
- Florida Hurricane Catastrophe Fund (FHCF) Reimbursements
- Private Reinsurance

Citizens' Additional Resources

- Citizens Policyholder Surcharges
- Regular Assessments
- Emergency Assessments

See "THE COASTAL ACCOUNT – Assessments, Surcharge and Other Funds" herein for a complete description of these claims-paying resources. Reinsurance from both the traditional reinsurance markets and/or the capital markets is herein referred to as "Private Reinsurance".

Liquidity Resources of Citizens

While the resources listed above provide ultimate claims-paying ability for Citizens, not all of them are available quickly enough to provide policyholders payment for their claims in a timely manner. The primary resources for the Coastal Account that are not immediately available and that may require Citizens to obtain additional liquidity for timely claims payment are the FHCF Reimbursements, Private Reinsurance, and all of the resources listed under "Additional Resources" in the table above. The primary purpose of Citizens' pre-event financings including the Series 2015A Bonds, the Series 2011A-1 Bonds, the Series 2010A-1 Bonds, and the Series 2009A-1 Bonds is to provide a portion of such claims-paying liquidity. Historically, Citizens' Coastal Account has used a combination of accumulated operating surplus funds and proceeds of pre-event bond issues to provide needed liquidity. These programs have consistently enabled Citizens to meet its obligations to policyholders in a timely manner pending receipt of the ultimate claims-paying resource.

Citizens believes that its projected amounts available to pay policyholder claims will allow it to continue to be able to pay such policyholder claims in a timely manner under most hurricane scenarios. However, while the Series 2015A Bonds and the Prior Parity Bonds are designed to provide liquidity sufficient to allow Citizens to access its other claims-paying resources, it is possible that Citizens could face a shortfall that leaves it dependent on accessing financial markets after an event to procure additional sources of liquidity to meet policyholder claims. Should storms occur resulting in claims which exhaust Citizens' pre-event liquidity resources prior to all policyholder claims being paid, Citizens could issue post-event financing instruments designed to be paid from the receipt of Pledged Revenues, including, under certain circumstances, Emergency Assessments, to provide funds to pay such claims. However, the payment of principal of and interest on the Series 2015A Bonds and the Prior Parity Bonds is not dependent on Citizens' ability to access capital markets. For payment of all Parity Bonds, including the Series 2015A Bonds, Citizens has, subject to certain restrictions, the ability to levy Emergency Assessments for an unlimited duration and in an unlimited cumulative amount in total to pay debt service on the Bonds. See "THE COASTAL ACCOUNT – Assessments, Surcharge and Other Funds" herein for such restrictions, including the limitations on the annual amount of Emergency Assessments. See also "RISK FACTORS – Post-Event Bonds" and "RISK FACTORS – Collectability of Surcharge, Assessments and Assessment Base" herein for a description of other statutory entities such as the FHCF and Florida Insurance Guaranty Association ("FIGA") that may impose assessments on the same policyholders on which Citizens imposes Emergency Assessments. For a 1-100 year event for the 2015 hurricane season, Citizens is projected to require no surcharges and/or assessments, as it has sufficient financial resources to meet its potential obligations in a 1-100 year event. For a 1-100 year event for the 2015 hurricane season, the FHCF could potentially have to issue post-event bonds in the amount of \$3.2 billion in order to meet its projected maximum obligation of \$17 billion, which would require a 0.64% emergency assessment over 30 years. FIGA is a guaranty association established in order to pay covered claims of property and casualty insolvent insurers (excluding workers' compensation). FIGA can levy regular assessments and/or emergency assessments in order to pay claims or debt incurred to pay claims of insurers rendered insolvent by the effects of a hurricane. Since 2000, FIGA has levied a regular assessment five times for a total aggregate regular assessment of 6.9% and one emergency assessment of 2%. Each of these assessments were one-time assessments.

APPLICATION OF PROCEEDS OF THE SERIES 2015A BONDS

The proceeds derived from the sale of the Series 2015A Bonds will be used to (i) make deposits to the Series 2015A Bonds Proceeds Subaccount to provide funds to, among other things, pay from time to time policy claims and other liabilities and expenses giving rise to any one or more Liquidity Shortfalls (as defined herein) within the Coastal Account, and (ii) pay the costs of issuance of the Series 2015A Bonds. Net proceeds of the Series 2015A Bonds deposited in the Series 2015A Bonds Proceeds Subaccount will be invested in Permitted Investments consisting of Non-AMT Tax-Exempt Securities as defined herein. See "INVESTMENTS" herein, and "APPENDIX I - CITIZENS' INVESTMENT POLICIES" attached hereto. Earnings on such Permitted Investments are expected to be one of the sources for payment of interest on the Series 2015A Bonds until the proceeds are drawn to pay claims, if ever.

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ESTIMATED SOURCES AND USES

The proceeds to be received from the sale of the Series 2015A Bonds are expected to be applied as shown below:

	Series 2015A-1 Bonds	Series 2015A-2 Bonds	Total
<u>Sources of Funds</u>			
Par Amount of Bonds	\$700,000,000	\$300,000,000	\$1,000,000,000
Original Issue Premium	<u>93,566,850</u>	<u>--</u>	<u>93,566,850</u>
Total	\$793,566,850	\$300,000,000	\$1,093,566,850
<u>Uses of Funds</u>			
Deposit to Proceeds Subaccount	\$789,741,695	\$298,533,456	\$1,088,275,151
Issuance Costs ⁽¹⁾	<u>3,825,155</u>	<u>1,466,544</u>	<u>5,291,699</u>
Total	<u>\$793,566,850</u>	<u>\$300,000,000</u>	<u>\$1,093,566,850</u>

⁽¹⁾ Issuance costs include Underwriters' discount, rating agency, legal, accounting, financial advisory, printing and other fees and expenses.

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ESTIMATED DEBT SERVICE SCHEDULE FOR THE OUTSTANDING PRIOR PARITY BONDS

The following table sets forth the estimated debt service requirements on the Prior Parity Bonds (totals may not add due to rounding). There are no Post-Event Bonds outstanding.

Year Ended	Series 2009A-1 Bonds	Series 2010A-1 Bonds	Series 2011A-1 Bonds	Total Debt Service for the Prior Parity Bonds
<u>Dec. 31</u>	<u>Debt Service⁽¹⁾</u>	<u>Debt Service⁽²⁾</u>	<u>Debt Service⁽³⁾</u>	
2015	\$ 42,707,163	\$460,978,894	\$109,647,075	\$613,333,132
2016	434,156,081	338,220,150	115,581,188	887,957,419
2017	353,217,500	537,825,175	23,445,213	914,487,888
2018			145,360,913	145,360,913
2019			187,938,306	187,938,306
2020			179,300,000	179,300,000
Totals	<u>\$830,080,744</u>	<u>\$1,337,024,219</u>	<u>\$761,272,695</u>	<u>\$2,928,377,658</u>

(1) The Series 2009A-1 Bonds outstanding in the principal amount of \$746,585,000 mature in various amounts on June 1 of 2016 and 2017 and are expected to be paid from the proceeds thereof (including investment earnings thereon) on deposit in the Series 2009A-1 Bonds Proceeds Subaccount of the Proceeds Account and the corresponding Reserve Subaccount in the amount of \$864,739, 062, and from other funds legally available therefor.

(2) The Series 2010A-1 Bonds outstanding in the principal amount of \$1,240,000,000 mature in various amounts on each June 1 of 2015 through 2017 and are expected to be paid from the proceeds thereof (including investment earnings thereon) on deposit in the Series 2010A-1 Bonds Proceeds Subaccount of the Proceeds Account and the corresponding Reserve Subaccount in the amount of \$1,427,513,434, and from other funds legally available therefor.

(3) The Series 2011A-1 Bonds outstanding in the principal amount of \$645,000,000 mature in various amounts on each June 1 of 2015 through 2020 and are expected to be paid from the proceeds thereof (including investment earnings thereon) on deposit in the Series 2011A-1 Bonds Proceeds Subaccount of the Proceeds Account and the corresponding Reserve Subaccount in the amount of \$689,527,253, and from other funds legally available therefor.

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**ESTIMATED DEBT SERVICE SCHEDULE FOR THE
PRIOR PARITY BONDS AND SERIES 2015A BONDS**

The following table sets forth the estimated debt service requirements on the Prior Parity Bonds and the Series 2015A Bonds (totals may not add due to rounding). To the extent not drawn to pay claims, interest earnings on the proceeds of the Series 2015A Bonds are expected to be used to offset the debt service thereon. Proceeds of the Series 2015A Bonds are pledged to holders of the Series 2015A Bonds and, to the extent not drawn to pay claims, are expected to be used to offset the debt service thereon.

Year Ended Dec. 31	Total Debt Service for Prior Parity Bonds	Series 2015A-1 Bonds		Series 2015A-2 Bonds		Total Debt Service
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest⁽¹⁾</u>	
2015	\$613,333,132	-	\$17,303,333	-	\$1,510,849	\$632,147,315
2016	887,957,419	-	34,800,000	-	3,031,406	925,788,825
2017	914,487,888	-	34,800,000	-	3,028,594	952,316,482
2018	145,360,913	\$ 50,000,000	33,600,000	\$150,000,000	2,308,027	381,268,940
2019	187,938,306	-	32,400,000	-	1,590,000	221,928,306
2020	179,300,000	150,000,000	28,675,000	150,000,000	795,738	508,770,738
2021		-	24,950,000	-	-	24,950,000
2022		225,000,000	19,350,000	-	-	244,350,000
2023		-	13,750,000	-	-	13,750,000
2024		-	13,750,000	-	-	13,750,000
2025		<u>275,000,000</u>	<u>6,875,000</u>	<u>-</u>	<u>-</u>	<u>281,875,000</u>
Totals	<u>\$2,928,377,658</u>	<u>\$700,000,000</u>	<u>\$260,253,333</u>	<u>\$300,000,000</u>	<u>\$12,264,615</u>	<u>\$4,200,895,606</u>

(1) Based on the initial SIFMA Rate of 0.11% plus a spread of 0.85% for the Series 2015A-2 Bonds maturing June 1, 2018 and on the initial SIFMA Rate of 0.11% plus a spread of 0.95% for the Series 2015A-2 Bonds maturing June 1, 2020.

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DESCRIPTION OF THE SERIES 2015A BONDS

General

The Series 2015A Bonds will be issued pursuant to the Indenture. The following summaries of certain provisions of the Indenture and the Series 2015A Bonds do not purport to be complete and are subject to, and are qualified in their entirety by reference to all of the provisions of the Indenture and the Series 2015A Bonds, including the definitions therein of certain terms. Capitalized terms used in this section but not defined herein shall have the respective meanings ascribed to them in the Indenture. Certain capitalized terms are set forth in "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

The Series 2015A Bonds will be issued as fully registered book-entry only bonds in the denominations of \$5,000 or integral multiples thereof, will be dated as of their date of delivery, and will bear interest from such date, at the rate per annum set forth on the inside front cover of this Official Statement. Interest on the Series 2015A-1 Bonds is calculated based upon a year of 360 days consisting of twelve 30 day months and interest on the Series 2015A-2 Bonds is calculated based on a 365 or 366 day year on the actual days outstanding. Interest on the Series 2015A-1 Bonds is payable on December 1, 2015 and semiannually on each June 1 and December 1 thereafter. Interest on the Series 2015A-2 Bonds is payable monthly in arrears on the first day of each calendar month commencing on August 1, 2015.

The Series 2015A Bonds will not have monthly deposits made to the Principal Account of the Debt Service Account in respect of the principal thereof. The only deposits to such account for the Series 2015A Bonds will occur on each May 25 for principal becoming due on the following June 1. For a further description of the deposit required to be made into the Series 2015A Bonds Principal Sub-subaccount, see "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Flow of Funds – Revenue Account" and "- Certain Covenants – Debt Service Account" herein.

Optional Redemption

Series 2015A-1 Bonds. Each separate maturity of the Series 2015A-1 Bonds is subject to optional redemption in whole or in part, prior to the scheduled maturity date, at a redemption price equal to 100% of the principal amount of the Series 2015A-1 Bonds of such separate maturity to be redeemed, plus accrued interest to the Redemption Date, on or after December 1 of the calendar year immediately preceding the maturity date of the particular Series 2015A-1 Bonds to be redeemed. If a portion of a maturity of the Series 2015A-1 Bonds is to be redeemed, the amount to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-1 Bonds of such maturity to be redeemed by lot.

Series 2015A-2 Bonds. The Series 2015A-2 Bonds are subject to optional redemption prior to their scheduled maturity date, in whole or in part, on any date on or after December 1, 2017, at a redemption price equal to 100% of the principal amount of the Series 2015A-2 Bonds to be redeemed, plus accrued interest to the Redemption Date. If less than all of the Series 2015A-2 Bonds shall be called for redemption, the particular maturity or maturities of Series 2015A-2 Bonds or portions thereof to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-2 Bonds of like maturity to be redeemed by lot.

Book-Entry-Only System

The information in this section concerning the Depository Trust Company (“DTC”), New York, New York and DTC's book-entry only system has been obtained from DTC. Neither Citizens nor the Underwriters make any representation or warranty regarding the accuracy or completeness thereof.

DTC will act as securities depository for the Series 2015A Bonds. The Series 2015A Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee or such other name as may be requested by an authorized representative of DTC. When the Series 2015A Bonds are issued, ownership interests will be available to purchasers only through a book-entry system maintained by DTC (the “Book-Entry-Only System”). One fully-registered bond certificate will be issued for each maturity (or split maturity) of a subseries of the Series 2015A Bonds (subject to any DTC restrictions on the maximum principal amount of a bond certificate) and will be deposited with DTC.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2015A BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE SERIES 2015A BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2015A BONDS OR HOLDERS OF SERIES 2015A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2015A BONDS.

THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORDKEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2015A BONDS, PAYMENT OF PRINCIPAL OF AND INTEREST ON THE SERIES 2015A BONDS TO DTC PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE SERIES 2015A BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 2015A BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DTC PARTICIPANTS AND BENEFICIAL OWNERS OF THE SERIES 2015A BONDS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. ACCORDINGLY, CITIZENS NEITHER MAKES NOR CAN MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

DTC, the world's largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has

a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2015A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2015A Bonds, except in the event that use of the book-entry system for the Series 2015A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2015A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2015A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2015A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2015A Bond documents. For example, Beneficial Owners of the Series 2015A Bonds may wish to ascertain that the nominee holding the Series 2015A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2015A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2015A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Citizens as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2015A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2015A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's

practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Citizens or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or Citizens, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Citizens or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2015A Bonds at any time by giving reasonable notice to Citizens or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, certificates for the Series 2015A Bonds are required to be printed and delivered.

Citizens may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository upon compliance with DTC requirements). In that event, certificates for the Series 2015A Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Citizens believes to be reliable, but Citizens takes no responsibility for the accuracy thereof.

Determination of Series 2015A-2 Bonds Interest Rate

The Series 2015A-2 Bonds will bear interest at the Adjusted SIFMA Rate, payable monthly in arrears on each Interest Payment Date (commencing on August 1, 2015) and computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be. "Interest Payment Date" means, in connection with the Series 2015A-2 Bonds, the first day of each calendar month.

Pursuant to the Indenture, the "Adjusted SIFMA Rate" equals the sum of the SIFMA Rate plus a spread of 0.85% for the Series 2015A-2 Bonds maturing on June 1, 2018 and plus a spread of 0.95% for the Series 2015A-2 Bonds maturing on June 1, 2020.

Pursuant to the Indenture, "SIFMA Rate" means for any day the level of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meets specific criteria established from time to time by the Securities Industry and Financial Markets Association (SIFMA) and is issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day. If such index is no longer published or otherwise not available, the "SIFMA Rate" for any day will mean the level of the "S&P Municipal Bond 7 Day High Grade Index" maintained by Standard & Poor's Securities Evaluations Inc. for a 7-day maturity as published on the Adjustment Date or most recently published prior to the Adjustment Date. If both such indices are no longer available, the "SIFMA Rate" will be the prevailing rate of such index by the Calculation Agent, in consultation with Citizens, for tax-exempt state and local government bonds meeting the then-current Securities Industry and Financial Markets Association criteria.

The Adjusted SIFMA Rate for each maturity will be adjusted Wednesday of each week, or if such day is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day (each an "Adjustment Date"), based upon changes in the SIFMA Rate, as further described below. Such Adjusted SIFMA Rate will be effective the immediately succeeding Thursday.

"U.S. Government Securities Business Day" is defined in the Indenture as any day other than (a) a Saturday, a Sunday, or (b) a day on which the Securities Industry and Financial Markets Association (SIFMA) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities, or (c) a day on which the Calculation Agent is required or permitted by law to close.

Except for the initial Adjusted SIFMA Rate applicable to the Series 2015A-2 Bonds upon their issuance, which shall be determined by J.P. Morgan Securities LLC, as representative of the Underwriters on or prior to the date of issuance of the Series 2015A-2 Bonds, the Adjusted SIFMA Rate will be determined by the Calculation Agent. The Adjusted SIFMA Rate shall be adjusted on each Adjustment Date, based upon the SIFMA Rate published for such week, with the effective date for each adjustment of the Adjusted SIFMA Rate to be each Thursday. Upon the request of the Holder of any Series 2015A-2 Bond, the Calculation Agent will provide the applicable Adjusted SIFMA Rate then in effect. The Indenture Trustee is acting as the initial Calculation Agent with respect to the Series 2015A-2 Bonds. The Adjusted SIFMA Rate will never exceed an interest rate per annum equal to the lesser of the maximum rate permitted by law and 10%.

The determination of the Adjusted SIFMA Rate (absent manifest error) will be conclusive and binding upon Citizens and the Owners of the Series 2015A-2 Bonds. If for any reason the Adjusted SIFMA Rate shall not be established, the Series 2015A-2 Bonds will bear interest at the Adjusted SIFMA Rate last in effect until such time as a new Adjusted SIFMA Rate is established pursuant to the terms of the Indenture.

Interest on the Series 2015A-2 Bonds shall be payable monthly in arrears on August 1, 2015 and on each Interest Payment Date thereafter to the persons in whose names the Series 2015A-2 Bonds are registered at the close of business on the Regular Record Date. Interest on the maturity date of the Series 2015A-2 Bonds shall be payable to the persons to whom principal is payable. Interest payments on the Series 2015A-2 Bonds shall be the amount of interest accrued from and including the date of issuance or the most recent Interest Payment Date on which interest has been paid to but excluding the Interest Payment Date.

If any Interest Payment Date or maturity date falls on a day that is not a Business Day, the payment of interest (and principal due on the maturity date) shall be made on the next succeeding Business Day with the same force and effect as if made on the day such payment was due, and no interest shall accrue for the period from and after such maturity date for such Series 2015A-2 Bonds.

PLEDGE AND SECURITY AGREEMENT

General

A Pledge, Security and Trust Agreement dated as of August 6, 1997, as amended and supplemented (the "Pledge and Security Agreement") among Citizens, as the legislatively-mandated successor in interest to FWUA, and Wells Fargo Bank, National Association, as successor collateral trustee and custodian (the "Collateral Trustee"), secures the Indenture Obligations, any Line of Credit and any Hedge Obligations. The

following summary of the Pledge and Security Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Pledge and Security Agreement, a composite form of which is attached hereto as APPENDIX B. Terms used in this section in capitalized form and not otherwise defined in this Official Statement have the meanings assigned to them in the Pledge and Security Agreement. See "APPENDIX B - COMPOSITE FORM OF THE PLEDGE AND SECURITY AGREEMENT" attached hereto.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

Pursuant to the Pledge and Security Agreement, in order to secure payment of the Senior Secured Obligations (as defined below) when due (whether at the stated maturity, by acceleration, or otherwise) and to secure the performance of Citizens under the Pledge and Security Agreement and under each related Secured Instrument with respect thereto, Citizens assigns and grants to the Collateral Trustee a lien on and security interest in the Collateral for the benefit of the holders of the Senior Secured Obligations, ratably, as provided in the Pledge and Security Agreement.

"Senior Secured Obligations" is defined in the Pledge and Security Agreement to include (i) principal of and interest on outstanding loans under any Line of Credit with respect to the Coastal Account, (ii) principal of and interest on outstanding Indenture Obligations (which will include the Series 2015A Bonds), (iii) amounts payable under the Pledge and Security Agreement in connection with the enforcement and collection of the Collateral, (iv) amounts payable by Citizens in respect of any net payment (other than a termination payment) under certain interest rate hedge agreements with respect to Indenture Obligations or obligations under a Line of Credit, and (v) certain related obligations with respect to the foregoing. Upon issuance of the Series 2015A Bonds, the only Senior Secured Obligations outstanding will be the Series 2015A Bonds and the Prior Parity Bonds. Citizens currently has no outstanding Lines of Credit or loans under any Line of Credit or interest rate hedge agreements with respect to Indenture Obligations.

"Collateral" is defined under the Pledge and Security Agreement to include: (1) Regular Assessments and FHCF Reimbursements and investments, earnings and proceeds thereof or thereon (defined in the Pledge and Security Agreement as "Liquidity Shared Revenues"), (2) Emergency Assessments and investments, earnings and proceeds thereof or thereon (defined in the Pledge and Security Agreement as "Term Shared Revenues"), (3) Net premiums and surcharges collected by Citizens in respect of the Coastal Account, and (4) the Suspense Account, the Liquidity Shared Revenues Account, the Term Shared Revenues Account, the Net Premium and Surcharge Revenues Account and the Citizens Account, all established pursuant to the Pledge and Security Agreement (including all subaccounts therein) and all cash and investments therein and earnings thereon and proceeds thereof.

Distributions of the Collateral

Liquidity Shared Revenues. Pursuant to the Pledge and Security Agreement, there is established with the Collateral Trustee the "Liquidity Shared Revenues Account," into which the Liquidity Shared Revenues are required to be deposited. Unless the Collateral Trustee has received a Notice of Default Distribution (as defined below) from the Bank Agent or the Indenture Trustee, the Collateral Trustee will distribute the Liquidity Shared Revenues (primarily Regular Assessments and FHCF Reimbursements) on the Monthly Distribution Date (as defined below) in the following order: (i) pro rata to the Bank Agent (if a loan under a Line of Credit is then in effect) and the Indenture Trustee based on (a) the amount of unpaid principal of Liquidity Loans (or Term Loans to the extent incurred to refinance such Liquidity Loans) borrowed in respect of such Liquidity Shared Revenues and (b) the amount of outstanding Draws from the Proceeds Account under the Indenture made in respect of such Liquidity Shared Revenues, (ii) to the Bank Agent (if a Line of Credit is then in effect), based on the amount of accrued and unpaid interest on such Liquidity Loans, and (iii) to the extent of any excess, to the Citizens Account established under the Pledge and Security Agreement. Amounts on deposit in the Citizens Account under the Pledge and Security Agreement, so long as no Notice of Default Distribution is then effective, will be distributed by the Collateral Trustee at Citizens' direction.

"Notice of Default Distribution" means notice that (a) Citizens has failed to pay any principal of or interest on any obligation secured by the Pledge and Security Agreement on a parity with the Indenture Obligations, including the Series 2015A Bonds; or (b) any obligation secured by the Pledge and Security Agreement on a parity with the Indenture Obligations, including the Series 2015A Bonds, has been accelerated and remains unpaid. "Monthly Distribution Date" means the twenty-fifth day of each calendar month (or the next business day if such day is not a business day).

Term Shared Revenues. Pursuant to the Pledge and Security Agreement, there is established with the Collateral Trustee the "Term Shared Revenues Account," into which there will be deposited the Term Shared Revenues required to be deposited. Unless the Collateral Trustee has received from the Bank Agent (if a Line of Credit is then in effect) or the Indenture Trustee a Notice of Default Distribution, the Collateral Trustee will distribute Term Shared Revenues (primarily Emergency Assessments) held in the Term Shared Revenues Account on each Monthly Distribution Date immediately after the distribution of Liquidity Shared Revenues as described above, in the following order: (i) pro rata to the Bank Agent (if a Line of Credit is then in effect), the Indenture Trustee and each Hedge Counterparty (if a Hedge Agreement is then in effect), the amount of accrued and unpaid interest on outstanding Term Loans and Indenture Obligations and, with respect to any Hedge Obligations (if a Hedge Agreement is then in effect), any net payments (other than termination payments), in each case, due and payable prior to the twenty-fifth day of the next calendar month, (ii) pro rata to the Bank Agent (if a Line of Credit is then in effect) and the Indenture Trustee based on the unpaid principal of Outstanding Term Loans and Indenture Obligations payable on or before the end of the current Payment Quarter (as defined below) (and, with respect to any Indenture Obligations, less any amounts held in a

Defeasance Sub-subaccount in respect of such Indenture Obligations, plus the redemption premium, if any, payable on the next call date), (iii) to the Indenture Trustee based on the mandatory defeasance payments required to be made on the Indenture Obligations on or before the end of the current Payment Quarter, (iv) to each Hedge Counterparty (if a Hedge Agreement is then in effect), an amount equal to the unpaid termination payment then due and payable, and (v) pro rata to the Bank Agent (if a Line of Credit is then in effect), the Indenture Trustee and each Hedge Counterparty (if a Hedge Agreement is then in effect) based on the amount of fees, expenses and other amounts not described above then due and payable under any Line of Credit then in effect, the Indenture and any Hedge Obligation (if a Hedge Agreement is then in effect). On the last Monthly Distribution Date in each Payment Quarter, after completing the distribution described above in this paragraph, unless the Collateral Trustee has received a Notice of Default Distribution, the Collateral Trustee will distribute all remaining Term Shared Revenues in the following order (i) the amount designated as the "Required Quarterly Prepayment Amount" under any Line of Credit then in effect, (ii) pro rata to the holders of Junior Secured Obligations (if any), an amount equal to the unpaid amounts due and payable with respect thereto, and (iii) to the extent of any excess, to the Proceeds Account established under the Indenture, provided, that to the extent that any such deposit to the Proceeds Account could cause the amount on deposit therein to exceed the outstanding principal amount of all Indenture Obligations theretofore issued, such excess will be transferred to the Citizens Account under the Pledge and Security Agreement.

"Payment Quarter" is defined in the Pledge and Security Agreement to mean, for each year, (i) the period from February 26 through and including May 25 of such year, (ii) the period from May 26 through and including August 25 of such year, (iii) the period from August 26 through and including November 25 of such year and (iv) from November 26 through and including February 25 of the next succeeding year.

Citizens currently has no post-event debt, line of credit, or hedge agreements in effect.

Net Premium and Surcharge Revenues. Pursuant to the Pledge and Security Agreement, there is a designated account established with the Collateral Trustee entitled the "Net Premium and Surcharge Revenues Account" into which all net premiums, surcharges and recoupments, charged or levied by, or otherwise payable to Citizens with respect to the Coastal Account are required to be deposited. Unless the Collateral Trustee has received from the Bank Agent (if a Line of Credit is then in effect) or the Indenture Trustee a Notice of Default Distribution, the Collateral Trustee will from time to time disburse amounts held in the Net Premium and Surcharge Revenues Account as directed by Citizens to be used within 30 days of the disbursement for the payment of loss claims and/or operating expenses, or to make deposits to the Defeasance Subaccount under the Indenture. In addition, unless a Notice of Default Distribution is then effective, on each Monthly Distribution Date, immediately following the distribution of Term Shared Revenues as described above, if any, if a deficiency exists in the deposits described above under the caption "Term Shared Revenues," the Collateral Trustee shall disburse amounts held in the Net Premium and Surcharge Revenues Account in the amounts necessary to cure such deficiencies in the order described under such caption.

Notice of Default Distribution. Following the receipt by the Collateral Trustee of a Notice of Default Distribution (and while such Notice of Default Distribution is in effect), the Collateral Trustee will distribute the Collateral monthly on the date fixed by the Collateral Trustee in the following order: (i) pay or reimburse certain costs and expenses of the Collateral Trustee incurred in connection with the Pledge and Security Agreement until sufficient funds have been allocated to pay or reimburse such costs and expenses in full, (ii) pro rata to the Secured Party Representatives with respect to Senior Secured Obligations, based on the amount of their respective Catch-up Amounts (as defined below), if any, until sufficient funds have been distributed to pay all such Catch-up Amounts in full, (iii) pro rata to the Secured Party Representatives, with respect to Senior Secured Obligations, based on the unpaid amount of their Senior Secured Obligations, and in the case

of any Hedge Obligation (if a Hedge Obligation is then in effect), based on any unpaid amounts then due and payable thereunder (including any termination payments) until sufficient funds have been distributed to pay such amounts in full, (iv) pro rata to the Secured Party Representatives entitled thereto, an amount equal to their respective Catch-Up Amounts with respect to Junior Secured Obligations, (v) pro rata to the Secured Party Representatives, all amounts due and payable with respect to Junior Secured Obligations and (vi) to the extent of any excess, to Citizens or as a court of competent jurisdiction may direct. The term "Catch-up Amount" means, with respect to any Secured Instrument, the amount required to be distributed from the Collateral to the secured party in respect thereof so that, immediately after giving effect to such distribution, the ratio of (a) amounts distributed to such secured party from the Collateral from and after the Initial Default Distribution Date (i.e., the date of the initial distribution made 30 days after the date of the receipt by the Collateral Trustee of a Notice of Default Distribution) in respect of any senior secured or junior secured obligation, respectively, to (b) the sum of all unpaid amounts in respect of such obligations, plus the amount of all distributions from the Collateral made from and after the Initial Default Distribution Date to such secured party in respect of such secured obligation, equals the highest ratio of (x) all amounts distributed to any other secured party from the Collateral from and after the Initial Default Distribution Date in respect of any other secured obligations ranking on parity therewith to (y) the sum of the aggregate unpaid amounts with respect to all secured obligations on parity therewith, plus the amount of all distributions made from the Collateral from and after the Initial Default Distribution Date in respect of such other secured obligations. For purposes of determining the Catch-up Amount with respect to Hedge Obligations and junior secured obligations, if any, only unpaid amounts then due and payable are considered in calculating the amounts referred to in clauses (b) and (y).

Suspense Account. The Suspense Account is established with the Collateral Trustee under the Pledge and Security Agreement. If the Collateral Trustee is not notified as required by the Pledge and Security Agreement and therefore cannot determine how to apply amounts received by it pursuant to the Pledge and Security Agreement, the Collateral Trustee will deposit such amounts in the Suspense Account. The Collateral Trustee will give written notice to each Secured Party Representative and to Citizens of amounts deposited in the Suspense Account, and Citizens will cooperate with the Collateral Trustee and the Secured Party Representatives to determine the appropriate application of such amounts. The Collateral Trustee will transfer amounts in the Suspense Account (including earnings thereon) to the other accounts and subaccounts provided in the Pledge and Security Agreement in accordance with joint written instructions from Citizens, the Indenture Trustee and each Bank Agent (if a Line of Credit is then in effect), or if a Notice of Default Distribution has been received and is effective, in accordance with joint written instructions from the Indenture Trustee and each Bank Agent (if a Line of Credit is then in effect).

Additional Secured Obligations. Citizens may issue additional obligations secured under the Pledge and Security Agreement upon certification to the Collateral Trustee, among other things, that the issuance of such obligations is not prohibited by any Security Instrument (as defined in the Pledge and Security Agreement, including the Indenture) then in effect. The Pledge and Security Agreement does not require Citizens to satisfy any financial covenants or tests prior to issuance of obligations secured thereby, except as may be provided in any such Security Instrument. The Pledge and Security Agreement does not permit the issuance of obligations with a lien superior to Senior Secured Obligations.

Termination of Pledge and Security Agreement upon Execution and Delivery of Master Trust Indenture

Upon the execution and delivery of the Master Trust Indenture, the Pledge and Security Agreement will be terminated and no longer exist. See "APPENDIX J – FORM OF MASTER TRUST INDENTURE" hereto.

SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

Security

The Series 2015A Bonds will be secured solely by and be payable from the Pledged Revenues, as described herein, on a parity with the Prior Parity Bonds, and any Additional Indenture Obligations that may be issued from time to time under the Indenture; provided, however, that the Series 2015A Bonds will not be secured by or payable from (i) any moneys or investments in the Coverage Account, or (ii) moneys or investments in the Defeasance Subaccount (or any sub-subaccount therein) of the Debt Service Account deposited therein in respect of a Series of Indenture Obligations other than the Series 2015A Bonds; and, provided further that the Series 2015A Bonds will not be secured by or payable from any moneys or investments in the Reserve Account for the Prior Parity Bonds or in any subaccount therein. No subaccount is established in the Reserve Account for the Series 2015A Bonds. Indenture Obligations are secured on a parity with Senior Secured Obligations under the Pledge and Security Agreement.

"Pledged Revenues" means, collectively, (a) the undivided fractional interest of the Indenture Trustee in and to any and all Collateral (as defined below), and (b) any and all other moneys and investments held from time to time in the Accounts and Subaccounts established under the Indenture as provided therein, including, without limitation, investment earnings thereon; provided, however, that amounts received by the Indenture Trustee which constitute (i) proceeds of Regular Assessments in anticipation of which Citizens has not made a Draw and (ii) FHCF Reimbursements in excess of the amount of such FHCF Reimbursements required to be deposited into the Proceeds Account in order to fully reimburse the amount of a Draw made in anticipation thereof, in each case, will be deposited immediately upon receipt thereof by the Indenture Trustee in the Citizens Account and will be released to Citizens free and clear of the pledge and lien of the Indenture, except as described below under the caption "Flow of Funds – *Indenture Accounts – Citizens Account*".

Notwithstanding the foregoing, moneys or investments in the Coverage Account, the Debt Service Account or the Reserve Account deposited in respect of a Series of Indenture Obligations other than the Series 2015A Bonds, will not constitute "Pledged Revenues" for, and will not secure, the Series 2015A Bonds. No subaccount in the Reserve Account is established for the Series 2015A Bonds.

"Collateral" is defined in the Indenture to mean any and all amounts and interests pledged or granted to, or otherwise held by, the Collateral Trustee under the Pledge and Security Agreement, but only to the extent that such amounts and interests are derived, result or originate, in any manner whatsoever, from the Coastal Account. These interests include (i) net premium and surcharge revenues (including the Citizens Policyholder Surcharge) collected by Citizens in respect of the Coastal Account; (ii) Regular Assessments as to which Citizens has made Draws; (iii) Emergency Assessments; and (iv) FHCF Reimbursements as to which Citizens has borrowed Liquidity Loans or Term Loans (as defined in the Pledge and Security Agreement) or made Draws, in each case to secure the obligations of Citizens to pay the principal of and interest on Indenture Obligations and to make the deposits required to be made to eliminate any deficit in the accounts or subaccounts under the Indenture, to pay fees and other amounts due and payable under any future Line of Credit that Citizens may obtain for the Coastal Account, and the Indenture, and to pay certain amounts payable by Citizens under any Hedge Obligation or credit enhancement reimbursement obligations. As used in the Indenture, "Collateral" will not include amounts or interests that are derived, result or originate, in any manner whatsoever, from the PLA or the CLA.

The Series 2015A Bonds and all other obligations arising under the Indenture will be direct and general obligations of Citizens' Coastal Account, payable from and secured solely by the Pledged Revenues as provided in the Indenture. No Person, including, without limitation, the holders of the Series 2015A Bonds nor the Indenture Trustee will have a claim against, or recourse to, the PLA or the CLA (including the revenues and assets allocated and allocable or required to be allocated to the PLA or the CLA) in respect of the Series 2015A Bonds or any other obligation arising under, directly or indirectly, the Indenture. Notwithstanding anything to the contrary in the Series 2015A Bonds or the Indenture, the Series 2015A Bonds do not and will not represent or constitute a debt or pledge of the faith and credit or the taxing power of the State or of any political subdivision, municipality or other local agency thereof or of any Assessable Insurer (as defined herein) or Assessable Insured (as defined herein). Citizens has no taxing power.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING.

SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

No Reserve Account

No subaccount is being established in the Reserve Account under the Indenture for the Series 2015A Bonds. Funds in the Reserve Account or Subaccounts therein related to Prior Parity Obligations and any Additional Indenture Obligations that may be issued in the future are not available to make debt service payments on the Series 2015A Bonds.

Additional Indenture Obligations

In addition to the Series 2015A Bonds and the Prior Parity Bonds, other Additional Indenture Obligations may be issued from time to time under the Indenture, either prior or subsequent to the occurrence of a Plan Year Deficit with respect to the Coastal Account and secured on a parity with the Series 2015A Bonds, the Prior Parity Bonds, and other Additional Indenture Obligations issued after the Series 2015A Bonds and outstanding as to the pledge of and lien on the Pledged Revenues for the only purpose of paying all or any portion of, or providing additional liquidity for the future payment of, a Liquidity Shortfall, paying policyholder claims that give rise to a Plan Year Deficit or refunding Outstanding Indenture Obligations. The Indenture Trustee will serve as the trustee for any such Additional Indenture Obligations issued under the Indenture.

The Indenture does not limit the aggregate principal amount of Additional Indenture Obligations that may be issued and does not require Citizens to satisfy any financial covenants or tests prior to issuing such Additional Indenture Obligations; provided, however, that the proceeds of such Additional Indenture Obligations must be either (a) applied to refinance outstanding Indenture Obligations or (b) deposited into a subaccount in the Proceeds Account established for such Additional Indenture Obligations under the Indenture. Proceeds of any such Additional Indenture Obligations may be withdrawn from the corresponding subaccount in the Proceeds Account only upon satisfaction of the certification requirements described below under "*Proceeds Account*." In addition, Citizens may issue or enter into other Senior Secured Obligations under the Pledge and Security Agreement without limit or without satisfying any financial covenants or tests. See "PLEDGE AND SECURITY AGREEMENT" and "INTRODUCTION – Other Indebtedness" herein.

Proceeds Account

The Indenture establishes a trust account designated as the "Citizens Property Insurance Corporation Proceeds Account" (the "Proceeds Account") and a subaccount therein designated as the Citizens Property Insurance Corporation Costs of Issuance Subaccount (the "Costs of Issuance Subaccount"). The Indenture also permits the creation of a separate subaccount within the Proceeds Account with respect to each Series of Indenture Obligations. The Proceeds Account constitutes an irrevocable trust fund to be applied solely as set forth in the Indenture and will be held by the Indenture Trustee separate and apart from all other Accounts, Subaccounts and Sub-Subaccounts under the Indenture and from all other moneys of the Indenture Trustee.

The moneys in the Proceeds Account, including any Subaccounts created for any Series of Indenture Obligations, will be held by the Indenture Trustee in trust and, pending application thereof for the purposes permitted by the Indenture, will be subject to a lien and charge in favor of the Holders of all Indenture Obligations from time to time issued and outstanding under the Indenture and will be held for the security of all such Holders, regardless of whether one or more Subaccounts have been established within the Proceeds Account. It is the intent of the Indenture that all moneys on deposit to the credit of the Proceeds Account and all Subaccounts therein secure the Holders of all outstanding Indenture Obligations equally pending application of such moneys for the purposes permitted in the Indenture. The moneys and investments held on deposit to the credit of the Proceeds Account will be applied solely to provide funds to pay policy claims and other liabilities and expenses giving rise to any one or more Liquidity Shortfalls within the Coastal Account provided, however, that amounts on deposit to the credit of each Subaccount in the Proceeds Account may, at the election of Citizens, be applied to pay principal of and interest on the Series of Indenture Obligations for which such Subaccount was established, make mandatory defeasance deposits in accordance with the provisions of the Indenture and otherwise applied to any lawful purpose of the Coastal Account, as described below. Subject to the conditions described below, Citizens may from time to time make Draws from the Proceeds Account, reimburse the amounts drawn to the Proceeds Account and re-draw amounts from the Proceeds Account.

Except as otherwise described under this subcaption "*Proceeds Account*," from time to time, upon receipt by the Indenture Trustee of a requisition signed by an Authorized Citizens Representative requesting a Draw, and subject further to satisfaction of the conditions set forth in the Indenture, as described under this subcaption "*Proceeds Account*," the Indenture Trustee will transfer amounts from the Proceeds Account to Citizens. Subject to satisfaction of the conditions set forth in the Indenture, as described under the subcaptions "*Proceeds Account*" and "*Flow of Funds*," and subject further to the stated maturities of the Indenture Obligations, Citizens may from time to time obtain a Draw from the Proceeds Account and, in its sole and absolute discretion, reimburse the amounts so drawn to the Proceeds Account and (subject to satisfaction of the conditions set forth in the Indenture and described below) obtain a new Draw in such amounts from the Proceeds Account (it being expressly understood that the reimbursement of prior Draws to the Proceeds Account is not a precondition to Citizens' ability to obtain Draws from amounts remaining in the Proceeds Account, so long as Citizens complies with the requisition requirements of the Indenture); provided, however, that no Draw may be made if Citizens has given written direction to the Indenture Trustee to apply amounts in the Proceeds Account in the manner provided in the Indenture when funds are sufficient to pay all Indenture Obligations.

Upon receipt by the Indenture Trustee of a requisition in compliance with the Indenture requesting a Draw from the Proceeds Account (each a "Requisition"), the Indenture Trustee will transfer amounts from the Proceeds Account to Citizens. The Requisition will be based upon Citizens' reasonable forecast of Annual Debt Service and the sources of revenue within or allocable to the Coastal Account available to pay such Annual Debt Service. Each Requisition must certify that, after giving effect to the proposed Draw, the moneys remaining in the Proceeds Account and the other accounts established pursuant to the Indenture (other than the Defeasance Subaccount of the Debt Service Account), the Pledge and Security Agreement, the Bank Collateral Agreement (if any), any Indenture Obligation Hedge Agreements and any Line of Credit Hedge Agreements and all other amounts reasonably expected to be received by or on behalf of Citizens and attributable to the Coastal Account, will be sufficient to pay the Debt Service Charges on all Indenture Obligations outstanding, the principal and interest on all Loans outstanding under the Line of Credit, if any, all net amounts due under Indenture Obligation Hedge Agreements, if any, and all net amounts due under the Line of Credit Hedge Agreements, if any, in each case as such obligations become due and payable. Each Requisition must specify the purpose for which the Draw is to be made, must specify whether the Draw is to

be made against (a) premiums, surcharges and Emergency Assessments, (b) Regular Assessments or (c) FHCF Reimbursements and must certify, among other things, that there does not then exist an Event of Default or an event that with the passage of time or with a giving of notice or both would constitute an Event of Default.

Prior to obtaining a Draw from the Proceeds Account in anticipation of FHCF Reimbursements, Citizens must provide to the Indenture Trustee a certificate executed by an Authorized Citizens Representative to the effect that Citizens' FHCF reimbursement contract is in full force and effect.

For purposes of the certification required in order to obtain a Draw from the Proceeds Account: (i) the debt service payable on Indenture Obligations no longer outstanding (including Indenture Obligations that have been economically defeased, whether mandatorily or voluntarily) will not be included in the calculation of Annual Debt Service and (ii) the Annual Debt Service payable with respect to the Indenture Obligations in any year subsequent to a year in which there is any deficiency in (a) the Coverage Account, will be increased by such amount as is necessary to make the amount in the Coverage Account equal to the Coverage Account Requirement (as defined in "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto) in the subsequent year and (b) the Reserve Account, will be increased by such amount as is necessary to make the amount in the Reserve Account equal to the Reserve Account Requirement (as defined in "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto) in the subsequent year.

Notwithstanding anything to the contrary contained in the Indenture, upon the written direction of Citizens, the Indenture Trustee will withdraw moneys from the Subaccounts in the Proceeds Account without the existence of a Plan Year Deficit and without regard to the requirements described above for use for any lawful purpose of the Coastal Account, to the extent, but only to the extent, of the principal amount of any Indenture Obligations actually paid or the principal amount of Indenture Obligations in respect of which Citizens has made the mandatory defeasance deposits required by the Indenture; provided, however, that such principal payment or mandatory defeasance deposit shall not have been made from amounts withdrawn from the Subaccounts in the Proceeds Account. Amounts may be withdrawn from the Subaccounts in the Proceeds Account for any of the purposes described in the preceding sentence only upon presentation to the Indenture Trustee of a requisition in the form required by the Indenture and signed by an Authorized Citizens Representative.

Payments will be made by the Indenture Trustee from the Costs of Issuance Subaccount upon written request by Citizens and are not subject to the foregoing conditions on Draws.

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED

AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE" HEREIN AND "APPENDIX J – FORM OF MASTER TRUST INDENTURE".

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

Flow of Funds

The following describes the flow of funds under the Indenture. Upon execution and delivery of the Master Trust Indenture, the flow of funds shall be as set forth in Section 5.03 of the Master Trust Indenture. See "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE – Revenue Account" and "APPENDIX J – FORM OF MASTER TRUST INDENTURE" herein.

Ongoing Revenues. All net premium and surcharges derived from or attributable to the Coastal Account, Emergency Assessments, Regular Assessments and FHCF Reimbursements constituting the "Collateral," will initially be deposited with the Collateral Trustee under the Pledge and Security Agreement. Amounts held by the Collateral Trustee under the Pledge and Security Agreement will be disbursed by the Collateral Trustee to the parties and in the amounts and priorities provided in the Pledge and Security Agreement. See "PLEDGE AND SECURITY AGREEMENT" herein and "APPENDIX B – COMPOSITE FORM OF THE PLEDGE AND SECURITY AGREEMENT" attached hereto. Amounts transferred by the Collateral Trustee to the Indenture Trustee in accordance with the Pledge and Security Agreement will initially be deposited into the Revenue Account established pursuant to the Indenture and are to be transferred to the other accounts and subaccounts provided for therein as described below. See "– Flow of Funds – Revenue Account" below. If Draws have not been made in respect of a Regular Assessment or FHCF Reimbursement, then, in the absence of a payment default or acceleration under the Indenture, proceeds of a Regular Assessment and FHCF Reimbursements, if any, received by the Indenture Trustee will be deposited in the Citizens Account established under the Indenture for disbursement to Citizens. See "– Flow of Funds – Revenue Account" below.

Indenture Accounts. In addition to the Proceeds Account, the Indenture requires that the Indenture Trustee establish a number of different accounts and subaccounts including the following: (i) Revenue Account; (ii) Debt Service Account; (iii) Coverage Account; (iv) Program Costs Account; (v) Citizens Account; and (vi) General Reserve Account.

Revenue Account. The Indenture requires the Indenture Trustee to immediately deposit into the Revenue Account any and all Pledged Revenues received by the Indenture Trustee from or on behalf of Citizens (including, without limitation, any amounts representing the Indenture Trustee's interest in the Collateral which are transferred to the Indenture Trustee by the Collateral Trustee pursuant to the terms of the Pledge and Security Agreement). As described below, including the provisions of the last paragraph of this subcaption "Revenue Account" regarding amounts consisting of Regular Assessments or FHCF Reimbursements in anticipation of which Draws have been made or Liquidity Loans have been obtained ("Liquidity Shared Revenues"), amounts on deposit in the Revenue Account are to be transferred to the other accounts and subaccounts established under the Indenture in the following order of priority:

First, moneys in the Revenue Account (other than Liquidity Shared Revenues) will be deposited into the Debt Service Account as follows: (a) to the Interest Subaccount, an amount equal to 1/6 of the amount of interest payable on the Indenture Obligations on the succeeding Interest Payment Date (less any amount received as capitalized or accrued interest from the proceeds of any Indenture Obligations which is available for such interest payment and less any investment earnings or other amounts on deposit in the Debt Service Account, including, without limitation, amounts deposited pursuant to clause (i) below and available to be applied to the payment of interest on the Indenture Obligations on the next Interest Payment Date); provided, however, that in connection with the Series 2015A-2 Bonds, on the last Business Day of each month starting on July 31, 2015, Citizens shall deposit in the Series 2015A Interest Sub-subaccount an amount equal to the interest on the Series 2015A-2 Bonds coming due on the immediately succeeding Interest Payment Date as described herein; (b) to the Principal Subaccount, an amount equal to 1/12th of the principal of any Indenture Obligations due and payable within the next twelve months less amounts on deposit in the Defeasance Account available to be applied to the principal due and payable within such period; **provided, however, that no monthly deposits in respect of the principal of the Series 2015A Bonds will be required and an amount equal to the principal amount on the Series 2015A Bonds payable annually on each June 1 will be deposited into the Series 2015A Bonds Principal Sub-subaccount on each May 25 preceding such June 1 (see " - Certain Covenants – Debt Service Account" below);** and (c) to the Defeasance Subaccount an amount in respect of each Series of Indenture Obligations as is specified in the supplemental indenture entered into in connection with such Series of Indenture Obligations. Such applications will be subject to adjustment as provided in the Indenture, including, without limitation, as follows: (i) the amount specified in clause (a) of this paragraph will be adjusted to take into account the amounts to be received under any Indenture Obligations Hedge Agreements on or before the succeeding Interest Payment Date, to the extent that such amounts are deposited into the Debt Service Account; (ii) with respect to any Variable Rate Indenture Obligations and Indenture Obligations payable other than semi-annually, the amount specified in clause (a) of this paragraph will be that amount necessary to provide substantially equal monthly payments, as applicable, for the payment of such interest on the payment dates therefor or as otherwise required in order to ensure that sufficient moneys are transferred from the Revenue Account to the Interest Subaccount to pay interest as it becomes due.

Second, to the extent there is then unpaid any Draw made in anticipation of the receipt of any Liquidity Shared Revenues, the amounts consisting of Liquidity Shared Revenues identified in the Draw (or such portion thereof as may be necessary) will be deposited into the Proceeds Account in order to reimburse in full the entire amount of such Draw previously made and unpaid from the Proceeds Account. Once all or a portion of the amount of such Draw is repaid to the Proceeds Account, such amount may be redrawn by Citizens upon compliance with the Draw Requisition procedure described above under "*Proceeds Account*."

Third, to the Reserve Account in the amount necessary to make the amount on deposit in the Reserve Account equal to the Reserve Account Requirement for the Prior Parity Bonds or any future Additional Parity Bonds secured by the Reserve Account; provided that any deficiency in the Reserve Account due to a withdrawal therefrom will be cured within 12 months after such withdrawal as provided in the Indenture and any deficiency in the Reserve Account due to a decrease in the market value of Permitted Investments therein will be cured by March 31 of the Fiscal Year following the valuation of such Permitted Investments pursuant to the Indenture. The Series 2015A Bonds are not secured by the Reserve Account or any separate sub-account therein.

Fourth, to the Coverage Account in the amount necessary to make the amount on deposit in the Coverage Account equal to the Coverage Account Requirement for the Indenture Obligations secured by the Coverage Account; provided any deficiency in the Coverage Account due to a withdrawal therefrom will be cured within 12 months after such withdrawal as provided in the Indenture, and any deficiency in the Coverage Account due to a decrease in the market value of Permitted Investments therein will be cured by March 31 of the Fiscal Year following the valuation of such Permitted Investments pursuant to the Indenture. The Prior Parity Bonds and the Series 2015A Bonds are not secured by the Coverage Account and are not included in the calculation of the Coverage Account Requirement. There are currently no Outstanding Indenture Obligations secured by the Coverage Account.

Fifth, to the Program Costs Account, in the amounts specified in the Indenture for the payment of Program Costs.

Sixth, all remaining money in the Revenue Account, will be deposited into the General Reserve Account.

Notwithstanding the foregoing, so long as (i) no Draw in anticipation of any Liquidity Shared Revenues has been made or, if such a Draw has been made, so long as there is no portion thereof that remains unpaid, and (ii) no default in the payment of principal or interest of any Indenture Obligations exists and no Indenture Obligations have been accelerated, the Indenture Trustee will deposit all Liquidity Shared Revenues received by it immediately into the Citizens Account for disbursement to Citizens as described below under "*Citizens Account*." While any portion of a Draw made in anticipation of any Liquidity Shared Revenues remains unpaid, the Indenture Trustee will transfer the Liquidity Shared Revenues identified in the requisition pursuant to which such Draw has been made from the Revenue Account to the Proceeds Account as described in paragraph "Second" above. The Indenture Trustee may not transfer to the Citizens Account any of the Liquidity Shared Revenues identified in the requisition pursuant to which a Draw in anticipation of Liquidity Shared Revenues is made until such Draw has been fully reimbursed to the Proceeds Account.

Certain Covenants

Debt Service Account. The Debt Service Account will consist of amounts deposited therein for the payment of debt service on the Indenture Obligations. There are established within the Debt Service Account: (i) an interest subaccount (the "Interest Subaccount"), (ii) a principal subaccount (the "Principal Subaccount"), and (iii) a defeasance subaccount (the "Defeasance Subaccount"), which will include a sub-subaccount (each, a "Defeasance Sub-subaccount") for each Series of Indenture Obligations for which mandatory defeasance deposits are required under the Indenture.

Amounts deposited in the Interest Subaccount and the Principal Subaccount will only be applied to pay interest and principal, respectively, on the Indenture Obligations when and as due and payable. Amounts on deposit in the Sinking Fund Subaccount and the Defeasance Subaccount will reduce, and in certain situations eliminate, the requirement that amounts be deposited in the Principal Subaccount and/or the Interest Subaccount, as the case may be, but only for the Additional Indenture Obligations that may be issued in the future for which mandatory sinking fund or defeasance requirements are established in the corresponding supplemental indenture. Amounts on deposit in any Defeasance Sub-subaccount in respect of any Indenture Obligations will be applied solely to the payment of the principal of and interest on such Indenture Obligations and may not be transferred to the Proceeds Account.

Pursuant to the Tenth Supplemental Indenture, no monthly deposits in respect of the principal of the Series 2015A Bonds will be made into the Principal Subaccount of the Debt Service Account. Instead, on each May 25 immediately preceding the Maturity Date of Series 2015A Bonds, deposits shall be made into the Series 2015A Bonds Principal Sub-subaccount in an amount equal to the principal amount of the Series 2015A Bonds becoming due on the following June 1 as described under "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Flow of Funds – Revenue Account" herein.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THE TENTH SUPPLEMENTAL INDENTURE OR ELSEWHERE IN THE INDENTURE, UNDER NO CIRCUMSTANCES, INCLUDING, WITHOUT LIMITATION, DURING THE PENDENCY OF AN EVENT OF DEFAULT, SHALL THE SERIES 2015A BONDS HAVE RECOURSE TO, OR OTHERWISE BENEFIT FROM, ANY AMOUNTS DEPOSITED IN ANY PRINCIPAL SUB-SUBACCOUNT WITHIN THE DEBT SERVICE ACCOUNT IN RESPECT OF THE MATURING PRINCIPAL AMOUNT OF ANOTHER SERIES (OR SUBSERIES) OF INDENTURE OBLIGATIONS.

Reserve Account. The Reserve Account is established pursuant to the Indenture as additional security for the Indenture Obligations issued and outstanding and separate subaccounts may be created therein for each series of Indenture Obligations under the respective supplemental indenture. The Reserve Account is required to be funded in an amount equal to the Reserve Account Requirement, which is an amount equal to 100% of the Maximum Annual Interest on all Indenture Obligations outstanding, unless otherwise provided in the Supplemental Indenture providing for a particular Series of Additional Indenture Obligations. For purposes of determining the interest component of Annual Debt Service in order to calculate the Reserve Account Requirement, the interest on Variable Rate Indenture Obligations will be calculated on the basis specified in the Supplemental Indenture authorizing such Variable Rate Indenture Obligations.

There is no Subaccount in the Reserve Account established for the Series 2015A Bonds and such Series 2015A Bonds are not secured by any amounts on deposit in the Reserve Account (which secures only the Prior Parity Bonds) or any subaccount therein for any other Series of Indenture Obligations.

If the amounts on deposit in a respective subaccount within the Reserve Account are at least equal to the applicable Reserve Account Requirement, investment earnings in such subaccount will be transferred on the next succeeding Business Day to and deposited in the Revenue Account.

Coverage Account. There are currently no Outstanding Indenture Obligations secured by the Coverage Account. The Coverage Account is established by the Indenture to provide additional security for any Additional Indenture Obligations unless the Supplemental Indenture pursuant to which they are issued provides that such Additional Indenture Obligations will not be secured by the Coverage Account. The Coverage Account does not secure, and amounts on deposit therein will not be applied for the benefit of, the Prior Parity Bonds or the Series 2015A Bonds. See "APPENDIX A – FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

Program Costs Account. The Program Costs Account is established pursuant to the Indenture to provide for the payment of Program Costs and, if necessary, to cure any deficiencies in the Debt Service Account (excluding amounts in the Defeasance Subaccount) on any Interest Payment Date after the transfer of available amounts in the General Reserve Account. There are currently no funds on deposit in the Program Costs Account.

Citizens Account. Amounts on deposit in the Citizens Account established under the Indenture are to be paid to Citizens free and clear of the lien of the Indenture, provided that (i) there does not then exist under the Indenture a default in any payment of principal or premium, if any, or any mandatory defeasance payment, if any, of any of the Indenture Obligations when due, or a default in any payment of any installment of interest on any of the Indenture Obligations when due or (ii) the Indenture Trustee has not accelerated the maturity of the Indenture Obligations pursuant to the Indenture upon the occurrence of an Event of Default thereunder. If, during the pendency of an event described in the foregoing clause (i) or (ii), the amount in the Debt Service Account is insufficient to pay all amounts payable on the Indenture Obligations therefrom on (or in the event of such an acceleration, on or before) the next Interest Payment Date or there is then a deficiency in the Reserve Account or the Coverage Account, then the Indenture Trustee will transfer money from the Citizens Account to the Debt Service Account, the Reserve Account or the Coverage Account, as applicable, in order to cure any deficiencies therein, prior to any transfer of moneys from the other Accounts or Subaccounts established under the Indenture. There are currently no funds on deposit in the Citizens Account.

General Reserve Account. There are currently no funds on deposit in the General Reserve Account. Whenever for any reason on an Interest Payment Date, the amount in the Debt Service Account (excluding amounts in the Defeasance Subaccount thereof) is insufficient to pay all amounts payable on the Indenture Obligations therefrom on such payment date, the Indenture Trustee will transfer the amount of any such deficiency from any moneys available in the General Reserve Account into the Debt Service Account to be applied to pay the Indenture Obligations. Any deficiencies in the Debt Service Account will be made up first from the General Reserve Account before applying amounts available in the Program Costs Account or the Reserve Account to cure any such deficiencies. After all deficiencies in the Debt Service Account are cured, amounts in the General Reserve Account will be applied to cure any deficiency, first, in the Reserve Account, and, second, in the Program Costs Account. There is no assurance that there will be moneys on deposit in the General Reserve Account at any given time.

At the written request of Citizens, the Indenture Trustee will apply amounts, if any, on deposit in the General Reserve Account to (i) pay debt service on Subordinate Debt or (ii) purchase Indenture Obligations at a purchase price not to exceed 100% of the par amount of the Indenture Obligations to be purchased; provided, however, that amounts in the General Reserve Account will not be applied to pay debt service on such Subordinate Debt or to purchase Indenture Obligations if there then exists a deficiency in the Debt Service Account, the Reserve Account, the Coverage Account or the Program Costs Account; provided further, that prior to applying Pledged Revenues to pay debt service on Subordinate Debt or to purchase Indenture Obligations as described in (i) and (ii) above, Citizens must deliver a Requisition to the effect described above under the caption "*—Proceeds Account.*" In addition, Citizens may from time to time direct the Indenture Trustee to transfer all or any portion of the money in the General Reserve Account into (i) the Debt Service Account to be applied to pay the principal due and payable on Term Indenture Obligations on the immediately succeeding maturity date or the mandatory sinking fund redemption date, as applicable, (ii) the Defeasance Subaccount of the Debt Service Account to be applied to pay the principal due and payable on Indenture Obligations on the immediately succeeding maturity date, or (iii) the Proceeds Account to the extent there is not a deficiency in the Debt Service Account, Reserve Account, Coverage Account or Program Costs Account. On the last Business Day of each Fiscal Year, amounts on deposit in the General Reserve Account will be transferred to the Revenue Account, but only to the extent that there does not then exist a deficiency in the Debt Service Account, the Reserve Account, the Coverage Account or the Program Costs Account.

Investment of Money in Accounts and Subaccounts. All money on deposit in the accounts and subaccounts established under the Indenture will be invested and reinvested only in Permitted Investments

applicable thereto (as defined in "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto). See "INVESTMENTS" herein and see "APPENDIX I - CITIZENS' INVESTMENT POLICIES" attached hereto, for a description of Citizens' taxable and tax-exempt investment policies, including the standards for the investment of tax-exempt proceeds and operating funds, and for a summary of investments in such accounts and subaccounts. Additionally, with respect only to the investment of the Debt Service Account, Permitted Investments to the credit of the Debt Service Account (or any Subaccount thereof) must either (a) mature not later than the respective dates when they will be required for the purposes of the Accounts or the Subaccounts to which they are allocated or (b) be subject to a forward sale agreement or other similar arrangement with a counterparty rated in one of the three highest rating categories (without regard to any gradations within such categories) of the Rating Agencies, pursuant to which the money invested will be available not later than the respective dates when they will be required for the purposes of the subaccounts to which they are allocated.

Revenues. Citizens agrees pursuant to the Indenture to fix, levy, charge and collect sufficient funds, including, without limitation, Citizens Policyholders Surcharge, Regular Assessments and Emergency Assessments, in respect of the Coastal Account, in accordance with and to the extent permitted by the Plan, the Act and other applicable law (together with the proceeds of the Indenture Obligations, and investment earnings thereon, policy premiums and surcharges relating to the Coastal Account and amounts available under any Line of Credit), which will be sufficient to pay its Annual Debt Service and all of its obligations with respect to the Coastal Account when due.

Collection of Assessments and Other Moneys. Citizens agrees to cause all Regular Assessments, Emergency Assessments, policy premiums and other surcharges, in respect of the Coastal Account, to be levied as soon as is reasonable (and, (x) in the case of the Emergency Assessments collected by the Assessable Insurers, other Accounts within Citizens or special purpose insurance companies, to be remitted to the Collateral Trustee or to Citizens, as applicable, no less frequently than monthly and (y) in the case of Regular Assessments and Emergency Assessments collected by the Surplus Lines Agents and/or the Surplus Lines Service Office, to be remitted to the Collateral Trustee or to Citizens, as applicable, at the times provided in the Plan) and will impose and enforce obligations for the payment thereof, in order that the amount of the Regular Assessments, Emergency Assessments, policy premiums and other surcharges collected in respect of the Coastal Account to be sufficient to satisfy the requirements described in the immediately preceding paragraph; provided that (i) Citizens will levy Regular Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under the Indenture, (A) if the first Draw is made in the same Plan Year that the event causing the Plan Year Deficit occurred, not later than July 1 of the year following the end of the Plan Year in which the event occurred and (B) if the first Draw is made in the year following the Plan Year in which the event causing the Plan Year Deficit occurred, not later than the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit and (ii) Citizens will levy, and will direct the Assessable Insurers, other Accounts within Citizens and special purpose insurance companies to collect Emergency Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under the Indenture, (A) if the first Draw is made in the same Plan Year that the event causing the Plan Year Deficit occurred, not later than September 1 of the year following the end of the Plan Year in which the event occurred and (B) if the first Draw is made in the year following the Plan Year in which the event causing the Plan Year Deficit occurred, not later than April 1 of each year following the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit.

Upon execution and delivery of the Master Trust Indenture, the time limits described in clauses (i) and (ii) of the preceding paragraph for the levy of Regular Assessments and Emergency Assessments will be modified as set forth in Section 10.03 of the Master Trust Indenture. See "PROSPECTIVE AMENDMENT

AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE – Collection of Assessments and Other Moneys” herein and “APPENDIX J – FORM OF MASTER TRUST INTEDENTURE” hereto.

Limitation on Liens. Except as otherwise permitted or required by the Indenture, Citizens agrees not to sell, lease, pledge, assign or otherwise encumber or dispose of its interest in the Pledged Revenues or any portion thereof, and to promptly pay or make its best efforts to cause to be discharged, or make adequate provision in the judgment of the Indenture Trustee to discharge, any lien or charge on any part thereof not permitted by the Indenture.

PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE

THE INDENTURE IS TO BE AMENDED AND RESTATED IN ITS ENTIRETY THROUGH A MASTER TRUST INDENTURE THAT WILL BECOME EFFECTIVE AND GOVERN THE SERIES 2015A BONDS WHEN THE PRIOR PARITY BONDS (AS DEFINED HEREIN AND WHICH DOES NOT INCLUDE THE SERIES 2015A BONDS) ARE NO LONGER OUTSTANDING UNDER THE INDENTURE (WHETHER THROUGH DEFEASANCE OR MATURITY). BY THEIR PURCHASE OF THE SERIES 2015A BONDS, THE PURCHASERS OF THE SERIES 2015A BONDS WILL HAVE CONSENTED TO AND APPROVED (I) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (II) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE IN SUBSTANTIALLY THE FORM ATTACHED HERETO AS APPENDIX J, (III) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, AND (IV) THE CONVERSION OF THE SERIES 2015A BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE. THE PURCHASERS OF THE SERIES 2015A BONDS ARE DEEMED TO HAVE CONSENTED TO ALL OF THE FOREGOING. SEE “PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE” HEREIN AND “APPENDIX J – FORM OF MASTER TRUST INDENTURE”.

PROSPECTIVE PURCHASERS OF THE SERIES 2015A BONDS SHOULD ASSUME THAT THE MASTER TRUST INDENTURE AND THE AMENDMENT AND RESTATEMENT OF THE INDENTURE WILL BECOME EFFECTIVE DURING THE PERIOD OF TIME THAT SUCH PURCHASERS WILL HOLD THE SERIES 2015A BONDS.

Pursuant to the Resolution and the Tenth Supplemental Indenture, Citizens expressed its desire to amend and restate in its entirety the Original Indenture as previously amended to date with such amendments to be effective not earlier than the Conversion Date (as defined herein). A form of the amended and restated Indenture (the “Master Trust Indenture”) is attached hereto as “APPENDIX J – FORM OF MASTER TRUST INDENTURE”. The Tenth Supplemental Indenture defines “Conversion Date” to mean the earlier to occur of (a) June 2, 2020, which is the day after the last Prior Parity Bonds are scheduled to mature in accordance with their stated maturity dates (the “Scheduled Conversion Date”), or (b) the date on which none of the Prior Parity Bonds are Outstanding under the Indenture as a result of the Issuer’s legal defeasance of the Prior Parity Bonds prior to their stated maturity dates; provided, however, that notwithstanding anything to the contrary contained in the Tenth Supplemental Indenture or in any future Supplemental Indenture, the Conversion Date shall not occur or be deemed to have occurred for so long as there are any Prior Parity Bonds that remain Outstanding under the Indenture. The Series 2015A Bonds are not Prior Parity Bonds.

By virtue of their purchase of the Series 2015A Bonds, the purchasers thereof will have consented to and approved (i) the amendment and restatement of the Indenture in its entirety, (ii) the execution and delivery of the Master Trust Indenture, and (iii) the conversion of the Series 2015A Bonds that mature after the Conversion Date from obligations issued and secured under the provisions of the Indenture to obligations issued and secured under the provisions of the Master Trust Indenture. The Master Trust Indenture will be executed and delivered by Citizens and the Master Trustee on or after the Conversion Date and not before such date. A form of the Master Trust Indenture is attached as Exhibit B to and approved by the Tenth Supplemental Indenture. After the issuance of the Series 2015A Bonds, the form of the Master Trust Indenture set forth as Exhibit B to the Tenth Supplemental Indenture may be amended and revised only if, and to the extent, that the change, insertion or omission is of a nature or character that if it were being made to the Indenture, such change, insertion or omission would be permitted pursuant to Section 9.02 of the Indenture without the consent of any Holder of Indenture Obligations then Outstanding.

A principal structural change that will be effected through the amendment and restatement in its entirety of the Indenture by the Master Trust Indenture is the elimination of the Pledge and Security Agreement. Upon the execution and delivery of the Master Trust Indenture, the Pledge and Security Agreement will be terminated and no longer exist and the Master Trust Indenture will serve as the principal security document for all Senior Secured Obligations, consisting of Bonds, Bank Facilities and regularly scheduled payments under a Related Hedge Agreement. See “PLEDGE AND SECURITY AGREEMENT – Termination of Pledge and Security Agreement Upon Execution and Delivery of Master Trust Indenture” herein.

Additionally, upon execution and delivery of the Master Trust Indenture, the events of default related to the DOI Agreement that are currently included as Events of Default under the Indenture will not be included in the Events of Default under the Master Trust Indenture. See “DEPARTMENT OF INSURANCE AGREEMENT” herein.

Upon execution and delivery of the Master Trust Indenture, the Series 2015A Bonds then Outstanding will automatically become and be deemed to be “Bonds” and “Senior Secured Obligations” issued and outstanding under the provisions of the Master Trust Indenture for any and all purposes, and the Indenture will be cancelled and terminated and exist no more, except as the same is amended and restated in its entirety by the Master Trust Indenture, and except for the provisions of the Tenth Supplemental Indenture and any future Supplemental Indenture pursuant to which Additional Indenture Obligations are issued that mature after the Conversion Date, to the extent of any provisions of the Tenth Supplemental Indenture or such future Supplemental Indenture that are expressly stated to survive the amendment and restatement of the Indenture and execution and delivery of the Master Trust Indenture and are expressly stated to constitute a “supplemental indenture” for purposes of the Master Trust Indenture. Defined terms used in this “PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE” shall be as defined in “APPENDIX J – FORM OF MASTER TRUST INDENTURE” attached hereto.

The following provisions of the Tenth Supplemental Indenture shall survive the amendment and restatement of the Indenture and the execution and delivery of the Master Trust Indenture and shall be deemed to constitute a “Supplemental Indenture” for all purposes of the Master Trust Indenture with respect to the Series 2015A Bonds that mature after the Conversion Date: Sections 101, 201, 205, 207, 301 and all of Article IV.

Pledged Revenues

Pursuant to the Master Trust Indenture and on and after the Conversion Date, “Pledged Revenues” will be defined to mean:

“Pledged Revenues” means all revenues, income, receipts and money received in any period by or on behalf of Citizens for or on behalf of the Coastal Account, from, (a) FHCF Reimbursements, (b) Emergency Assessments (subject to the last proviso of this definition), (c) Regular Assessments, (d) Net Premiums, (e) Additional Surcharges and Assessments, (f) Legislative Appropriations, and (g) any and all other moneys held from time to time in the Accounts and Subaccounts established under the Master Trust Indenture, any Supplemental Indenture or Bank Credit Agreement as permitted by the Master Trust Indenture, including, investment earnings thereon, except the Proceeds Account, the Reserve Account and any Series Reserve Account (and any investment earnings in such Accounts), and except for moneys that are expressly set aside in a Rebate Account; and provided further, however, that the pledge of Emergency Assessments shall be limited to the extent that applicable law requires that Emergency Assessments be used to pay only certain indebtedness or other obligations.

After the Conversion Date, the Series 2015A Bonds, additional Senior Secured Obligations and all other obligations arising under or permitted by the Master Trust Indenture are special and limited obligations of Citizens attributable solely to the Coastal Account, payable from and secured solely by the Pledged Revenues and secured as provided in the Master Trust Indenture together with all money and securities held by or on behalf of the Trustee in all of the Accounts or Subaccounts established pursuant to the Master Trust Indenture, except (a) the Proceeds Account, the Reserve Account or any Series Reserve Account, which are designated to secure only the Bonds, or a specific Series of Bonds as provided in the Master Trust Indenture, and (b) any Rebate Account; all in the manner provided in the Master Trust Indenture. The Holders of Senior Secured Obligations and the Trustee have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or the Commercial Lines Account) in respect of the Series 2015A Bonds, the Senior Secured Obligations or any other obligation arising under the Master Trust Indenture. Notwithstanding anything to the contrary in the Series 2015A Bonds, the Senior Secured Obligations or the Master Trust Indenture, the Series 2015A Bonds and the Senior Secured Obligations do not and shall not represent or constitute a general obligation of Citizens or a debt or pledge of the faith and credit or the taxing power of the State or of any political subdivision, municipality or other local agency thereof.

Except as otherwise provided in the Master Trust Indenture with regard to Net Premiums, Citizens shall, on a monthly basis, pay over to the Trustee all Pledged Revenues. The Trustee shall immediately deposit into the Revenue Account and the Subaccounts therein established any and all Pledged Revenues so received from or on behalf of Citizens, in the manner provided by the Master Trust Indenture. The Pledged Revenues are pledged (as and to the extent provided in the granting clauses and in the definition of “Pledged Revenues” contained in the Master Trust Indenture) as security for the payment of all amounts due with respect to the Series 2015A Bonds and all Senior Secured Obligations, and as security for the performance of any other obligations of Citizens with respect to the Series 2015A Bonds and the Senior Secured Obligations.

The pledge to the Trustee of the Pledged Revenues (as and to the extent provided in the granting clauses and in the definition of “Pledged Revenues” contained in the Master Trust Indenture) as security for the payment of the Senior Secured Obligations and the performance of any other obligations of

Citizens thereunder with respect to the Senior Secured Obligations, shall be valid and binding from the date of execution and delivery of the Master Trust Indenture and the covenants and agreements set forth therein to be performed by or on behalf of Citizens shall be, except as otherwise expressly provided or permitted therein, for the equal benefit, protection and security of the Holders of Senior Secured Obligations, regardless of their times of issue, incurrence or designation thereunder, and maturity, and shall be of equal rank, without preference, priority, or distinction of any one Senior Secured Obligation over any other Senior Secured Obligation.

Except with respect to the Proceeds Account, the Reserve Account, any Series Reserve Account or any Rebate Account, the Accounts and Subaccounts specified in the Master Trust Indenture are established thereunder for the benefit of any and all Senior Secured Obligations issued, incurred or designated under the Master Trust Indenture.

No Reserve Account

Prior to and upon the Conversion Date, there will be no Reserve Account (or subaccount therein) securing the Series 2015A Bonds.

Proceeds Account

The Master Trust Indenture establishes a "Proceeds Account" and within the Proceeds Account two separate subaccounts designated as the "Costs of Issuance Subaccount" and the "Pre-Event Bonds Investment Income Subaccount". The Proceeds Account and the Subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth in the Master Trust Indenture and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under the Master Trust Indenture and from all other moneys of the Trustee. The amounts deposited to the credit of the Proceeds Account (and all Subaccounts therein) secure, and are so pledged to secure, only Bonds and Credit Enhancement Facilities for such Bonds and no other Senior Secured Obligations or Subordinated Indebtedness.

The moneys in the Proceeds Account (and all Subaccounts therein) will be held by the Trustee in trust and, pending application thereof for a Draw therefrom as described below, shall be subject to a lien and charge in favor of the Holders of all Bonds from time to time issued and Outstanding under the Master Trust Indenture and shall be held for the security of all such Holders, regardless of whether one or more Subaccounts shall have been established within the Proceeds Account. The establishment of one or more Subaccounts in the Proceeds Account shall not require, nor be interpreted or construed to mean, that the proceeds of the Series of Bonds for which such Subaccount was established secure only the Holders of such Series of Bonds, it being the intent hereof that all moneys on deposit to the credit of the Proceeds Account and all Subaccounts therein secure the Holders of all Outstanding Bonds equally pending application of such moneys for the purposes permitted in the Master Trust Indenture.

Upon each issuance of a Series of Bonds, the proceeds thereof shall be deposited into the Proceeds Account and be used to (i) pay Costs of Issuance, (ii) refund previously issued Bonds or other indebtedness, (iii) fund the Reserve Account or a Series Reserve Account, if such Series of Bonds is to be secured by the Reserve Account or a Series Reserve Account, or (iv) make a Draw from the Proceeds Account and disbursed to Citizens, all as to be set forth in a certificate of Citizens signed by an Authorized Citizens Representative delivered on the date of issuance of the Series of Bonds; provided, however, that proceeds being used to refund previously issued Bonds or other indebtedness may be

applied directly to such purpose as provided in the applicable Supplemental Indenture and proceeds used to fund the Reserve Account or a Series Reserve Account may be deposited directly to such Accounts. All earnings from the investment of amounts held in the Proceeds Account and the Subaccounts therein constituting or allocable to the proceeds of Pre-Event Bonds shall remain in the Proceeds Account or shall be withdrawn therefrom and be deposited as needed in the Pre-Event Bonds Investment Income Subaccount to pay interest on the Pre-Event Bonds without the need of a requisition.

Post Conversion Draws on the Proceeds Account

Subject to satisfaction of the conditions set forth in the following paragraphs, Citizens may from time to time obtain a Draw from the Proceeds Account and, in its sole and absolute discretion, reimburse the amounts so drawn to the Proceeds Account and (subject to satisfaction of the conditions set forth in the Master Trust Indenture) obtain a new Draw in such amounts from the Proceeds Account (it being expressly understood that the reimbursement of prior Draws to the Proceeds Account shall not be a precondition to Citizens' ability to obtain Draws from amounts remaining in the Proceeds Account, so long as Citizens complies with the requisition requirements of the Master Trust Indenture); provided, however, that no Draw may be made if Citizens shall have given written direction to the Trustee to apply amounts in the Proceeds Account to the payment of principal of, redemption premium, if any and interest and all other payments on all Senior Secured Obligations as provided in the Master Trust Indenture.

The requisition to be submitted by Citizens in order to obtain a Draw shall be based on Citizens' reasonable forecast of Annual Payment Requirements, the Pledged Revenues, amounts held in the Proceeds Account, the Reserve Account, any Series Reserve Account and the expected earnings thereon and other available moneys allocable to the Coastal Account, available to pay the same on a monthly basis. Each such requisition shall specify the purpose of the Draw and shall also specify the specific type or types of Pledged Revenues (FHCF Reimbursements, Emergency Assessments, Regular Assessments, Net Premiums, Legislative Appropriations, and/or Additional Surcharges and Assessments) against which such Draw is to be made. In addition, each such requisition shall contain a certification by an Authorized Citizens Representative to the effect that (i) the sum of (A) the amount then on deposit in the Debt Service Account, (B) the amount to remain on deposit in the Proceeds Account immediately following such Draw and (C) the amount of Pledged Revenues and other available moneys allocable to the Coastal Account reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of reimbursing such Draw or for the payment of principal of and interest on the Bonds in each year through the final maturity of the Bonds then Outstanding, will be sufficient to pay that portion of the Annual Payment Requirements as they become due through the final maturity of the Bonds, on the Bonds then Outstanding; and (ii) the sum of (A) all amounts then on deposit in the accounts established under any Bank Credit Agreement for the payment of Bank Credit Facilities and (B) the amount of Pledged Revenues and other available moneys allocable to the Coastal Account (excluding any such revenues included for purposes of clause (i)(C) hereof) reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of paying the Senior Secured Obligations other than Bonds in each year through the final maturity of Senior Secured Obligations then Outstanding other than Bonds, will be sufficient to pay that portion of the Annual Payment Requirements as they become due through the final maturity of such Senior Secured Obligations, on Senior Secured Obligations Outstanding other than Bonds; and (iii) there does not then exist an Event of Default under the Master Trust Indenture or an event that with the passage of time or the giving of notice, or both, would constitute such an Event of Default.

Prior to obtaining a Draw from the Proceeds Account in anticipation of FHCF Reimbursements (as stated in the requisition), Citizens shall provide to the Trustee a certificate executed by an Authorized Citizens Representative, to the effect that the FHCF Agreement is in full force and effect.

Notwithstanding anything to the contrary contained in the Master Trust Indenture, upon the written direction of Citizens, the Trustee shall withdraw moneys from the Subaccounts in the Proceeds Account without regard to certain other requirements of the Master Trust Indenture, for the purpose of depositing such moneys into the corresponding Principal Subaccount, Sinking Fund Subaccount and/or Interest Subaccount of the Debt Service Account, in order to pay scheduled principal or amortization requirements of and/or interest on the corresponding Series of Pre-Event Bonds.

So long as any Pre-Event Bonds are Outstanding, the Trustee may withdraw from the Pre-Event Bonds Investment Income Subaccount (and any other investment income on deposit in the Proceeds Account) the amounts necessary to make the deposits or payments required by the Master Trust Indenture, including paying the interest on the Pre-Event bonds, and, upon maturity of the Pre-Event Bonds, the principal on the Pre-Event Bonds.

Revenue Account

Pursuant to the Master Trust Indenture, the Trustee will establish a "Citizens Property Insurance Corporation Coastal Account Revenue Account" (the "Revenue Account") and within the Revenue Account five special subaccounts to be known as the FHCF Reimbursements Subaccount, the Emergency Assessments Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Hedge Agreements Subaccount; all of which Subaccounts shall be held by the Trustee.

(a) The Trustee shall immediately deposit upon its receipt thereof any and all Pledged Revenues and Hedge Receipts as follows:

(i) FHCF Reimbursements shall be deposited to the credit of the FHCF Reimbursements Subaccount in the Revenue Account;

(ii) Emergency Assessments shall be deposited to the credit of the Emergency Assessments Subaccount in the Revenue Account;

(iii) Regular Assessments shall be deposited to the credit of the Regular Assessments Subaccount in the Revenue Account;

(iv) Net Premiums shall be deposited to the credit of the Revenue Account or such other Account or Subaccount as may be required to cure any deficiency therein;

(v) Additional Surcharges and Assessments and Legislative Appropriations shall be deposited to the credit of the Additional Surcharges, Assessments and Other Revenues Subaccount in the Revenue Account;

(vi) Hedge Receipts shall be deposited to the credit of the Hedge Agreement Subaccount in the Revenue Account; and

(vii) Any other sources of money not described in the foregoing clauses (i) through (vi) received by Citizens and which may be applied to the payment of debt service on Senior Secured Obligations shall be deposited to the credit of the Additional Surcharges, Assessments and Other Revenues Subaccount in the Revenue Account and applied as directed by Citizens consistent with applicable law.

Except as provided in the Master Trust Indenture, no money deposited in any Subaccount or sub-subaccount established in the Revenue Account shall be commingled with, and instead shall be segregated from, money deposited to the credit of any other such Subaccount or any sub-subaccount established in the Revenue Account.

(b) Notwithstanding anything in the Master Trust Indenture to the contrary, so long as no Event of Default has occurred and is continuing, Citizens shall be entitled to retain (without first depositing such moneys with the Trustee) all Net Premiums, which Net Premiums may be used for any lawful purpose. If in any month, the Trustee determines there are insufficient funds available on deposit in the other Subaccounts within the Revenue Account and, as applicable, the Proceeds Account and the Pre-Event Bonds Investment Income Subaccount therein, to make the transfers required in such month, the Trustee shall notify Citizens of any such deficiency and Citizens shall pay over to the Trustee the amount of such deficiency as soon as practicable, and in any event within thirty (30) days of such request, from Net Premiums. Upon the occurrence and continuance of an Event of Default, Citizens shall, on a monthly basis remit to the Trustee all Net Premiums received. The Trustee shall apply such Net Premiums so received in accordance with the Master Trust Indenture.

(c) Except as hereinafter provided, moneys in the Revenue Account shall be withdrawn by the Trustee at the times and in the amounts provided herein or in a Supplemental Indenture or Bank Credit Agreement, but only in the manner and order specified in the Master Trust Indenture:

(i) Immediately prior to the transfer of Pledged Revenues to the Debt Service Account and the Reserve Account (if any) as described in the Master Trust Indenture, the Trustee shall apply the following amounts:

(1) Amounts on deposit in the Pre-Event Bonds Investment Income Subaccount shall be transferred to the sub-subaccounts in the Interest Subaccount of the Debt Service Account related to Pre-Event Bonds Outstanding, in an amount sufficient to make the deposits or payments required by the Master Trust Indenture with respect to the payment of interest on such Bonds and, to the extent that amounts on deposit in the Pre-Event Bonds Investment Income Subaccount are insufficient to make such deposits or payments, amounts on deposit in the Pre-Event Bonds Investment Income Subaccount shall be transferred to such sub-subaccounts in the Interest Subaccount of the Debt Service Account ratably according to the amount to be deposited or paid. Any excess moneys remaining in the Pre-Event Bonds Investment Income Subaccount shall be used to fund any deficiency in the Reserve Account or Series Reserve Account. In connection with the maturity date of any Pre-Event Bonds, the principal of which will be paid from the corresponding Subaccount in the Proceeds Account, the Trustee shall withdraw from the Proceeds Account the amount directed to be so withdrawn by Citizens pursuant to the Master Trust Indenture, and deposit such funds in the corresponding sub-subaccount of the Principal Subaccount in the Debt Service Account.

(2) Amounts on deposit in the Hedge Agreement Subaccount shall be transferred to the sub-subaccounts in the Interest Subaccount of the Debt Service Account relating to the Bonds with respect to which such Related Hedge Agreements were entered into.

(ii) So long as no Event of Default has occurred and is continuing, at such times as provided in the Master Trust Indenture, the Trustee shall withdraw amounts held in the Subaccounts of the Revenue Account and transfer the same to the Debt Service Account, after making the transfers described above, as follows:

(1) So long as any Post-Event Bonds are Outstanding, the Trustee shall withdraw from the Emergency Assessments Subaccount and transfer to the sub-subaccounts of the Interest Subaccount, the Principal Subaccount and the Sinking Fund Subaccount of the Debt Service Account related to such Post-Event Bonds, the amounts which together with any amounts held in such sub-subaccounts are sufficient to make deposits or payments required by Section 5.04 of the Master Trust Indenture with respect to such Post-Event Bonds or applicable Related Hedge Agreements and, to the extent that the amounts on deposit in the Emergency Assessment Subaccount are insufficient to make such deposits or payments, amounts on deposit in the Emergency Assessment Subaccount shall be transferred to such sub-subaccounts in the Interest Subaccount, the Principal Subaccount and the Sinking Fund Subaccount of the Debt Service Account ratably according to the amount to be deposited.

(2) So long as any amounts are outstanding under any Bank Facility or a Draw from the Proceeds Account has occurred in anticipation of FHCF Reimbursements, Regular Assessments, Additional Surcharges and Assessments or Emergency Assessments, the Trustee shall transfer amounts held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccounts, as follows:

(A) To the Bank Facilities Agent, within the time period (which time period shall be at least three Business Days after the later of the receipt of the notice or availability of funds for payment) and in the amount identified in a written notice from the Bank Facilities Agent as the amount of principal and interest then due and payable under the Bank Facility.

(B) To the Proceeds Account, the amount specified by Citizens in a written requisition to reimburse the Proceeds Account for the Draw or Draws previously made in anticipation of the receipt of FHCF Reimbursements, Regular Assessments, Additional Surcharges and Assessments or Emergency Assessments which have not been reimbursed.

(C) To the extent that amounts on deposit in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount are insufficient to make the transfers described in Section 5.03(c)(ii)(2)(A) and (B) of the Master Trust Indenture,

amounts in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessment Subaccount shall be transferred to the Bank Facilities Agent and to the Proceeds Account ratably according to the amounts to be deposited pursuant to Section 5.03(c)(ii)(2)(A) and (B) of the Master Trust Indenture.

(3) So long as any Pre-Event Bonds are Outstanding, no amounts are owed under any Bank Facility and to the extent that interest payments to be made on such Bonds are not fully funded with amounts transferred from the Pre-Event Bonds Investment Income Subaccount or the Hedge Agreement Subaccount pursuant to Section 5.03(c)(i) of the Master Trust Indenture, the Trustee shall withdraw from the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount, and the Emergency Assessment Subaccounts (in that order) and transfer to the sub-subaccounts established for such Bonds in the Interest Subaccount of the Debt Service Account an amount which, together with other amounts held in such sub-subaccounts, will be sufficient to make the deposits or payments required by Section 5.04 the Master Trust Indenture with respect to interest owed on such Bonds, provided that if the amount held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount are insufficient to make such deposits and payments, the Trustee shall transfer amounts held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount to such sub-subaccounts in the Interest Subaccount of the Debt Service Account ratably according to the amounts required under Section 5.04 of the Master Trust Indenture.

(4) To the extent the amounts on deposit in the Subaccounts of the Revenue Account are insufficient to make the transfers described in Section 5.03(c)(ii)(1), (2) and (3) of the Master Trust Indenture, the Trustee shall notify Citizens pursuant to Section 5.03(b) thereof of the deficiency and request the payment of Net Premiums to the Trustee in the amount of such deficiency, which amount, when received by the Trustee shall be applied to eliminate such deficiency, provided that if such amount transferred by Citizens to the Trustee is less than the amount of such deficiency the Trustee shall apply the amount received ratably to the deficiency in each such Subaccount according to the amount of the deficiency therein.

(iii) Following the occurrence and during the continuance of an Event of Default all Pledged Revenues shall be applied, following the application of amounts described in Section 5.03(c)(i), pursuant to Section 7.06, of the Master Trust Indenture.

(iv) Following the application of Pledged Revenues pursuant to Section 5.03(c)(i) and (ii) of the Master Trust Indenture, the Trustee shall transfer Pledged Revenues to the Reserve Account and any Series Reserve Account as follows:

(1) So long as Post-Event Bonds are Outstanding, the Trustee shall withdraw from the Emergency Assessments Subaccount and transfer to the Subaccounts

in the Reserve Account or any Series Reserve Account securing such Post-Event Bonds amounts required by Section 5.05 of the Master Trust Indenture.

(2) So long as any Pre-Event Bonds are Outstanding, the Trustee shall withdraw from the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount and transfer to the Subaccounts in the Reserve Account or any Series Reserve Account securing such Pre-Event Bonds amounts required by Section 5.05 of the Master Trust Indenture.

(3) To the extent that amounts in the Subaccounts referenced in Section 5.03(c)(iv)(1) and (2) of the Master Trust Indenture are not sufficient to make the transfers described therein, the Trustee shall notify Citizens pursuant to Section 5.03(b) thereof of the deficiency and request payment of Net Premiums to the Trustee over a period of not greater than twenty-four (24) months, in the amount of such deficiency, which amount, when received by the Trustee shall be applied to eliminate such deficiency, provided that if such amount transferred by Citizens to the Trustee is less than the amount of such deficiency, the Trustee shall apply the amounts available ratably to the deficiency in each Subaccount or Series Reserve Account according to the amount of the deficiency therein.

(v) All remaining moneys in the Revenue Account shall be deposited into the Surplus Pledged Revenues Account.

Debt Service Account

Pursuant to the Master Trust Indenture, the Trustee will establish a “Citizens Property Insurance Corporation Coastal Account Debt Service Account” (the “Debt Service Account”) and therein the following subaccounts: a “Citizens Property Insurance Corporation Interest Subaccount” (the “Interest Subaccount”), a “Citizens Property Insurance Corporation Principal Subaccount” (the “Principal Subaccount”) and a “Citizens Property Insurance Corporation Sinking Fund Subaccount” (the “Sinking Fund Subaccount”), with separate sub-subaccounts created therein for each Series of Bonds payable from the Debt Service Account.

The Trustee shall deposit amounts to the sub-subaccounts and Subaccounts in the Debt Service Account as described under “PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE – Revenue Account” herein. The Debt Service Account and the Subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under the Master Trust Indenture and from all other moneys of the Trustee.

At such time or times as provided in the applicable Supplemental Indenture, the Trustee shall from amounts available for such purpose under Section 5.01 and 5.03 the Master Trust Indenture deposit the amounts required by any Supplemental Indenture to be deposited in the appropriate sub-subaccounts in the Interest Subaccount and shall apply such amounts to the payment of interest owed on the Bonds as provided in the Supplemental Indentures, and (ii) if a Related Hedge Agreement provides for any payments thereunder by Citizens relating to interest on a particular Series of Bonds, then, at such time or times as provided in the Related Hedge Agreement, the Trustee shall deliver, to or for the account of the Hedge Counterparty or other appropriate Person designated in the Related Hedge Agreement, the net

amount required by such Related Hedge Agreement (but not any termination or other non-scheduled payments) to be paid thereunder by Citizens relating to interest on Bonds related to such Related Hedge Agreement, provided that if there shall not be sufficient Pledged Revenues to satisfy all such deposits and payments, such deposits and payments shall be made to each such sub-subaccount in the Interest Subaccount and to each appropriate Person designated in such Related Hedge Agreement ratably according to the amount so required to be deposited or paid.

At such time or times as provided in the applicable Supplemental Indenture, the Trustee shall deposit the amounts required by the applicable Supplemental Indenture to be deposited in the appropriate sub-subaccounts in the Principal Subaccount and the Sinking Fund Subaccount for the payment of the principal of Bonds, whether at maturity or pursuant to an amortization requirement, in accordance with such Supplemental Indenture; provided that if there shall not be sufficient Pledged Revenues to satisfy all such deposits and payments, such deposits and payments shall be made to each such sub-subaccount in the Principal Subaccount and Sinking Fund Subaccount, as applicable, ratably according to the amount so required to be deposited or paid.

Surplus Pledged Revenues Account

Pursuant to the Master Trust Indenture, the Trustee will establish a "Citizens Property Insurance Corporation Coastal Account Surplus Pledged Revenues Account" (the "Surplus Pledged Revenues Account"). The Surplus Pledged Revenues Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under the Master Trust Indenture and from all other moneys of the Trustee. Whenever for any reason on any payment date, (i) the amount in the Debt Service Account is insufficient to pay all amounts payable on Bonds on such payment date, or (ii) the amounts available under Section 5.03(c)(ii)(2) of the Master Trust Indenture are insufficient to pay amounts due under a Bank Facility, the Trustee shall, without further instructions, transfer the amount of any such deficiency from the Surplus Pledged Revenues Account into the Debt Service Account to pay Bonds or apply such amounts to such payment required under such Section for the payment of amounts due under Bank Facilities, and if amounts in the Surplus Pledged Revenues Account available for such purpose are insufficient to satisfy such deficiencies, such amounts shall be applied on a prorata basis to such deficiencies. Any deficiencies in the amounts available in the Debt Service Account shall be made up from amounts available in the Surplus Pledged Revenues Account before any amounts are withdrawn from the Reserve Account (or Series Reserve Account) to cure any such deficiencies. After all deficiencies in the Debt Service Account and under such Section are cured, amounts in the Surplus Pledged Revenues Account shall be applied to cure any deficiency in the Reserve Account (or Series Reserve Account).

If all Accounts and Subaccounts under the Master Trust Indenture are fully funded or are otherwise sufficiently funded to satisfy all Annual Payment Requirements payable therefrom or otherwise payable through the end of the then current Fiscal Year and all Draws from the Proceeds Account are fully reimbursed, at the written direction of Citizens signed by an Authorized Citizens Representative, the Trustee shall transfer amounts on deposit in the Surplus Pledged Revenues Account to Citizens or otherwise apply amounts on deposit in the Surplus Pledged Revenues Account as directed by Citizens, including to the payment of Subordinated Indebtedness (to the extent not otherwise paid from other sources); provided that Citizens shall certify to the Trustee that on the date of any such transfer Citizens would satisfy the requirements of the Master Trust Indenture for the withdrawal of \$1 from the Proceeds Account. On the last Business Day of each Fiscal Year, any amounts remaining on deposit in the Surplus Pledged Revenues Account shall be released to Citizens free and clear of the lien of

the Master Trust Indenture, but only if no Event of Default has occurred and is continuing and only to the extent that there does not then exist a deficiency in any Account or Subaccount thereunder or insufficiency in amounts available to pay all amounts due under any Bank Facility or a Related Hedge Agreement not payable from a specific Account or Subaccount; if such a deficiency does exist, amounts in the Surplus Pledged Revenues Account shall first be applied to cure such deficiency and, so long as no Event of Default has occurred and is continuing, the remaining balance, if any, shall be transferred to Citizens.

Procedure When Funds Are Sufficient to Pay All Senior Secured Obligations

If at any time the moneys held by the Trustee in the Accounts and Subaccounts under the Master Trust Indenture and any Supplemental Indenture, Bank Credit Agreement and Related Hedge Agreement and available therefor are sufficient to pay the principal of redemption premium, if any, and interest and all other payments on all Senior Secured Obligations Outstanding to maturity or prior redemption, together with any amounts due the Trustee, Paying Agent, Registrar and any Credit Enhancement Facility Issuer, the Trustee, at the written direction of Citizens signed by an Authorized Citizens Representative (which shall be delivered in the discretion of Citizens), shall apply the amounts in the Accounts and Subaccounts to the payment of the aforesaid obligations and shall not be required to apply any further Pledged Revenues unless and until it shall appear that there is a deficiency in the Accounts and Subaccounts held by the Trustee.

Deposit of Funds Transferred from Indenture

Any moneys transferred to the Trustee on the date of execution and delivery of the Master Trust Indenture pursuant to the Tenth Supplemental Indenture shall be deposited by the Trustee in the Funds, Accounts, Subaccounts and Sub-subaccounts established under the Master Trust Indenture, as follows: (i) amounts transferred from the Series 2015A Bonds Proceeds Subaccount shall be deposited into a Subaccount of the same name established in the Proceeds Account; (ii) amounts transferred from the Series 2015A Bonds Interest Sub-subaccount shall be deposited into a Sub-subaccount of the same name established within the Interest Subaccount in the Debt Service Account; (iii) amounts transferred from the Series 2015A Bonds Principal Sub-subaccount shall be deposited into a Sub-subaccount of the same name established within the Principal Subaccount in the Debt Service Account; and (iv) any amounts transferred from one or more other funds, accounts, subaccounts or sub-subaccounts established under the Indenture shall be deposited into the corresponding Fund, Account, Subaccount or Sub-subaccount established under the Master Trust Indenture as more specifically set forth in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee on or before the Conversion Date.

Any moneys transferred to the Trustee on the date of execution and delivery of the Master Trust Indenture pursuant to the provisions of another indenture supplemental to the Original Indenture pursuant to which Convertible Outstanding Parity Bonds with a maturity date after the Conversion Date remain outstanding shall be deposited by the Trustee into the corresponding Fund, Account, Subaccount or Sub-subaccount established under the Master Trust Indenture as more specifically set forth in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee on or before the Conversion Date.

All amounts transferred from a Fund, Account, Subaccount or Sub-subaccount established under the Indenture to the corresponding Fund, Account, Subaccount or Sub-subaccount established under the Master Trust Indenture shall be applied to the use and purpose of such Fund, Account, Subaccount or

Sub-subaccount thereunder, but only for the benefit of the corresponding Series of Convertible Prior Parity Bonds for which the Fund, Account, Subaccount or Sub-subaccount had been established under the Indenture.

Collection of Assessments and Other Moneys

In the Master Trust Indenture, Citizens will covenant and agree to fix, levy, charge and collect sufficient funds, including, without limitation, Regular Assessments, Additional Surcharges and Assessments and Emergency Assessments, in respect of the Coastal Account, in accordance with the Plan of Operation, the Act and other applicable law, in an amount sufficient, together with Net Premiums and FHCF Reimbursements received by Citizens, the proceeds of the Bonds and amounts available under any other Senior Secured Obligations, to pay the principal of and interest on all Senior Secured Obligations, and all of its obligations in respect of the Coastal Account when due.

Pursuant to the Master Trust Indenture, Citizens will cause all Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments, FHCF Reimbursements and Net Premiums, in respect of the Coastal Account, to be levied as soon as is reasonable (and, (x) in the case of the Emergency Assessments collected by the Insurers, other joint underwriting associations, if any, or special purpose insurance companies, to be remitted to the Trustee or to Citizens, as applicable, no less frequently than quarterly and (y) in the case of Emergency Assessments and Regular Assessments collected by Surplus Lines Agents and/or the Surplus Lines Service Office, to be remitted to the Trustee or to Citizens, as applicable, at the times provided in the Plan of Operation) and shall impose and enforce obligations for the payment thereof, to the end that the amount of the Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments and Net Premiums collected in respect of the Coastal Account shall be sufficient to satisfy the requirements of the previous paragraph; provided that (i) Citizens will levy Citizens Policyholder Surcharges and, if necessary, Regular Assessments, in respect of a Plan Year Deficit paid, in whole or in part, from Draws under the Master Trust Indenture, not later than July 1 after the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit and (ii) Citizens will levy, and will direct the Insurers, other joint underwriting associations (if any), special purpose insurance companies, Surplus Lines Agents and the Surplus Lines Service Office to start to collect, Emergency Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under the Master Trust Indenture, not later than July 1 of each year following the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit and by July 1 of each year thereafter.

A form of the Master Trust Indenture is attached as Exhibit B to and approved by the Tenth Supplemental Indenture. After the issuance of the Series 2015A Bonds, the form of the Master Trust Indenture set forth as Exhibit B to the Tenth Supplemental Indenture may be amended and revised only if, and to the extent that the change, insertion or omission is of a nature or character that if it were being made to the Indenture, such change, insertion or omission would be permitted pursuant to Section 9.02 of the Indenture without the consent of any Holder of Indenture Obligations then Outstanding.

Upon execution and delivery of the Master Trust Indenture, the Series 2015A Bonds then Outstanding will automatically become and be deemed to be “Bonds” and “Senior Secured Obligations” issued and outstanding under the provisions of the Master Trust Indenture for any and all purposes, and the Indenture will be cancelled and terminated and exist no more.

DEPARTMENT OF INSURANCE AGREEMENT

Citizens entered into an Amended and Restated Department of Insurance Agreement dated as of August 1, 2002 among the State of Florida Department of Insurance, the Bank Agent for the financial institutions that are participating as lenders (the "Banks") (if a Line of Credit is then in effect) and the Indenture Trustee (the "DOI Agreement") which contains certain representations, warranties and agreements of the Department on which the Banks and the Indenture Trustee for the benefit of the holders of Indenture Obligations are entitled to rely. The following summary of the DOI Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the DOI Agreement, a copy of which is available from Citizens upon request of the Accounting and Finance Department, Citizens Property Insurance Corporation, 2312 Killearn Center Blvd., Bldg. A, Tallahassee, Florida 32309, 850-513-3955.

In 2003, due to a change in Florida law, duties of the State of Florida Department of Insurance were transferred to the Office of Insurance Regulation (the "Office") and to the Department of Financial Services (the "Department").

Under the DOI Agreement, the Office and the Department, as applicable, represent and warrant, among other things, (i) the Office or the Department, as applicable, has properly authorized the DOI Agreement, (ii) the DOI Agreement constitutes the valid and legally binding obligation of the Office or the Department, as applicable, enforceable in accordance with its terms, and (iii) the Plan is valid and binding on and enforceable against Citizens in accordance with its terms.

The Office or the Department, as applicable, has also agreed in the DOI Agreement to the following:

(a) upon its receipt of Citizens' determination that a Deficit exceeds the amount that will be recovered through a Regular Assessment and that Emergency Assessments must be levied, the Office will promptly verify the arithmetic calculations relating to the proposed Emergency Assessments;

(b) not commence or file, or permit to be commenced or filed, any liquidation, rehabilitation, insolvency, bankruptcy, receivership, conservatorship, reorganization or similar proceedings under any provision of the laws of the State of Florida (including Chapter 631, Florida Statutes or any successor statute) or under any provision of Federal law (a "Delinquency Proceeding") against Citizens; any security interest of the Banks (if a Line of Credit is then in effect), the Indenture Trustee and the Hedge Obligation counterparties (if a Hedge Agreement is in effect) in the Collateral which are imposed and/or collected after the commencement and during the pendency of any Delinquency Proceeding will not be invalidated or impaired and will remain in full force and effect;

(c) not initiate or take any action or (unless mandated or required by the Florida Legislature or a court of competent jurisdiction) consent to any action which, so far as the Office or the Department, as applicable, could reasonably foresee, may impair the security interest of the Banks, the Indenture Trustee and the Hedge Obligation counterparties (if a Hedge Agreement is in effect) or affect the ability of Citizens to perform its obligations under the Indenture, the Line of Credit (if a Line of Credit is then in effect) or the Pledge and Security Agreement;

(d) require Citizens to fulfill all of its obligations under, among other things, the Act, the Plan, the Line of Credit (if a Line of Credit is then in effect), the Indenture and the Pledge and Security Agreement;

(e) not approve or consent to any program the purpose or effect of which is to exempt any Assessable Insureds or holders of Assessable Policies from Emergency Assessments; and

(f) not consent to the dissolution or termination of Citizens, or to certain mergers, or to the creation of a new entity to perform the activities of Citizens, if such creation could have a material adverse effect on the rights of the Banks (if a Line of Credit is then in effect), the Collateral Trustee, the Indenture Trustee, the holders of the Indenture Obligations or any Hedge Obligation counterparty (if a Hedge Agreement is in effect).

The DOI Agreement may be terminated by the Office and the Department when (i) all amounts owed under the Line of Credit (if a Line of Credit is then in effect) have been repaid in full, (ii) all amounts of principal and interest owed on the Indenture Obligations have been economically defeased or paid in full, and (iii) the payment or making of arrangements approved in writing by the Indenture Trustee, the Banks (if a Line of Credit is then in effect), the Collateral Trustee and other Secured Creditors for the payment of all other amounts owed under the Line of Credit (if a Line of Credit is then in effect) and the Related Documents, the Indenture and other Financing Documents.

The Indenture provides that a material misrepresentation, a breach of its material obligations or the termination of the DOI Agreement by the Office or the Department, as applicable, which adversely affects the Collateral or materially adversely affects the rights or remedies of the Indenture Trustee is an Event of Default under the Indenture. See "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto.

The obligations of the Office and the Department, as applicable, under the DOI Agreement are enforceable only by a petition for a writ of mandamus or injunction issued by a court of competent jurisdiction in the enforcement of the rights of the Bank Agent (if a Line of Credit is then in effect) and the Indenture Trustee under the DOI Agreement. There can be no assurance that a court would issue such a writ of mandamus or injunction or that a court would not issue a declaratory judgment that the Office or Department acted in excess of its statutory authority in executing the DOI Agreement and/or an injunction restraining the Office or the Department from performing their respective obligations under the DOI Agreement. Neither the Office nor the Department will be subject to suit for monetary or other damage for breach of the DOI Agreement. In addition, no officer, employee or agent of the Office or the Department in his or her individual capacity will have any personal liability under the DOI Agreement.

Upon the execution and delivery of the Master Trust Indenture as described herein, the DOI Agreement may be made inapplicable to one or more Series of Bonds (other than the Series 2015A Bonds) issued under the Master Trust Indenture as provided in the corresponding supplemental indenture for such Series of Bonds. Additionally, unlike the Indenture, the Master Trust Indenture does not contain any Events of Default related to the DOI Agreement.

FLORIDA PROPERTY AND CASUALTY INSURANCE MARKET

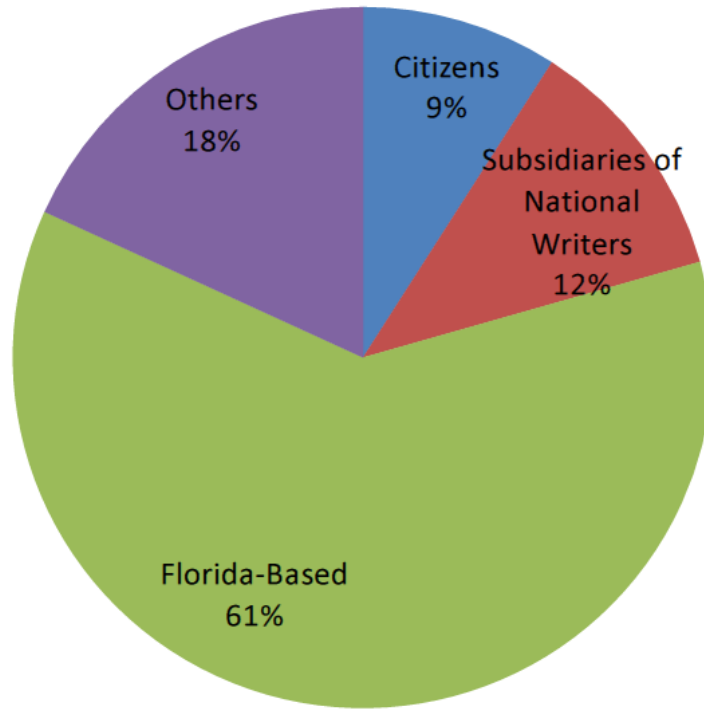
There are currently over 160 companies writing residential property insurance in Florida. These companies can be broadly categorized into four main groups: (i) large national carriers (such as, for example, Liberty Mutual and USAA); (ii) Florida-only subsidiaries (or "Pups") of large national carriers (such as, for example, subsidiaries of State Farm, Allstate, Travelers, and Nationwide); (iii) stand-alone Florida-based companies that write business primarily or only in Florida; and (iv) Citizens. In addition to these admitted

market carriers, which are regulated as to premiums, rates and other matters by the Office, surplus lines carriers, which have unregulated rates and which are otherwise subject to less regulatory scrutiny by the Office, also write residential property insurance in Florida.

The dynamics of Florida's property and casualty insurance market are dominated by the hurricane risk faced by policyholders in the State of Florida. As a result of this risk, private insurance carriers – especially large national carriers – have long sought to limit their property and casualty exposures in Florida. The market today is therefore dominated by smaller companies who write all or most of their business in Florida.

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Market Share Based on Total Insured Value for Policies that Include Wind Coverage
Florida Residential Property Insurance Market
QUASR data as of December 31, 2014



Insurer Category	Total Insured Value (in millions)
Citizens	\$186,205
Subsidiaries of National Writers	\$236,765
Florida-Based	\$1,257,351
Others	\$373,211
Total	\$2,053,533

Notes:

- 1) Includes admitted insurers only
- 2) State farm Florida filed QUASR data as "trade secret" with the Office beginning first quarter 2014. This exhibit reflects values for State Farm Florida as reported for fourth quarter 2013.
- 3) Surplus lines companies are not included in the market share calculation
- 4) Based on total insured value for policies with wind coverage
- 5) Includes Total Insured Value for both personal residential and commercial residential policies that include the peril of wind. Residential policies which exclude the peril of wind are not included in totals above.

The following table shows a breakdown of the top writers of personal residential lines of property insurance in Florida (including State Farm) in Eligible Areas as of December 31, 2014, in the order of largest Total Insured Value for all policies. This table excludes commercial business for each listed carrier and is provided for illustrative purposes.

<u>Carrier</u>	<u>Policies- In-Force</u>	<u>Total Insured Value for All Policies (in millions)</u>	<u>Premium- In-Force (in millions)</u>
State Farm Florida Insurance Company ⁽²⁾	361,493	\$166,191	\$626
Citizens Property Insurance Corporation			
PLA	373,716	66,060	596
Coastal Account	257,761	70,064	509
Universal Property & Casualty Insurance Company	506,227	113,629	753
Federated National Insurance Company	182,557	76,893	341
United Property & Casualty Insurance Company	173,488	69,044	328
Federal Insurance Company	32,076	68,933	177
St. Johns Insurance Company, Inc.	172,349	65,804	279
Heritage Property & Casualty Insurance Company	215,064	61,388	367
American Integrity Insurance Company Of Florida	197,627	60,761	241
Tower Hill Prime Insurance Company	140,728	60,496	230
United Services Automobile Association	124,466	58,350	293
Security First Insurance Company	208,871	57,499	249
Homeowners Choice Property & Casualty Insurance Company, Inc.	177,360	53,701	437
AIG Property Casualty Company	13,937	50,599	140
Olympus Insurance Company	95,249	50,197	177
Florida Peninsula Insurance Company	132,647	47,190	308
ASI Preferred Insurance Corp.	109,307	40,252	136
People's Trust Insurance Company	135,322	39,288	265
Ark Royal Insurance Company	97,121	33,550	123
Tower Hill Signature Insurance Company	99,081	33,280	168
All Other Carriers	<u>2,332,122</u>	<u>696,242</u>	<u>3,297</u>
Totals - All Carriers	6,138,470	\$2,039,411	\$10,041

Notes:

- 1) Includes admitted insurers (and Citizens) writing personal residential property statewide
- 2) State Farm Florida filed QUASR data as "trade secret" with the Office beginning first quarter 2014. This exhibit reflects values for State Farm Florida as reported for fourth quarter 2013.

Source: Citizens Property Insurance Corporation

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It is possible that policy increases in the Coastal Account, PLA and the CLA may occur because of future changes in the voluntary market brought about by additional storms or changes in Florida law, including the Act. In addition, the financial capabilities or conditions of insurers and reinsurers may have a direct impact on the Florida market for property and casualty insurance. Citizens is unable to predict the financial status of other insurers within the State and makes no representation as to the fiscal soundness of any market participant except for Citizens' own representations made herein. However, Citizens' policy count in the Coastal Account has decreased over the last three years ended December 31, 2014 from 460,161 to 282,863 with the total insured value having decreased by 49% over such time period.

State Legislative Influence

Property insurance is a highly regulated industry in the United States with most of the regulatory responsibility held by each individual state. The Florida Office of Insurance Regulation and the Florida Legislature are therefore important entities with significant power to alter the landscape of the insurance industry in the State. Historically, both entities have used their power to try to manage the impacts of the hurricane exposure faced by Florida. The State Legislature has amended the Act significantly during certain of the past legislative sessions. Amendments to the Act were approved during the 2015 regular legislative session (provided, however, the period during which the Governor may veto such legislation has not yet expired).

Additional amendments to the Act may be introduced and passed during future legislative sessions. However, the Act requires that *"[i]n recognition of s. 10, Art. I of the State Constitution, prohibiting the impairment of obligations of contracts, it is the intent of the Legislature that no action be taken whose purpose is to impair any bond indenture or financing agreement or any revenue source committed by contract to such bond or other indebtedness."* See "RISK FACTORS – Future Legislative and Regulatory Changes" herein.

CITIZENS PROPERTY INSURANCE CORPORATION

Background

Citizens is a legislatively-created government entity, originally established in 2002, which provides residential and commercial property and casualty insurance coverage for the owners of certain properties in the State as specified in the Act. Citizens resulted from a legislatively mandated combination of FRPCJUA and FWUA. FRPCJUA was restructured and renamed as Citizens and the rights, obligations, assets, liabilities and all insurance policies of FWUA were transferred to Citizens. See Note 1 to the audited statutory financial statements and audited GAAP financial statements as of December 31, 2013, included as APPENDIX C and D, attached hereto. FRPCJUA and FWUA, both commonly referred to as "residual market mechanisms," were statutorily-created associations to provide property insurance to persons unable to obtain coverage from the voluntary market. Citizens is not subject to Chapter 607 (the Florida Business Corporation Act) or Chapter 617 (the Florida Not-For-Profit Corporation Act), Florida Statutes relating to private and not-for-profit corporations, respectively.

For more information about Citizens, see "CITIZENS BOARD OF GOVERNORS AND SENIOR MANAGEMENT" herein.

Citizens operates pursuant to the Plan which must be approved by the Commission. Citizens is supervised by a nine member Board of Governors (the "Board"). The Governor appoints three members. The Chief Financial Officer of the State of Florida (the "State Chief Financial Officer"), the President of the Florida Senate and the Speaker of the Florida House of Representatives each appoint two members of the Board. At

least one of the two members appointed by each appointing officer must have demonstrated expertise in insurance. The State Chief Financial Officer designates the chairman of the Board. Citizens is subject to regulatory oversight by the Office.

The Plan, which governs certain fundamental business operations of Citizens, is approved and subject to continuous review by the Commission. The Plan was most recently approved by the Commission on October 10, 2013. See "APPENDIX E – CITIZENS PROPERTY INSURANCE CORPORATION PLAN OF OPERATION" attached hereto for a copy of the amended Plan.

The statutory Executive Director and senior managers are engaged by the Board and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

The Board operates in accordance with Florida's government-in-the-sunshine laws, and Citizens is subject to Florida's public records laws with certain exceptions as delineated in the Act.

Citizens' Board and senior managers are subject to certain provisions of Florida's statutory code of ethics for public officers and employees. Citizens has a statutorily mandated Office of the Internal Auditor, which reports to the Board and is not subject to supervision by any employee of Citizens. The Auditor General of the State of Florida (the "Auditor General") and the Office are each required to conduct an operational audit of Citizens every three years to evaluate management's performance in administering laws, policies, and procedures; the most recent audit was completed by the Auditor General in August 2012 and an audit is currently being conducted by the Auditor General but Citizens has not been informed of the expected completion date of such audit.

Citizens is considered a political subdivision of the State for purposes of being exempt from State of Florida and federal income taxation.

The Accounts

A brief history of each Account follows:

Coastal Account – The FWUA, which was a residual market mechanism for windstorm and hail coverage (but no other coverage) in selected areas of the State, was created by an act of the Florida Legislature in 1970 as 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. FWUA provided policies of wind-only insurance for property owners within the Eligible Areas who were unable to obtain such coverage from voluntary market insurers. Insured properties include personal residential, commercial residential and commercial nonresidential properties. This portion of the FWUA's activities became the Coastal Account (formerly entitled the High-Risk Account) under Citizens. The Act has been legislatively amended several times since the FWUA became the Coastal Account. See "THE COASTAL ACCOUNT " herein.

Creditors of the Coastal Account have no claim against the PLA or the CLA. In addition, creditors of the PLA or the CLA have no claim against the Coastal Account. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS" herein.

PLA - The Florida Residential Property and Casualty Joint Underwriting Association began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property and casualty insurance coverage to qualified risks in the State (on a

statewide basis) to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Personal residential property and casualty coverage consists of the types of coverage provided by homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies. The policies provide coverage for all perils covered under a standard personal residential policy, subject to certain underwriting requirements. Such policies exclude windstorm coverage on property within Eligible Areas (see "THE COASTAL ACCOUNT – Eligible Areas" herein). This portion of the FRPCJUA's activities became the PLA under Citizens.

CLA – The Florida Property and Casualty Joint Underwriting Association (the "FPCJUA") was activated in early 1994 to provide commercial residential coverage, i.e., coverage for condominium associations, apartment buildings and homeowner associations for properties located in the State, to persons unable to obtain such coverage from a voluntary market 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. Such legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. These policies excluded windstorm coverage on properties within Eligible Areas. The FRPCJUA commercial nonresidential business became the CLA under Citizens. In addition, on June 1, 2007, Citizens began writing commercial nonresidential wind-only property insurance in the CLA. On that date, Citizens' CLA also assumed the then-outstanding commercial nonresidential wind-only policies from the Property and Casualty Joint Underwriting Association, which was established in 2006 (the "PCJUA"). The PCJUA wrote only commercial nonresidential wind-only coverage in territories not covered by the Coastal Account.

Operations

The Act requires that Citizens should be held to service standards no less than those applied to insurers in the admitted market with respect to responsiveness, timeliness and customer courtesy when dealing with policyholders, applicants or agents. Citizens provides such service using a base of approximately 1,200 employees and a network of outsourcing agreements for certain functions such as information and technology, claims adjusting, and underwriting. Management of Citizens is confident in its current operations infrastructure, but there can be no assurance that Citizens will not face any operational difficulties in the future because of large and/or multiple storms affecting the State. See "CITIZENS BOARD OF GOVERNORS AND SENIOR MANAGEMENT" herein.

Applications for coverage are forwarded to Citizens from private market insurance agents who are paid commissions. Using its own employees and an external service provider, Citizens underwrites and issues policies for qualifying submissions. All underwriting work (internal and external) is subject to quality assurance efforts performed both within the underwriting department and separately from the independent Quality Assurance Department.

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 uses independent adjusting firms more extensively for catastrophic claims than for non-catastrophic claims. Citizens compensates these firms, depending upon the type or nature of the claims, either on per-day rate or on a graduated fee schedule based on the gross claim amount consistent with industry standard methods of compensation.

Citizens' claims department has over 300 full-time employees. The entire claims department is organized around preparing and scaling for, as well as executing against, a major catastrophic event. A

significant amount of non-catastrophe claims, and most catastrophe claims, are handled using independent adjusters, over whom Citizens' staff exercises oversight and quality assurance. Citizens currently has approximately 2,233 fully credentialed and pre-qualified independent adjusters including approximately 653 currently deployed, to handle non-catastrophe claims. In addition, Citizens has contingency access to an additional 3,178 independent adjusters. All independent resources are managed and deployed through Citizens' Administrative Information System (CAIS). This allows for an efficient process to request resources and verify the required information is correct. Citizens engages in catastrophe preparation training with external business partners as well as internal staff. In the event of a catastrophe, Claims Leadership will communicate with Citizens' Vendor Relations Department to request the appropriate number of independent adjusters from Citizens' contracted firms for deployment to handle claims. The independent adjusters participate in a catastrophe orientation prior to receiving claims and being deployed to the affected areas.

Properties

Citizens leases its headquarters and other facilities located in Tallahassee, Florida, and other facilities located in Jacksonville, Florida and Tampa, Florida. Citizens does not currently own any real property.

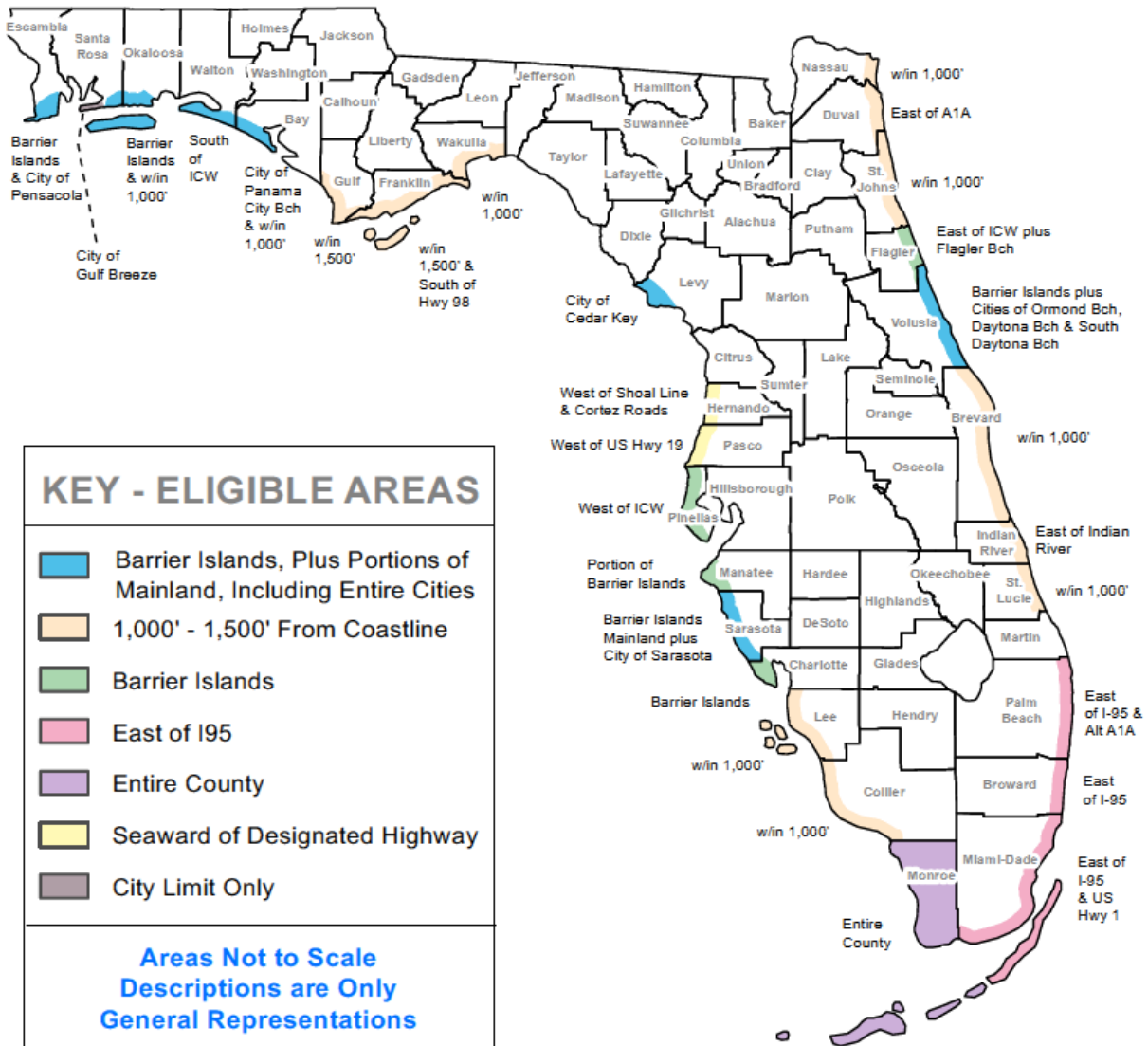
THE COASTAL ACCOUNT

Eligible Areas

The "Eligible Areas" for the Coastal Account has changed over time but currently include portions of 29 of Florida's 35 coastal counties, including all of Monroe County and the area within Port Canaveral. In Miami-Dade, Broward and Palm Beach Counties, all of the areas east of I-95 are eligible, which, in some instances, extends as far as five miles from the coast. Elsewhere in the State, coverage is generally limited to a distance within 1,000 – 1,500 feet from the coast. The boundaries of the Eligible Areas affect the obligation of voluntary market insurers to provide windstorm coverage. Outside of the Eligible Areas, voluntary market insurers must include windstorm coverage in every residential property policy written. Inside the Eligible Areas, voluntary market insurers are free to write policies that exclude windstorm coverage.

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COASTAL ACCOUNT ELIGIBLE AREAS



Source: Citizens Property Insurance Corporation.

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Coastal Account Size

The Coastal Account has historically been a very stable book of business, though on an aggregate basis Citizens has observed a dramatic drop in exposure over the past two years due to both unprecedented participation in its existing Depopulation Plan and the effect of the new Property Insurance Clearinghouse in reducing new business. The majority of exposure reduction has impacted the PLA, but significant depopulation in the Coastal Account has occurred in 2013 and 2014 as well. The following table sets forth the market share of the Coastal Account over the previous five years measured by total insured value.

Market Share of Coastal Account in Eligible Areas⁽¹⁾

<u>2010</u>	<u>2011</u>	<u>2012⁽²⁾</u>	<u>2013</u>	<u>2014⁽³⁾</u>
61%	59%	54%	51%	46%

Source: Citizens Property Insurance Corporation.

- (1) As of December 31st. Voluntary market data is as reported to Citizens' Voluntary Premium Writings Program by participating companies.
- (2) As part of an assumption agreement with Weston Insurance Company, Citizens and Weston Insurance Company entered into a 100% quota share arrangement that resulted in the same overall financial impact as a traditional assumption (depopulation). 2012 market share must reflect the impact of the quota share arrangement since the policies removed by Weston are reflected within ceded written premium to reinsurers rather than within ceded written premium to takeout companies.
- (3) Over \$30 billion of Coastal Account Total Insured Value was depopulated in 2014 but was still being serviced by Citizens as of December 31, 2014. As this insurance is not in force with Citizens and not reported in Citizens' Voluntary Writings Program, it is accounted for in 2014 market share.

Policy counts, Direct Written Premium ("DWP") and Total Insured Value, as of December 31 in the years 2010 through and including 2014, are shown in the table below.

Total Coastal Account Policies in Force, DWP and Total Insured Value

<u>Period Ending</u> <u>December 31</u>	<u>Total Policies-in-Force</u>	<u>DWP</u> <u>(in millions)</u>	<u>Total Insured Value</u> <u>(in millions)</u>
2014	282,863	\$1,003	\$115,615
2013	386,688	1,174	166,387
2012	446,163	1,230	205,377
2011	460,161	1,187	228,910
2010	445,679	1,115	231,256

Source: Citizens Property Insurance Corporation.

The number of policies in force, the DWP and the total insured value of properties covered by the Coastal Account may change as a result of future legislation and other factors beyond the control of Citizens. See "FLORIDA PROPERTY AND CASUALTY INSURANCE MARKET" herein and "RISK FACTORS – Future Legislative and Regulatory Changes" herein. The continued addition of multi-peril policies in the defined wind eligible area has generally been due to the conversion of wind only policies into multi-peril policies. Such conversion has not significantly increased in-force policies or exposure but has increased premium.

Coastal Account Policy Types and Coverages

Citizens provides the following types of commercial and personal residential policies within the Eligible Areas of the Coastal Account. Policies are written on an annual basis and are subject to renewal.

Personal Lines

Florida Statute limits coverage for structures up to \$900,000 for homeowners and dwelling policies and for single condominium units that have a combined dwelling and contents replacement cost of up to \$900,000. Coverage limits are subject to future reductions to \$800,000 in 2016, and \$700,000 in 2017. However, Monroe and Miami-Dade counties are eligible for statutory exception from the reduced coverage limits due to lack of reasonable market activity. These counties have a maximum limit of \$1,000,000. Additional counties may also receive exception by future Office order. Lower coverage limits apply for some lines of business, such as mobile home and renters.

- Personal Residential Wind only (PR-W) – Includes homeowners, dwelling, mobile home, condo unit-owners and tenant contents policies that primarily cover the peril of windstorm & hail and do not include liability coverage.
- Personal Residential Multi-peril (PR-M) – Includes homeowners, dwelling, mobile home, condo unit-owner and tenant contents policies that include perils such as windstorm and hail, water (plumbing related), fire, sinkhole, theft and liability (up to \$100,000 per occurrence).

Commercial Lines

Coverage limits vary by policy type as described below. Statutory reductions of minimum limits do not apply to Commercial Lines policy types.

- Commercial Residential Wind-only (CR-W) - Includes condominium associations, apartment buildings, residential homeowners association buildings, common elements of homeowners associations, fraternities and sororities, convents and monasteries, and continuing care retirement communities. Coverage is primarily provided for the peril of windstorm and hail and does not include liability coverage. There is no maximum building coverage limit for this line of business.
- Commercial Residential Multi-peril (CR-M) - Includes condominium associations, apartment buildings and residential homeowners association buildings, common elements of homeowners associations, fraternities and sororities, convents and monasteries, and continuing care retirement communities. Coverage is provided on a basic perils coverage form that primarily covers windstorm, hail and fire and does not include liability coverage. There is no maximum building coverage limit for this line of business.
- Commercial Nonresidential Wind-only (CNR-W) – Includes nonresidential buildings such as office buildings, gas station buildings, convenience stores and other types of commercial nonresidential property and does not include liability coverage. This program also includes builder's risk policies on a consent to rate basis for single family

homes with a completed value under \$1 million. Coverage is primarily provided exclusively for the peril of windstorm and hail and does not include liability coverage.

- **Commercial Non-residential Multi-Peril (CNR-M)** – Includes nonresidential buildings such as office buildings, gas station buildings, convenience stores and other types of commercial nonresidential property and does not include liability coverage. There is a maximum building coverage limit for this line of business of \$2.5 million, subject to a replacement cost ceiling of \$20 million (e.g. if the replacement value exceeds \$20 million, the \$2.5 million is not available). For buildings with a replacement cost value greater than the maximum limit, coverage may be written for \$2.5 million, using first loss rating methodology to develop the premium. The premium and the application of the percentage hurricane deductible are based upon the full replacement cost of the building.

For personal lines, policy coverages are generally described as Coverage A (principal building), Coverage B (other structure), Coverage C (contents) and Coverage D (living expenses). Commercial Lines coverage is described as Coverage A (building(s)) and Coverage C (business personal property).

The definitions, terms, conditions and applicable coverage are generally provided in a manner similar to that of the private market and are primarily based upon standardized Insurance Services Office, Inc. (ISO) coverage forms. The policies include a number of exclusions from coverage, including, among others, damage caused by floods, scouring and wave wash. Citizens' flood exclusion is generally more constrictive than the flood exclusion typically used by the voluntary market insurers and ISO. For Personal Lines, structures and contents are generally insured on a replacement cost basis. Commercial Lines structures are insured on a replacement cost basis, with business personal property insured at actual cash value. Mobile home building coverage, whether personal residential or commercial, is generally based upon actual cash value. Although valued at actual cash value, newer mobile home partial losses are settled on replacement cost basis.

As of December 31, 2014, the in force policies and exposure for each category of Coastal Account business described above are as follows:

<u>Policy Type</u>	<u>Policies In-force</u>	<u>Total Exposure (in millions)</u>
Personal Residential Wind-only (PR-W)	161,732	\$52,739
Commercial Residential Wind-only (CR-W)	7,751	27,327
Commercial Non-Residential Wind-only(CNR-W)	16,495	10,437
Personal Residential Multi-peril (PR-M)	96,029	17,326
Commercial Residential Multi-peril (CR-M)	656	7,498
Commercial Non-Residential Multi-peril (CNR-M)	<u>200</u>	<u>289</u>
Totals	282,863	\$115,615

Source: Citizens Property Insurance Corporation.

Underwriting Guidelines and Determination of Policy Limits

- Policy underwriting is conducted in accordance with the Act, the Plan and underwriting guidelines, all of which are subject to change from time to time. Underwriting standards are

limited as the Coastal Account is intended to be a residual market mechanism for coverage in the “Eligible Areas”. Nonetheless, Citizens' current underwriting guidelines provide that the following standards must be met:

- ii. The physical condition of the property, including its construction and maintenance, must be satisfactory.
- iii. With the exception of builder's risk policies (i.e. buildings under construction or renovation), properties must (with certain exceptions) be occupied and cannot be vacant.
- iv. The risk must not be so hazardous as to be uninsurable (based upon a likelihood of loss for that risk is substantially higher than for other risks of the same class and upon a determination that the uncertainty associated with the risk is such that an appropriate premium cannot be determined).
- v. The risk (with certain exceptions) must not be constructed partially or entirely over water.
- vi. Policies with three or more non “act of God” losses in the last three years are not eligible for coverage other than under a Dwelling Policy (DP-1).
- vii. For Personal Residential Multi-Peril policies, evidence that electrical, plumbing, roof and heating systems are in good working order is generally required for structures over 30 years old.
- viii. For Personal Residential Policies, properties must provide proof that roofs are not damaged, have no visible signs of leaks and have at least three years of remaining useful life as the roof age approaches its expected lifespan.
- ix. Personal residential homes and dwellings are required to be insured to value (replacement cost) and require use of insurance industry-software to establish reconstruction cost.
- x. For HO-8 policies written at actual cash value, the coverage amount must be between 50-79% of replacement cost and the maximum coverage is \$200,000.
- xi. PRM Mobile homes manufactured prior to 1994 are valued at actual cash value, whereas all PRW and CNR-W Mobile homes are valued at actual cash value. The policyholder must complete a cost estimator to establish depreciated value.
- xii. Commercial residential properties are required to be insured to 100% replacement cost. New business submissions are required to include an *insurance replacement cost* based appraisal.
- xiii. Mobile homes are required to be tied down in accordance with Florida Statute 320.8325.
- xiv. Additional commercial underwriting guidelines for properties older than 30 years require roof updates. Properties without update or with evidence of existing damage or disrepair are considered ineligible for coverage with Citizens until repairs are completed.
- xv. Fraternities / Sororities / Dormitories / Convents and Monasteries occupancy classifications were added to the Commercial Residential programs to enhance Citizens' FHCF reporting, as FHCF coverage is available for these risks.

Premiums and Rates

The Act requires Citizens to file its proposed rates annually with the Office, and requires the Office to issue a final order establishing Citizens' rates within 45 days after receiving such recommendation. Citizens may not challenge or appeal the Office's rate determination. Generally, the Act requires Citizens' rates to be otherwise actuarially sound and consistent with the statutory requirements for private insurers in the State of Florida. Prior to 2010, certain of Citizens rates were at levels required by statute but were not actuarially sound. However, since 2010, Citizens is required to file actuarially sound rates with rate increases of no more than 10% of the prior term's rate until all rates are actuarially sound (with certain exceptions, including surcharges and coverage changes). This legislative change, which became commonly known in Florida as the "glide path," resulted in the Office approving average rate increases for the Coastal Account of 6.7% for policies renewed in 2010, 10.9% for policies renewed in 2011, 8.1% for policies renewed in 2012, 10.4% for policies renewed in 2013, 9.8% for policies renewed in 2014 and 3.9% for policies renewed in 2015.

Assessments, Surcharge and Other Funds

In addition to the net proceeds of the Series 2015A Bonds and any additional Senior Secured Obligations that may be issued, funds of Citizens consist primarily of premium revenue, investment income, surplus (if any) from prior years, FHCF Reimbursements (if losses fall within the contractual coverage provisions), private reinsurance (if Citizens purchases any such reinsurance from time to time and losses fall within the contractual coverage provisions), the hereinafter defined Citizens Policyholder Surcharge (if any), Regular Assessments (if any) and Emergency Assessments (if any).

Funds are applied primarily to the payment of claims and operating expenses. Positive cash flows are invested pending future payments of claims and other expenses. Each of these sources is discussed in this section.

The Act and the Plan establish a process by which Citizens will levy the Citizens Policyholder Surcharge and assessments by Account to recover deficits incurred in a given Plan Year (the twelve-month period beginning 12:01 a.m., January 1 of one year and ending 12:01 a.m., January 1 of the following year). The Plan provides for Plan Year Deficits to be determined in accordance with generally accepted accounting principles ("GAAP") adjusted for certain items ("Adjusted GAAP"). See "FINANCIAL INFORMATION – Adjusted GAAP Surplus for the Coastal Account" herein. Plan Year Deficits for each of Citizens' three Accounts are calculated separately and assessments are levied separately. See "APPENDIX E – CITIZENS PROPERTY INSURANCE CORPORATION PLAN OF OPERATION" attached hereto.

In the event a Plan Year Deficit is incurred in an Account, Citizens will levy, in the following order, a Citizens Policyholder Surcharge, a Regular Assessment and an Emergency Assessment, as described herein. Citizens' current capital structure requires no surcharges or assessments.

Citizens Policyholder Surcharge. In the event of a Plan Year Deficit in any of Citizens' three Accounts, Citizens must first levy a policyholder surcharge (the "Citizens Policyholder Surcharge") against all policyholders of Citizens (across all Accounts) for a 12-month period, which is payable at the time of cancellation or termination of the policy, upon renewal of the policy, or upon issuance of a new policy by Citizens within the first 12 months after the date of the levy or the period of time necessary to fully collect the surcharge amount. The Citizens Policyholder Surcharge is levied as a uniform percentage of the premium for the policy; the maximum for each Account is 15 percent of such premium, which funds will be used to offset

the Plan Year Deficit. Pursuant to the Act, non-payment of the Citizens Policyholder Surcharge is treated as non-payment of premium on the underlying policy.

Regular Assessment. If the Citizens Policyholder Surcharge is projected as insufficient to eliminate the Plan Year Deficit in the Coastal Account, Citizens would then levy a regular assessment ("Regular Assessment") on Assessable Insurers and Assessable Insureds, each as defined herein. Regular Assessments do not apply to Citizens policyholders. Citizens may not levy any Regular Assessments with respect to a particular year's deficit until it has first levied the full amount of the Citizens Policyholder Surcharge. After accounting for the Citizens Policyholder Surcharge, if there is any remaining projected Plan Year Deficit in the Coastal Account then Citizens must levy a Regular Assessment up to a maximum of 2% to recover all or a portion of the projected Plan Year Deficit, under current law. If after levying the Citizens Policyholder Surcharge and Regular Assessments, there remains a projected Plan Year Deficit in any Account in a particular calendar year, Emergency Assessments are levied as described below. See "Emergency Assessments" herein.

Subject to limited statutory exceptions, all insurers authorized to write one or more Subject Lines of Business (as defined herein) in Florida are subject to Regular Assessments by Citizens and are collectively referred to as "Assessable Insurers."

Subject to limited statutory exceptions, surplus lines insureds, who procure one or more of the Subject Lines of Business in the State from an insurer writing such coverage pursuant to Chapter 626, Part VIII, Florida Statutes ("Florida's Surplus Lines Law") are also subject to Regular Assessments by Citizens and are collectively referred to as "Assessable Insureds." Insurance coverage pursuant to Florida's Surplus Lines Law is coverage that cannot be procured from Office-authorized insurers but rather is procured from certain other eligible insurers provided that under Florida law (i) the insurance is eligible for export; (ii) the insurer is an eligible surplus lines insurer; (iii) the insurance is placed through a licensed surplus lines agent; and (iv) the applicable provisions of Florida's Surplus Lines Law are met.

Regular Assessments on Assessable Insurers are levied based upon each Assessable Insurer's share of DWP for the Subject Lines of Business in the State for the calendar year preceding the year in which the deficit occurred. Regular Assessments on Assessable Insureds, collectively, are based on the ratio of the amount being assessed for an Account to the aggregate statewide DWPs for the Subject Lines of Business for the preceding year. Citizens determination of the amount of Regular Assessments to be levied is subject to verification and approval by the Office.

Pursuant to Citizens' Plan, Regular Assessment computations for any Plan Year Deficit will include the expense of making such assessment, uncollected amounts from prior Regular Assessments for that year, and items of revenue, expense or additions to reserves required by any loan agreement, trust indenture or other financing agreement which in the opinion of the Board will affect the need for, or results of, the Regular Assessments.

Assessable Insurers must pay the Regular Assessment within 30 days of the receipt of the notice of assessment, except that an Assessable Insurer qualifying as a limited apportionment company may pay as described below. Except as described below, all Regular Assessments levied on Assessable Insureds are collected at the time a surplus lines agent collects the surplus lines tax required by Florida's Surplus Lines Law. As a result, Regular Assessments are collected from Assessable Insureds over a 12-month period.

For purposes of Regular 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. The Regular Assessment base excludes Citizens policies. The assessment base is very broad and diverse. Approximately 42% of the base is comprised of automobile policies, 23% is comprised of homeowners' policies, and 10% is comprised of commercial policies, with the remaining 25% being comprised of other types of property and casualty insurance policies. There are approximately 880 assessable companies. The top 15 Assessable Insurers represent approximately 30% of assessable premiums. The Regular Assessment base for a 2014 Plan Year Deficit is \$35.2 billion. The 2015 data is not yet available.

The Board may levy interim assessments on Assessable Insurers as necessary for each Account. Such interim assessments will be based upon the projected cash requirements of the Account for the six-month period immediately following the levying of such an interim assessment, and will be subsequently adjusted when the Plan Year Deficit for the Account is credibly projected. The aggregate of all regular and interim assessments on Assessable Insurers and Assessable Insureds for a Plan Year Deficit in the Coastal Account incurred in a particular Plan Year may not exceed the greater of (i) two percent (2%) of the aggregate statewide DWP for the Subject Lines of Business for the preceding calendar year, or (ii) two percent (2%) of the Plan Year Deficit for that Account. All interim assessments collected for the Coastal Account are credited against an Assessable Insurer's Plan Year assessment obligation.

Assessable Insurers may seek recoupment from their policyholders of any Regular Assessment paid by filing an application with the Office to impose a surcharge on their policyholders in the year or years following payment of the Regular Assessment. This recoupment is authorized by Section 627.3512, Florida Statutes.

A Limited Apportionment Company must pay its Regular Assessment in full within 15 months after being levied by Citizens but it may elect to pay Citizens on a monthly basis as the assessments are collected from its insured. An Assessable Insurer may qualify as a "Limited Apportionment Company" if it has surplus of \$25 million or less and writes 25% or more of its total countrywide property insurance premiums in Florida.

An Assessable Insurer may, upon approval by the Office, defer payment of Regular Assessment if its solvency would be endangered or impaired by reason of such assessment. An Assessable Insurer's request for an assessment deferral must be submitted in writing to the Office within twenty one (21) days of the Assessable Insurer's receipt of the notice of assessment.

Under the Plan, if Citizens is unable to collect all amounts assessed against Assessable Insurers within ninety (90) days of the assessments being levied, the uncollected or deferred assessment amounts is levied as an additional assessment against the other Assessable Insurers.

As shown in the table below, Citizens last levied Regular Assessments in 2005 and 2006, respectively.

<u>Year</u>	<u>Principal storms</u>	<u>Assessment (in millions)</u>	<u>Assessment (%)</u>
2006	Hurricanes Katrina and Wilma	\$163.1*	2.07%
2005	Hurricanes Charley, Frances, Ivan and Jeanne	515.0	6.84

*Reflects reduction to the original deficit of \$786.3 million from legislative appropriation as described in the next paragraph.

Source: Citizens Property Insurance Corporation.

For Plan Year 2004, pursuant to the then existing Act and Plan of Operations, Citizens levied a Regular Assessment of 6.8% for a total amount of approximately \$515.0 million. This was Citizens' first Regular Assessment. Pursuant to Citizens' 2005 audited financial statements, Citizens' 2005 Plan Year Deficit equaled approximately \$1.674 billion. Under the Act and the Plan, because such 2005 Plan Year Deficit exceeded 10% of the Regular Assessment base of \$7.863 billion, a Regular Assessment for Plan Year 2005 was required in the approximate amount of \$786.3 million. However, the Florida Legislature appropriated \$715 million to Citizens of which \$623.2 million was used to reduce the Regular Assessment for the Coastal Account that would otherwise be required to address the 2005 Plan Year Deficit. Based on the aggregate 2005 DWP, Citizens levied a Regular Assessment of 2.07% of the DWP, or \$163.1 billion, on September 26, 2006 to satisfy its Regular Assessment requirement of the 2005 Plan Year Deficit.

Because Regular Assessments (with the exception of those levied on Assessable Insureds and Limited Apportionment Companies) are collected within 30 days following levy, Regular Assessments are treated by Citizens as a relatively liquid claims-paying resource. In addition, Citizens' ability to levy interim assessments for an anticipated Plan Year Deficit in the Coastal Account enhances claims-paying resource availability. Citizens has timely received substantially all of the Regular Assessment it has levied. See, however, "RISK FACTORS - Collectability of Surcharge, Assessments and Assessment Base" herein.

The statewide aggregate DWP subject to Regular Assessments is referred to as the "Regular Assessment Base," which increases or decreases over time as insurance rates and the insured value of properties in Florida increase or decrease. The table below shows the change in the Coastal Account Regular Assessment Base over the past five years. At the 2% rate, utilizing the preliminary 2015 Regular Assessment Base of \$37.244 billion, Citizens could levy Regular Assessments with respect to the Coastal Account of up to approximately \$745 million in any one year.

Regular Assessment Base	
<u>Year</u>	<u>Regular Assessment Base (millions)</u>
2015 Regular Assessment Base/2014 DWP	\$37,244
2014 Regular Assessment Base/2013 DWP	35,171
2013 Regular Assessment Base/2012 DWP	33,004
2012 Regular Assessment Base/2011 DWP	31,459
2011 Regular Assessment Base/2010 DWP	30,998

Source: Citizens Property Insurance Corporation.

Emergency Assessments. If the deficit in any year in any Account is greater than the amount that may be recovered through the Citizens Policyholder Surcharge and the Coastal Account Regular Assessments, Citizens is required to cure any remaining Plan Year Deficit by levying an emergency assessment ("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 cure 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' DWP in the assessment base for Emergency Assessments. The statewide aggregate DWP subject to Emergency Assessment is referred to herein as the "Emergency Assessment Base."

The amount of an Emergency Assessment levied in a particular year will be a uniform percentage of that year's DWP, including that of Citizens, for the Subject Lines of Business as determined by the Board and verified by the Office. The aggregate amount of Emergency Assessments levied in any calendar year as a result of a Plan Year Deficit incurred in an Account Year may not exceed the greater of (i) ten percent (10%) of the amount needed to cover the Plan Year Deficit, plus interest, fees, commissions, required reserves, and other costs associated with financing of the original Plan Year Deficit, or (ii) ten percent (10%) of the aggregate statewide DWP, including that of Citizens, for the prior calendar year for the Subject Lines of Business, plus interest, fees, commissions, required reserves, and other costs associated with financing of the Plan Year Deficit. As discussed in connection with the Regular Assessments, the assessment base is very broad and diverse. The Emergency Assessment base for a 2015 Plan Year Deficit is \$39.3 billion.

Citizens' determination of the amount of an Emergency Assessment is subject to verification by the Office. The Act does not provide a time frame for the imposition of Emergency Assessments. See, however, "SECURITY FOR THE SERIES 2015A BONDS AND OTHER SENIOR SECURED OBLIGATIONS – Certain Covenants – Collection of Assessments and Other Moneys" herein for a description of the Indenture covenant with respect to the time frames for the imposition of Emergency Assessments in respect of Plan Year Deficits paid, in whole or in part, from Draws from the Proceeds Account under the Indenture. Assessable Insurers must remit collections of the Emergency Assessments to Citizens on a monthly basis. Pursuant to the Act, non-payment of Emergency Assessments is treated as non-payment of premium on the underlying policy.

Emergency Assessments may be imposed in the year or years following the occurrence of a deficit until the Plan Year Deficit, or any indebtedness incurred to finance such Plan Year Deficit, is paid in full. Following a Plan Year Deficit, Emergency Assessments are expected to be the primary repayment source for Senior Secured Obligations for which proceeds have been applied for the payment of claims and that have not been reimbursed from Regular Assessments or FHCF Reimbursements. The Emergency Assessment Base is equal to the Regular Assessment Base plus Citizens' DWP.

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The table below shows the change in the Emergency Assessment Base over the past five years.

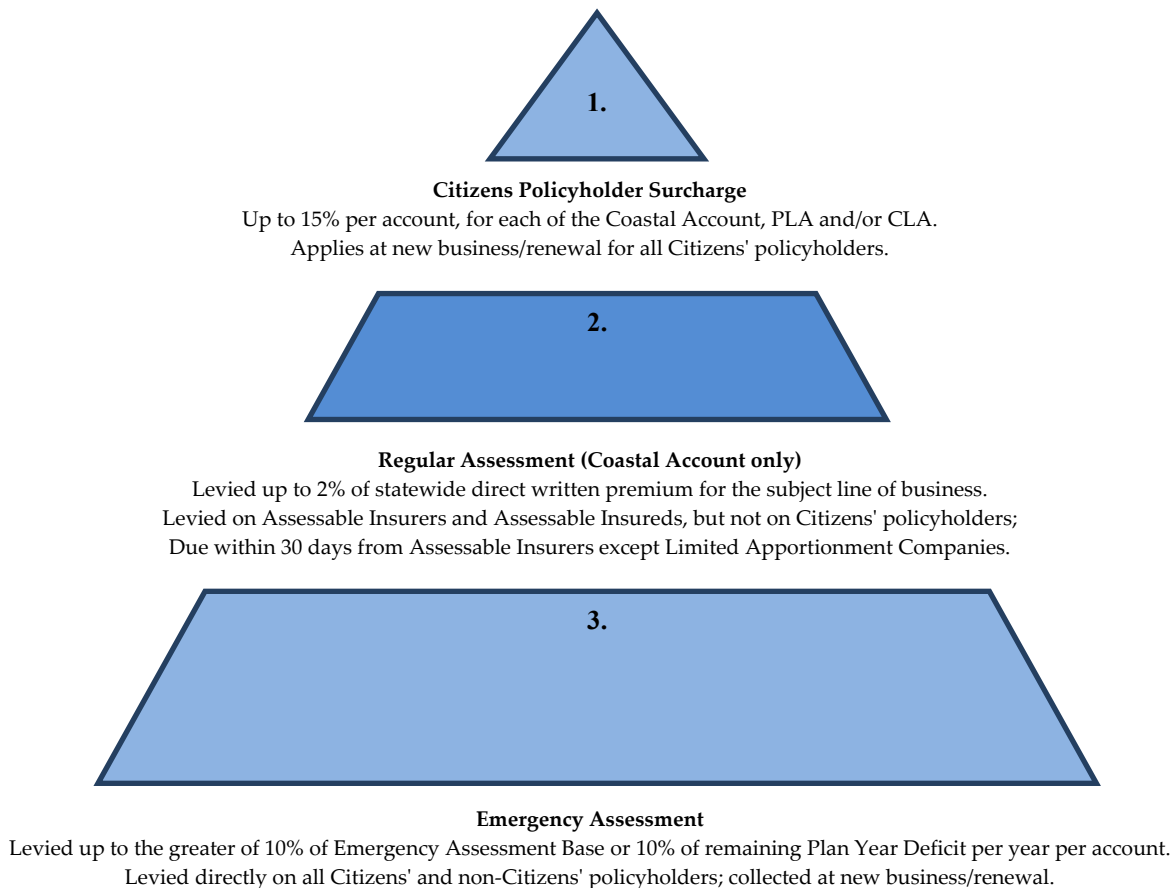
Emergency Assessment Base	
<u>Year</u>	<u>Emergency Assessment Base (millions)</u>
2015 Emergency Assessment Base/2014 DWP	\$39,302
2014 Emergency Assessment Base/2013 DWP	37,933
2013 Emergency Assessment Base/2012 DWP	36,185
2012 Emergency Assessment Base/2011 DWP	34,640
2011 Emergency Assessment Base/2010 DWP	33,603

Source: Citizens Property Insurance Corporation

Citizens levied its first and only Emergency Assessment in connection with the 2005 Plan Year Deficit. Based on the 2005 Plan Year Deficit of approximately \$1.674 billion, and after application of the 2006 State appropriation of approximately \$623.2 million and a Regular Assessment of approximately \$163.1 million, Citizens levied an Emergency Assessment for the Coastal Account of approximately \$887.5 million plus interest, fees, commissions, required reserves, and other costs associated with financing of the 2005 Plan Year Deficit on December 7, 2007. This Emergency Assessment was planned to be collected over a period of ten years to fund the remainder of the 2005 Plan Year Deficit in the Coastal Account. The initial uniform percentage of such Emergency Assessment was 1.4% of the policy premium for policies written and renewed on and after July 1, 2007. The Office entered an Order verifying such Emergency Assessment on January 11, 2007. On January 11, 2011, pursuant to a recommendation by the Citizens' Board of Governors, the Office approved a reduction of such Emergency Assessment from 1.4% to 1.0%. However, Citizens was able to collect a sufficient amount of Emergency Assessment to defease the post-event bonds issued in 2007 and therefore the Emergency Assessment was eliminated as of July 1, 2015.

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The following chart summarizes the assessment capability of Citizens:



Excess Surcharge and Assessments. If the amount of any assessments or surcharges collected from Citizens policyholders, Assessable Insurers or their policyholders, or Assessable Insureds exceeds the amount of the Plan Year Deficit, such excess amounts are to be remitted to and retained by Citizens in a reserve to be used by Citizens, as determined by the Board and approved by the Office, to pay claims or reduce any past, present, or future Plan Year Deficits or to reduce outstanding debt.

Net Premiums. Citizens' premium revenues will vary depending on applicable rates, the number of policies in force and the value of the properties insured. For the twelve month periods ended December 31, 2014 and December 31, 2013, the DWP for the Coastal Account was approximately \$1.003 billion and \$1.175 billion, respectively. Premiums are collected in advance unless the policy is under a Citizens' payment plan. Premiums are earned by Citizens over a 12-month policy period. Citizens provides a payment plan option to its policyholders allowing for quarterly and semiannual payment of premiums.

Prior Years' Surplus. Annual net income, if any, is retained in surplus as a future source for paying claims and expenses and for off-setting a negative operating result. The Plan's Adjusted GAAP calculation typically results in a surplus amount greater than that determined using SAP. Citizens' Plan provides for a Plan Year Deficit to be determined using Adjusted GAAP. To calculate the Adjusted GAAP Surplus, the GAAP surplus available to offset a negative operating result for an Account is reduced by non-liquid assets. The historical Coastal Account Adjusted GAAP Surplus is summarized below.

HISTORICAL COASTAL ACCOUNT ADJUSTED GAAP SURPLUS

Fiscal Year Ended <u>December 31,</u>	Coastal Account Adjusted GAAP Surplus <u>(in millions)</u>
2014*	\$3,089
2013**	3,236
2012	3,132
2011	2,847
2010	2,449

*Unaudited

**Certain amounts presented in the 2013 audited financial statements will be restated in 2014.

Source: *Citizens Property Insurance Corporation*

See "FINANCIAL INFORMATION – Adjusted GAAP Surplus for the Coastal Account" and "APPENDIX C – AUDITED FINANCIAL STATEMENTS – STATUTORY BASIS AND SUPPLEMENTAL SCHEDULES FOR YEARS ENDED DECEMBER 31, 2013 AND 2012 AND MANAGEMENT DISCUSSION AND ANALYSIS – STATUTORY BASIS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2014" attached hereto.

FHCF Reimbursement. The FHCF, which was created in November 1993 during a special legislative session following Hurricane Andrew, provides reimbursement contracts to property insurers (including Citizens) in Florida covering hurricane losses on residential and commercial residential properties. The FHCF, structured as a tax-exempt State trust fund, is administered by the State Board of Administration. The Coastal Account is the largest purchaser of reinsurance from the FHCF.

Since 2004, the only hurricane or combination of hurricanes that produced losses sufficient to qualify for reimbursement from the FHCF was Hurricane Wilma in 2005. The following table summarizes Citizens' Coastal Account coverage from the FHCF for the last five years (all amounts are in millions):

Year <u>(June 1 – May 31)</u>	<u>Total Coverage</u>
2015-2016*	\$2,034
2014-2015	2,849
2013-2014	3,043
2012-2013	3,619
2011-2012	3,794

*Projected.

Source: *Citizens Property Insurance Corporation*

Private Reinsurance. Citizens is required by the Act to "make its best efforts to procure catastrophic reinsurance at reasonable rates to cover its projected 100-year probable maximum loss." Over the last five years, Citizens has purchased reinsurance from both the traditional reinsurance markets and/or the capital markets (together, "Private Reinsurance").

The Private Reinsurance purchased for each of the last five years provided coverage of the following amounts (in millions):

<u>Year</u> <u>(June 1 – May 31)</u>	<u>Total Coverage</u>
2015-2016*	\$3,905
2014-2015	3,269
2013-2014	1,851
2012-2013	1,500
2011-2012	575

*Projected.

Source: Citizens Property Insurance Corporation

Net Series 2015A Bond Proceeds. The net proceeds from the sale of the Series 2015A Bonds will be deposited into the Series 2015A Bonds Proceeds Subaccount to pay claims and, if needed, to the extent that other amounts are not available therefor, or, in the discretion of Citizens, to make principal or interest payments with respect to the Indenture Obligations. Pending the use of the funds, deposits into the Proceeds Account of the Series 2015A Bonds will be invested in Permitted Investments consisting of Non-AMT Tax-Exempt Securities and interest earnings thereon will either be retained in the Proceeds Account or used to pay, in whole or in part, principal and/or interest payments on the Indenture Obligations. See "PLAN OF FINANCING – Liquidity Resources of Citizens" herein.

Additional Indenture Obligations. Citizens has the authority to issue additional debt with respect to the Coastal Account on a post-event basis as well as additional pre-event debt. See "PLAN OF FINANCING" and "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Additional Indenture Obligations" herein.

Depopulation

Pursuant to the Act, Citizens is required to adopt one or more programs, subject to approval by the Office, for the reduction of both new and renewal writings. Under this authority, Citizens has historically had in effect "depopulation" or "take-out" programs that provided for Citizens' payment of incentives to voluntary insurers that removed a certain level of policies from Citizens. Citizens also has had with respect to the Coastal Account, a voluntary writings credit program that provides an incentive to voluntary market insurers that write windstorm coverage on policies in Eligible Areas. The justification for this program is that if this windstorm coverage had not been written by the voluntary market, it would have been written in the Coastal Account.

The following table summarizes the policies that were removed by insurers from the Coastal Account for the last five years. Citizens 2015 budget estimates that approximately 43,880 policies will be removed from the Coastal Account in 2015, but such amount is an estimate and the policies may be removed in a lesser or greater amount.

<u>Year</u>	<u>Number of Policies</u> <u>Removed from</u> <u>Coastal Account</u>
2014	91,190
2013	64,384
2012	24,034
2011	7,750
2010	2,231

Source: Citizens Property Insurance Corporation.

Citizens' 2015 budget estimated 8,250 policies would be removed in 2015 which is significantly lower depopulation activity in 2015 due primarily to the three prior years of very high depopulation activity. However, the beginning of 2015 has proved to continue the prior depopulation trend, so management has provided a revised projection for Coastal Account depopulation of 43,880 policies. This projection assumes that the heightened depopulation activity continues through the first half of 2015, at which point the depopulation activity is anticipated to flatten out. It is important to note that approximately 35,000 of the total 43,880 depopulation policies are anticipated to be removed by June 30, 2015 in the 2015 revised projections.

Pursuant to Section 627.3518, Florida Statutes, which was adopted by the Florida Legislature in 2013 and required to be implemented by January 1, 2014, Citizens has implemented its policyholder eligibility clearinghouse program (the "Clearinghouse"). The Clearinghouse is a database through which every new applicant or renewal policyholder must first be filtered so that private insurers can review the policies and potentially make an offer of coverage. The Clearinghouse is designed to allow consumers to receive suitable offers of coverage in the private market and these coverage options must be explored by the insured's agent prior to the agent submitting an application for coverage to Citizens. If a new applicant receives an offer of comparative coverage that is within 15 percent of Citizens' rates, the applicant is not eligible for Citizens coverage and must obtain coverage through the private market. Citizens' renewal policyholders that receive an offer of a comparative policy with a premium that is equal to or less than their Citizens policy are required to find coverage in the private market.

Since the inception of the Clearinghouse through February 25, 2015, there have been 466 policies bound in the Coastal Account area representing \$133,000,000 in coverage averted from Citizens. Since renewal processing began with policies effective November 1, 2014 and later Citizens has non-renewed 997 policies removing \$258,000,000 of coverage. Additional products and insurers are being added to the Clearinghouse.

2004 and 2005 Hurricane Seasons

In 2004, Florida experienced four substantial hurricanes, Hurricane Charley, Hurricane Frances, Hurricane Ivan and Hurricane Jeanne. These hurricanes damaged approximately one in five homes in Florida and generated claims in all 67 Florida counties. Through December 31, 2014, Citizens has experienced approximately \$3.038 billion in commercial and personal residential insured property losses due to these events, including approximately \$2.398 billion for the Coastal Account. The next year in 2005 Florida experienced four additional hurricanes, Hurricane Dennis, Hurricane Katrina, Hurricane Rita and Hurricane Wilma. Through December 31, 2014, Citizens has experienced approximately \$2.995 billion in statewide commercial and personal residential insured property losses due to these events, including approximately \$2.062 billion for the Coastal Account. Claims during the 2006 through 2014 hurricane seasons were not substantial for the State of Florida as a whole nor for Citizens.

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Liquidity Resources and Loss Exposures

Upon the issuance of the Series 2015A Bonds, Citizens will have the following liquidity resources available based upon the original par amount of bonds issued (Statutory Surplus used as it is more conservative than GAAP Surplus):

Citizens' Coastal Account Liquidity Sources

	(in millions)
<u>Liquidity Sources</u>	
Year-End 2013 Statutory Surplus	\$3,203
Unaudited 2014 Net Income	153
Unaudited 2014 Other Items	<u>-18</u>
Total Internally Funded Liquidity Sources	\$3,337
Existing Pre-Event Liquidity for 2015 Season	
Series 2011A Pre-Event Bonds*	\$565
Series 2010A Pre-Event Bonds*	830
Series 2009A Pre-Event Bonds	747
New Pre-Event liquidity for 2015 Hurricane Season	
Series 2015A Pre-Event Bonds	<u>1,088</u>
Total Externally Funded Liquidity Sources	<u>3,230</u>
Total Liquidity Resources	<u>\$6,567</u>

*Excludes the Series 2010A-1 Bonds and the Series 2011A-1 Bonds maturing on June 1, 2015 in the principal amounts of \$410,000,000 and \$80,000,000, respectively. Such proceeds are not available as liquidity resources to Citizens for 2015.

Source: Citizens Property Insurance Corporation.

Citizens believes that such amounts together with its other available claims-paying resources will allow it to continue to be able to pay policyholder claims in a timely manner. Citizens' Coastal Account loss exposure is dependent upon, among other things, the number, type and geographic distribution of its policies, the dollar amount of the policies and the policy coverage terms.

As shown on the chart below, Citizens Total Liquidity Resources include private reinsurance obtained from both the traditional reinsurance markets and the capital markets plus its FHCF coverage which collectively provide sufficient resources to fully cover Citizens' 1 - 122 year storm probable maximum loss ("PML") such that no levy of assessments or surcharges following such a storm would be necessary. The illustration below provides a general overview of the Coastal Account capital structure and shows the relationship among Citizens' various forms of reinsurance coverage. As described herein, Private Reinsurance is not part of Pledged Revenues under the Indenture and is included for illustrative purposes only. The illustration is projected for the 2015 hurricane season and is subject to daily change based on exposures and due to daily policy count and other factors.

Citizens' Coastal Account Liquidity and Claims-Paying Capacity – Single Event

Citizens' Coastal Account claims-paying resources of \$9.276 billion, excluding pre-event liquidity (Series 2009A-1, 2010A-1, 2011A-1, and the projected Series 2015A Bonds), for the 2015 season up to a 1-122 year event are shown below, including:

- \$3.337 billion of surplus;
- \$2.034 billion of FHCF reimbursements; and
- \$3.905 billion of Private Reinsurance, including \$2.050 billion of capital markets reinsurance and \$1.855 billion of traditional reinsurance.

2015 - Coastal (Proj.) - Single Event SSST					Ground Up Losses (\$MM)	PML (Yrs)	Prob.	
(Preliminary)								
Surplus - \$1.078 Billion					\$9,276	122	0.82%	
2015 Everglades Re II Cat Bonds - \$300 Million	Surplus - \$494 Million			2015 CNR Traditional - \$430.5MM (70% of \$615MM)	CNR - \$185MM	\$8,198	100	1.00%
Surplus - \$140 Million			\$7,274			82	1.22%	
2014 Everglades Re Cat Bonds (Aggregate) - \$1.5 Billion	2015 Traditional Aggregate, Multi-Yr - \$241.3 Million	2015 Traditional Aggregate, Single Yr - \$556.7 Million	2014 Traditional Aggregate - Multi Yr - \$202 Million			\$7,112	80	1.25%
2013 Everglades Re Cat Bonds - \$250 Million			\$4,205			38	2.60%	
2015 Traditional - Wrap - \$425 Million			\$3,914			35	2.85%	
	FHCF Coverage (90% of \$2.260B xs \$825MM) \$2.034 Billion			CNR - \$385MM	\$3,807	34	2.95%	
LAE - \$82MM	Surplus - \$825 Million				CNR - \$148MM paid from surplus	\$1,055	10	10.07%

PMLs based on modeled losses as of December 31, 2014 per AIR U.S. Hurricane Model version 14.0.4 as implemented in Touchstone, Version 1.5.2 reflecting the Standard Sea Surface Temperature (SSST) Event Catalog including Demand Surge, excluding Storm Surge, and include 10% of loss to account for loss adjustment expense (LAE). Interim Return Periods are derived by Linear Interpolation.

Citizens' 2015 FHCF coverage is based on preliminary retention estimates and payment multiples. Actual Citizens' FHCF attachment and limits of coverage could differ significantly from estimates.

Loss Modeling

Citizens utilizes several different loss models as part of its risk assessment analysis. The results of this analysis are used in several aspects of Citizens' business, including rate making decisions, rate filing support, evaluation of private reinsurance procurement, determining required claims paying and liquidity resources and financial planning.

The relative infrequency of hurricanes and the constantly changing landscape of insured properties make reliance on standard actuarial techniques for loss estimation inappropriate for estimating the potential losses from hurricanes. Property values, construction costs, building materials and designs change, and new structures continue to be built in areas of hazard. Therefore, historical loss information is not suitable for directly estimating future losses.

Because of these shortcomings in the use of historical hurricane loss information to estimate future loss potential, loss modeling firms have developed alternative loss estimation methodologies based on statistical simulation techniques. This approach involves the construction of computer programs that use mathematical representations of the physical phenomena of hurricanes in order to evaluate the potential damage and insured losses that can occur. Damageability relationships for various structures are incorporated into the model. The output of the model's analysis of a given set of exposure data is a set of loss results, expressed in terms of a probability distribution, known as a "loss distribution," which provides a distribution of possible losses and the relative likelihood of occurrence of various levels of loss.

LOSS DISTRIBUTION IS NOT A PREDICTION OF FUTURE LOSSES. IT IS SOLELY INTENDED TO ILLUSTRATE THE RANGE OF POSSIBLE LOSSES AND THE LIKELIHOOD OF OCCURRENCE OF SUCH LOSSES. A LOSS OF ANY PARTICULAR MAGNITUDE COULD OCCUR IN ANY YEAR. HURRICANE LOSS MODELS ARE SUBJECT TO IMPORTANT LIMITATIONS, UNCERTAINTIES AND SPECIAL CONSIDERATIONS, BOTH GENERALLY AND WITH RESPECT TO LOSS MODELING FOR CITIZENS' POLICIES-IN-FORCE.

Certain probabilistic loss distributions generated by Citizens are included herein. The report and the analyses, models and predictions contained herein, are based on data as of December 31, 2014 provided by Citizens using the AIR U.S. Hurricane Model version 14.0.4 as implemented in Touchstone, Version 1.5.2 reflecting the Standard Sea Surface Temperature (SSST) Event Catalog including Demand Surge, excluding Storm Surge, and include 10% of loss to account for loss adjustment expense (LAE). Interim Return Periods are derived by Linear Interpolation. The technology used in providing the model is owned by AIR and is based on the scientific data, mathematical and empirical models, and encoded experience of earthquake engineers, wind engineers, structural engineers, geologists, seismologists, meteorologists and geotechnical specialists. As with any model of complex physical systems, particularly those with low frequencies of occurrence and potentially high severity outcomes, the actual losses from catastrophic events may differ significantly from the results of simulation analyses. Furthermore, the accuracy of predictions depends largely on the accuracy and quality of the data input by the user.

Pursuant to the Act, after the public hurricane loss-projection model under Section 627.06281, Florida Statutes, has been found to be accurate and reliable by the Florida Commission on Hurricane Loss Projection Methodology, that model will serve as the minimum benchmark for determining the windstorm portion of Citizens' rates.

THE LOSS DISTRIBUTIONS GENERATED BY SUCH MODELS ARE NOT FACTS, PROJECTIONS OR PREDICTIONS OF FUTURE HURRICANES OR LOSSES, AND SHOULD NOT BE RELIED UPON AS SUCH. The loss distribution is solely intended to be illustrative of the range of possible losses and the likelihood of occurrence of such losses. A loss of any particular magnitude could occur in any year.

Loss modeling for Citizens' purposes includes losses arising from hurricanes or named storms. The loss modeling results presented herein do not encompass analysis of all perils that may result in losses. Accordingly, actual losses may materially exceed those modeled. The modeling results provided herein are based on Citizens' exposure as of a given point in time (December 31, 2014), and actual exposures during the term of the Series 2015A Bonds may differ, possibly materially, from the exposure data used in the analysis reflected herein. The actual underlying insurance policies-in-force may materially vary, from those used in such analysis because of changes to policies and the writing of new business.

After a major catastrophe, increased demand can put pressure on prices resulting in temporary inflation. This phenomenon is often referred to as demand surge and, where present, it results in increased losses to insurers. The loss estimation results described herein have been adjusted for demand surge but may still understate losses.

PMLs are probability statements, based upon a loss modeling firm's computer simulations, which show the amount of annual losses that are likely to be met or exceeded in each return period. For example, a 1 – 20 year PML is the exceedance probability value associated with an annual probability of 5% of at least that size loss. PMLs may also be given in terms of occurrence or annual aggregate loss amounts.

The PML data set forth in the table below is based upon actual Citizens' Coastal Account exposures as of December 31, 2014 and is qualified in its entirety by reference to the information set forth under " – Loss Modeling" herein and to the entire report, copies of which are available upon written request to Citizens. Actual losses may materially exceed those modeled. THE PML DATA SET FORTH BELOW MAY MATERIALLY CHANGE DUE TO CHANGE IN THE NUMBER OF POLICIES OR UPON NEW AND EXISTING MODELS UTILIZING REVISED ASSUMPTIONS RESULTING FROM HURRICANE ACTIVITY EXPERIENCED OVER THE PAST STORM SEASONS. THEREFORE, THE TOTAL ANNUAL SINGLE EVENT PML MAY BE SIGNIFICANTLY HIGHER IN THE FUTURE. See " – Loss Modeling" below for a further explanation of factors affecting the calculation of the PML.

Probable Maximum Losses as of December 31, 2014⁽¹⁾

<u>Estimated Average Return Period</u>	<u>Single Event "PML" (billions)</u>
250 years	\$13.282
100 years	8.198
50 years	5.213
20 years	2.333
10 years	1.064

-
- (1) The PMLs in this table were calculated using AIR Worldwide's U.S. Hurricane Model version 14.0.4 as implemented in Touchstone version 1.5.2, 50,000 year standard event catalog, including demand surge and excluding storm surge and includes 10% for Loss Adjustment Expenses (LAE).
- (2) *Source:* Citizens Property Insurance Corporation.

LOSS MODELS ARE NOT DESIGNED TO AND CANNOT PREDICT INDIVIDUAL HURRICANE EVENTS, THE RELATIVE FREQUENCY OF HURRICANE EVENTS, OR THE ACTUAL MAGNITUDE OF LOSSES FROM ANY GIVEN HURRICANE, AND THE PROBABILITY AND EXTENT OF SUCH LOSSES TO CITIZENS MAY DIFFER MATERIALLY FROM THAT INDICATED BY SUCH LOSS MODELS. See "THE COASTAL ACCOUNT – Loss Modeling" and "RISK FACTORS – Catastrophe Losses" HEREIN.

FLORIDA HURRICANE CATASTROPHE FUND

Because of extreme dislocation in global reinsurance markets caused by losses from Hurricane Andrew in 1992, the Florida Legislature created the Florida Hurricane Catastrophe Fund ("FHCF") to provide a complement to private reinsurance and to serve as a stabilizing factor for the Florida property insurance market. The FHCF is governed by Section 215.555, Florida Statutes, as amended (the "FHCF Act"). The FHCF is a tax-exempt governmental trust fund that reimburses participating insurers for a portion of their covered losses from hurricanes affecting the State. With limited exceptions, participation in the FHCF reimbursement program is mandatory for authorized property insurers, Citizens, and joint underwriting associations writing residential property insurance in the State. Participating insurers enter into an annual reimbursement contract with the FHCF that specifies their coverage level and premium. By statute, Citizens has two separate reimbursement contracts with the FHCF, one for the Coastal Account and one for the combined PLA and CLA. Its Coastal Account reimbursement contract provides for more coverage and premium than any other participant in the FHCF. Premiums are paid by Citizens and other insurers based upon an actuarially-determined formula which considers the coverage deductibles, type of construction, type of coverage provided, relative concentration of risks and other loss exposure factors deemed appropriate by the State Board of Administration, which administers the FHCF. FHCF premiums are designed to be adequate in the aggregate to pay current and future obligations and expenses of the FHCF and, due to the governmental nature of the FHCF, such premiums are relatively less than those charged by private reinsurers.

Retention by Insurers and Citizens. By statute, reimbursement from the FHCF is subject to an annual retention or deductible which is also referred to as an "attachment point." This amount is required to be covered by the insurer, including Citizens, prior to reimbursements by FHCF. Such retention is required to be absorbed on each of the insurer's two largest covered events during each hurricane season. The retention drops to one-third of this level for each smaller event if the insurer has more than two covered events in one hurricane season. Respective attachment points vary by insurer based upon the insurer's pro rata share of the total reimbursement premiums paid to the FHCF in the applicable contract year.

The chart below shows the attachment point for all insurers in the aggregate in the State and Citizens' Coastal Account attachment point and potential reimbursement.

Contract Year ending May 31	Statewide Aggregate Attachment Point (in billions)	Coastal Account Attachment Point (in billions)	Potential Reimbursement to Coastal Account from FHCF (in billions) <u>Mandatory</u>
2016*	\$6.9	\$0.825	\$2.034
2015	7.1	1.192	2.849
2014	6.9	1.235	3.043
2013	7.1	1.510	3.619
2012	7.1	1.592	3.794
2011	6.9	1.517	3.750

*Estimated

Mandatory Coverage. Subsequent to the retention or deductible amount described above, each insurer's coverage from FHCF is on an aggregate basis for the contract year. There is a fixed and limited amount of coverage that an insurer is entitled to for all hurricane events causing losses. The allocable coverage to each insurer, including Citizens, is based upon its share of FHCF's total capacity, which is shown above. The capacity limit may grow each year, proportionately to the growth and exposure of the FHCF, provided that the maximum aggregate amount cannot grow by more than the increase in the FHCF Fund balance during that year and provided further that FHCF's total capacity under the mandatory coverage program is limited to \$17 billion for any contract year unless certain capacity tests are met. To determine its coverage, an insurer multiplies its FHCF premium by the payout multiple established by FHCF. This payout multiple is determined based upon an individual insurer's share of FHCF's total capacity.

Insurers are allowed to select the percentage of coverage above the underlying retention or deductible and can select 45%, 75% or 90% coverage. Most insurers have historically selected the 90% coverage level. By statute, Citizens has been required to select the 90% coverage level and therefore is subject to a 10% co-payment on its reimbursement recoveries from the FHCF.

Financial Resources of FHCF. The FHCF estimates that its maximum aggregate reimbursement obligation for the 2015-2016 Contract Year will again be approximately \$17 billion. The FHCF's resources to pay reimbursement include accumulated premiums, investment income, risk transfer, if any, and bonding capability supported by FHCF Emergency Assessments on a broad base of property and casualty insurance premiums in Florida. The FHCF estimated its claims-paying ability for the 2014 hurricane season to equal approximately \$21.24 billion, which included \$10.94 billion of accumulated fund balance, \$2.00 billion of pre-event bond proceeds and \$8.30 billion of estimated post-event bonding which is \$4.24 billion above the total potential maximum claims-paying obligation of \$17.00 billion. The FHCF has not yet formally stated its estimated claims-paying capacity for the 2015 hurricane season, however, it is estimated to be sufficient to meet the 2015 total reimbursement obligations of \$17.00 billion. For the 2014-2015 contract year, Citizens potential aggregate attachment point for coverage from FHCF is expected to equal approximately \$837 million.

Citizens does not rely on the FHCF to pay claims for its policyholders, but utilizes the FHCF as a reimbursement mechanism. However, based upon the level of losses, Citizens may be required to draw on its pre-event Proceeds (including the Series 2015A Bonds) by submitting a Draw Certificate as described under "PLAN OF FINANCING – The Series 2015A Bonds" herein, to pay such claims prior to receiving reimbursement from the FHCF. The repayment of such Draws may be dependent upon the ability of Citizens to be reimbursed from the FHCF. The FHCF may be required to issue debt to meet a portion of such reimbursement obligations. Citizens makes no representation as to the ability of the FHCF to meet its reimbursement obligation to Citizens. If Citizens has made a Draw on the Proceeds Account in anticipation of FHCF reimbursement, and such reimbursement does not occur, Citizens would levy assessments to repay the Draw and/or pay bondholders directly.

Legislative Amendments. Various legislative amendments affecting the FHCF have been proposed and adopted in past Legislative sessions and additional amendments could be proposed in future Legislative sessions that could change materially the coverage offered by FHCF. Citizens is unable to make any representations on whether legislation affecting the FHCF will be adopted in the future.

FINANCIAL INFORMATION

General

Set forth below is certain audited and unaudited financial information of the Coastal Account for the five years ended December 31, 2014. The financial information is based upon Statutory Accounting Principles ("SAP") in conformity with accounting practices prescribed or permitted by the Office and upon GAAP. SAP is a comprehensive basis of accounting other than GAAP. Except as noted, the statements of financial position for SAP and GAAP are derived from audited financial statements.

Pursuant to the Act, Citizens is a government entity that is an integral part of the State. Citizens currently prepares its financial statements in accordance with SAP and GAAP. The following information should be read in conjunction with, and is qualified in its entirety by Citizens' statutory financial statements and GAAP Financial Statements and the notes thereto. See "APPENDIX C – AUDITED FINANCIAL STATEMENTS – STATUTORY BASIS AND SUPPLEMENTAL SCHEDULES FOR YEARS ENDED DECEMBER 31, 2013 AND 2012 AND MANAGEMENT DISCUSSION AND ANALYSIS – STATUTORY BASIS (UNAUDITED) FOR THE YEAR ENDED DECEMBER 31, 2014" and "APPENDIX D – AUDITED FINANCIAL STATEMENTS – GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR YEARS ENDED DECEMBER 31, 2013 AND 2012" attached hereto. Copies of financial statements for previous years may be obtained from Citizens.

The financial statements, as filed with the Office, are prepared in accordance with SAP, which is a comprehensive basis of accounting other than GAAP. For a discussion of certain differences between SAP and GAAP, see "– Summary of Significant Accounting Differences Between SAP and GAAP Financial Statements" herein.

As shown on the financial statements below, on or about May 26, 2015, through the course of completing the audit of the 2014 financial statements, management determined that the initial decision to (i) include a Prior Period Adjustment of negative \$35.837 million (unaudited) for the 2014 financial statement prepared pursuant to statutory accounting principles, and (ii) restate that portion of the 2013 financial statements that reduced total liabilities and total net assets by \$35.8 million (unaudited) that was reflected in the Preliminary Official Statement as an unaudited amount for the 2014 financial statements prepared pursuant to generally accepted accounting principles, is more appropriately included within 2014 Assessment income (expense).

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COASTAL ACCOUNT SELECTED FINANCIAL INFORMATION – STATUTORY ACCOUNTING PRINCIPLES

	Years Ended December 31 (In Thousands)				
	2014 (unaudited)	2013 (audited)	2012 (audited)	2011 (audited)	2010 (audited)
Statement of Admitted Assets, Liabilities and Accumulated Surplus:					
Admitted Assets:					
Cash and short-term investments	\$1,106,473	\$934,528	\$1,020,160	\$1,283,700	\$2,555,062
Bonds	6,095,816	6,538,417	6,887,398	6,452,999	4,519,054
Investment income due and accrued	44,462	51,351	57,543	52,912	31,761
Interaccount receivable (payable)	(176,743)	(28,171)	(71,608)	(19,712)	(16,829)
Due from investment broker	-	-	-	-	-
Assessments receivable	565	164,464	334,532	477,440	669,213
Reinsurance recoverable	367	6,212	2,043	496	8,792
Other assets ⁽¹⁾	<u>82,102</u>	<u>76,637</u>	<u>79,240</u>	<u>72,242</u>	<u>65,894</u>
Total admitted assets	<u>\$7,153,042</u>	<u>\$7,743,438</u>	<u>\$8,309,308</u>	<u>\$8,320,077</u>	<u>\$7,832,947</u>
Liabilities and policyholder surplus:					
Liabilities:					
Loss Reserves	\$92,103	\$121,774	\$153,121	\$155,995	\$119,633
Loss adjustment expenses	50,573	47,855	37,636	41,348	25,304
Unearned premiums (net of unearned ceded)	353,344	499,736	490,667	519,702	483,530
Unearned assessment income	19,326	43,602	85,051	116,713	152,034
Due to investment broker	5,975	-	-	-	10,121
Accounts payable and other liabilities ⁽²⁾	230,363	203,608	276,305	128,487	78,446
Interest payable	17,756	21,059	24,333	27,479	34,938
Notes payable (net of discount)	3,048,189	3,603,495	4,298,600	4,643,316	4,597,000
Taxes and fees (receivable) payable	<u>(1,618)</u>	<u>(154)</u>	<u>683</u>	<u>815</u>	<u>26</u>
Total liabilities	<u>3,816,011</u>	<u>4,540,975</u>	<u>5,366,396</u>	<u>5,633,855</u>	<u>5,501,032</u>
Accumulated Surplus					
Restricted	25,348	15,339	11,112	11,726	13,651
Unrestricted	<u>3,311,683</u>	<u>3,187,124</u>	<u>2,931,800</u>	<u>2,674,496</u>	<u>2,318,264</u>
Total Accumulated Surplus	3,337,031	3,202,463	2,942,912	2,686,222	2,331,915
Total liabilities and accumulated surplus	<u>\$7,153,042</u>	<u>\$7,743,438</u>	<u>\$8,309,308</u>	<u>\$8,320,077</u>	<u>\$7,832,947</u>

⁽¹⁾ Includes premiums receivable, other receivables under reinsurance contracts, and other admitted assets.

⁽²⁾ Includes commissions payable, advance premiums and suspended cash, and other liabilities

Source: Citizens Property Insurance Corporation

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COASTAL ACCOUNT SELECTED FINANCIAL INFORMATION – STATUTORY ACCOUNTING PRINCIPLES

	Years Ended December 31 (In Thousands)				
	2014	2013	2012	2011	2010
	(unaudited)	(audited)	(audited)	(audited)	(audited)
Statement of Operations Data:					
PREMIUMS⁽¹⁾					
Premiums earned	\$1,066,643	\$1,180,761	\$1,187,577	\$1,148,733	\$1,084,141
Reinsurance ceded	(590,407)	(604,906)	(548,744)	(380,959)	(233,317)
Premiums earned (net)	<u>476,236</u>	<u>575,855</u>	<u>638,833</u>	<u>767,774</u>	<u>850,824</u>
LOSSES AND EXPENSES INCURRED:					
Losses incurred, net of reinsurance	74,902	73,098	116,247	135,534	76,025
Loss adjustment expenses income	48,789	51,880	49,860	54,567	40,176
Other underwriting expenses incurred ⁽²⁾	<u>172,898</u>	<u>191,193</u>	<u>222,335</u>	<u>181,991</u>	<u>174,769</u>
Total losses and expenses incurred	<u>296,589</u>	<u>316,171</u>	<u>388,442</u>	<u>372,092</u>	<u>290,970</u>
UNDERWRITING INCOME	179,647	259,684	250,391	395,682	559,854
Net investment income	96,366	70,564	104,591	75,003	42,905
Interest expense, net	(142,549)	(161,338)	(176,260)	(172,922)	(171,345)
LOC fees & notes issued cost	-	-	-	(6,008)	(15,463)
Assessment income	(19,020) ⁽⁴⁾	26,166	42,352	35,321	43,387
Takeout bonus expense (net) and other income (expenses)	<u>2,498</u>	<u>28,040</u>	<u>2,587</u>	<u>887</u>	<u>1,832</u>
NET INCOME:	<u>\$116,942</u>	<u>\$223,116</u>	<u>\$223,661</u>	<u>\$327,963</u>	<u>\$461,170</u>
Surplus, beginning of period	3,202,463	2,942,912	2,686,222	2,331,915	1,530,355
Prior Period adjustment ⁽³⁾	- ⁽⁴⁾	15,283	-	-	301,482
Assessments (net of distributions) ⁽³⁾	-	-	-	-	-
Additional pension liability ⁽³⁾	(397)	-	(337)	(118)	(90)
Change in other comprehensive income ⁽³⁾	14	1,034	145	(118)	23
Change in non-admitted assets ⁽³⁾	<u>18,009</u>	<u>20,118</u>	<u>33,221</u>	<u>26,580</u>	<u>38,975</u>
Surplus (deficit), end of period	<u>\$3,337,031</u>	<u>\$3,202,463</u>	<u>\$2,942,912</u>	<u>\$2,686,222</u>	<u>\$2,331,915</u>

⁽¹⁾ See "THE COASTAL ACCOUNT – Policies – Premiums and Rates."

⁽²⁾ The largest portion of underwriting and operating expenses is premium taxes and commissions which increase in proportion with premiums.

⁽³⁾ These items are unaudited at the Coastal Account level.

⁽⁴⁾ On or about May 26, 2015, through the course of completing the audit of the 2014 financial statements, management determined that the initial decision to include a Prior Period Adjustment of negative \$35.837 million that was reflected in the Preliminary Official Statement as an unaudited amount is more appropriately included within 2014 Assessment income (expense). Therefore, the Prior Period Adjustment of \$35.837 million has been removed and the Assessment income (expense) of \$16.817 million shown in the Preliminary Official Statement as an unaudited amount has been reduced by \$35.837 million to equal a negative \$19.020 million. While this results in a reduction to unaudited Net Income shown in the Preliminary Official Statement of \$152.779 million to \$116.942 million, the unaudited 2014 Surplus of \$3.337 billion remains unchanged. The auditor has not yet released its audit of the 2014 financial statements and the amounts described in this footnote are all unaudited.

Source: Citizens Property Insurance Corporation

**COASTAL ACCOUNT SELECTED FINANCIAL INFORMATION – GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

	Year Ended December 31 (<i>In Thousands</i>)				
	2014 (<i>unaudited</i>)	2013 (<i>audited</i>) ⁽³⁾	2012 (<i>audited</i>)	2011 (<i>audited</i>)	2010 (<i>audited</i>)
ASSETS:					
Cash and cash equivalents	\$7,469	\$698,100	\$829,711	\$1,039,222	\$1,314,987
Short and long term investments	7,257,869	6,904,008	7,252,996	6,852,885	5,895,102
Investment income due and accrued	44,462	51,350	57,543	52,912	31,761
Deferred policy acquisition costs	-	53,115	58,482	57,273	56,366
Deferred financing costs	-	62,341	83,785	106,580	124,208
Income taxes receivable	-	-	-	-	-
Premiums receivable and other assets ⁽¹⁾	<u>57,066</u>	<u>257,347</u>	<u>409,400</u>	<u>533,931</u>	<u>727,651</u>
Total Assets	<u>\$7,366,866</u>	<u>\$8,026,261</u>	<u>\$8,691,917</u>	<u>\$8,642,803</u>	<u>\$8,150,075</u>
LIABILITIES AND NET ASSETS					
Loss reserves	\$92,003	\$121,657	\$153,121	\$155,995	\$119,633
Loss adjustment expense reserves	50,573	47,855	37,636	41,348	25,304
Unearned premiums	478,383	541,835	566,549	523,141	484,069
Unearned assessment income	19,326	67,313	107,709	156,590	213,531
Long-term debt	3,048,189	3,603,495	4,298,600	4,643,316	4,597,000
Other Liabilities ⁽²⁾	238,039	203,692	276,201	128,237	88,435
Taxes and fees (receivable) payable	(1,619)	(154)	683	815	26
Interest payable	17,756	21,059	24,333	27,479	34,938
Federal income taxes payable	-	-	-	-	-
Deferred tax liability	-	-	-	-	-
Total liabilities	<u>3,942,650</u>	<u>4,606,752</u>	<u>5,464,832</u>	<u>5,676,921</u>	<u>5,562,936</u>
NET ASSETS:					
Restricted	25,348	15,339	11,112	11,726	13,651
Unrestricted net assets	<u>3,398,868</u>	<u>3,404,170</u>	<u>3,215,973</u>	<u>2,954,156</u>	<u>2,573,488</u>
Total Net Assets	3,424,216	3,419,509	3,227,085	2,965,882	2,587,139
Total liabilities and net assets	<u>\$7,366,866</u>	<u>\$8,026,261</u>	<u>\$8,691,917</u>	<u>\$8,642,803</u>	<u>\$8,150,075</u>

⁽¹⁾ Includes prepaid reinsurance premiums, premiums receivable (net), premiums receivable from assuming companies, assessments receivable, reinsurance recoverable, other assets, and inter-account receivable (payable).

⁽²⁾ Includes reinsurance premiums payable, premiums payable to assuming companies, commissions payable, advanced premium, surcharges payable, and other liabilities

⁽³⁾ Amounts presented in the 2013 audited financial statements will be restated in the 2014 audited financial statements to reflect the adoption of GASB-65. The expected impacts (unaudited) of this restatement are net decreases in total assets of \$122.9 million and total net assets of \$122.9 million.

Source: Citizens Property Insurance Corporation

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**COASTAL ACCOUNT SELECTED FINANCIAL INFORMATION – GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES**

	Year Ended December 31 (<i>In Thousands</i>)				
	2014	2013	2012	2011	2010
	(<i>unaudited</i>)	(<i>audited</i>) ⁽²⁾	(<i>audited</i>)	(<i>audited</i>)	(<i>audited</i>)
REVENUES:					
Premiums Earned	\$1,066,643	\$1,199,384	\$1,187,577	\$1,148,733	\$1,084,141
Less – premiums ceded	<u>(590,407)</u>	<u>(623,529)</u>	<u>(548,744)</u>	<u>(380,959)</u>	<u>(233,317)</u>
Premiums earned (net)	476,236	575,855	638,833	767,774	850,824
Net investment income	74,752	73,244	158,506	120,830	75,008
Assessment Income	<u>(16,347)⁽³⁾</u>	<u>47,182</u>	<u>48,880</u>	<u>56,941</u>	<u>64,570</u>
Total revenues	<u>534,641</u>	<u>696,281</u>	<u>846,219</u>	<u>945,545</u>	<u>990,402</u>
EXPENSES:					
Losses incurred	74,902	73,098	116,247	135,534	76,025
Loss adjustment expenses incurred	48,789	51,880	49,860	54,567	40,176
Policy acquisition & other underwriting expenses ⁽¹⁾	171,553	201,779	225,592	186,939	176,042
Interest expense	<u>142,549</u>	<u>178,059</u>	<u>192,981</u>	<u>189,643</u>	<u>188,066</u>
Total expenses	<u>437,793</u>	<u>504,816</u>	<u>584,680</u>	<u>566,683</u>	<u>480,309</u>
Net income	<u>\$96,848</u>	<u>\$191,465</u>	<u>\$261,539</u>	<u>\$378,862</u>	<u>\$510,093</u>
Change in net assets (deficit)	<u>\$96,848</u>	<u>\$191,465</u>	<u>\$261,539</u>	<u>\$378,862</u>	<u>\$510,093</u>

⁽¹⁾ Including producer commissions (net), taxes and fees, administrative expenses, other underwriting expenses, note issuance costs and other income.

⁽²⁾ Amounts presented in the 2013 audited financial statements will be restated in the 2014 audited financial statements. The expected impact (unaudited) of this restatement is a net increase in change in net assets of \$12.6 million.

⁽³⁾ On or about May 26, 2015, through the course of completing the audit of the 2014 financial statements, management determined that the initial decision to restate that portion of the 2013 financial statements that reduced total liabilities and total net assets by \$35.8 million that was reflected in the Preliminary Official Statement as an unaudited amount is more appropriately included within 2014 Assessment income (expense). Therefore, the restatement of the 2013 financial statements will not include the reduction to total liabilities and total net assets of \$35.8 million, and the Assessment income (expense) of \$19.491 million shown in the Preliminary Official Statement as an unaudited amount has been reduced by \$35.837 million to equal a negative \$16.347 million. While this results in a reduction to unaudited Net Income shown in the Preliminary Official Statement of \$132.688 million to \$96.848 million, the unaudited 2014 Unrestricted net assets of \$3.424 billion remains unchanged. The auditor has not yet released its audit of the 2014 financial statements and the amounts described in this footnote are all unaudited. Some amounts in this footnote may not add due to rounding.

Source: Citizens Property Insurance Corporation

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Summary of Significant Accounting Differences Between SAP and GAAP Financial Statements

Citizens prepares its statutory financial statements in conformity with Florida statutes and accounting rules prescribed or permitted by the Office for certain companies domiciled in the State of Florida, although not strictly applicable to Citizens. The Office requires that insurance companies domiciled in the State prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners' (the "NAIC") *Accounting Practices and Procedures Manual*, subject to any deviations prescribed or permitted by the Office.

SAP is a comprehensive basis of accounting other than GAAP. The significant practices which differ from GAAP are as follows:

- a. 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. GAAP, on the other hand, includes these as assets unless impaired.
- b. Investments in debt securities are generally valued at cost and are amortized under the valuation standards of the NAIC. According to GAAP, investments in debt securities are generally reported at fair value.
- c. Certain expenses associated with multiple periods, such as line of credit fees and note issuance costs, are charged to operations as incurred, rather than deferred and amortized over the periods to which the expenses relate as required under GAAP.
- d. Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers are reported as reductions of the related reserves rather than as assets as required under GAAP.
- e. Cash and short-term investments in the statement of 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 includes 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. The statutory statement of cash flows does not classify cash flows consistent with GAAP and a reconciliation of net income to net cash provided by operating activities is not provided.

Reconciliation of SAP to GAAP for Coastal Account

Reconciliation of Citizens' statutory basis net income and accumulated surplus to its GAAP basis net income and retained surplus for the Coastal Account is as follows:

	As of December 31, (In Thousands - unaudited) ⁽¹⁾				
	2014	2013	2012	2011	2010
Net income - Statutory basis	\$116,942	\$223,116	\$223,661	\$327,963	\$461,170
Adjustments:					
Change in policy acquisition costs	-	(5,367)	1,209	907	6,807
Change in line of credit fees & note issuance costs	-	(4,723)	(6,074)	(907)	6,595
Change in other financing costs	-	(16,721)	(16,721)	(16,721)	(16,721)
Takeout Bonuses	-	-	-	-	-
Change in allowance for doubtful accounts and Other income	(1,149)	1,139	(980)	173	(1,044)
Change in unearned assessment income	-	14,230	17,218	21,620	21,183
Change in 2012 FIGA Assessment income	2,675	6,785	(10,690)	-	-
Unrealized gain (loss) on Investments	<u>(21,617)</u>	<u>(26,994)</u>	<u>53,916</u>	<u>45,827</u>	<u>32,103</u>
Change in net assets – GAAP basis	<u>\$96,851</u>	<u>\$191,465</u>	<u>\$261,539</u>	<u>\$378,862</u>	<u>\$510,093</u>
Accumulated surplus – Statutory basis	\$3,337,031	\$3,202,463	\$2,942,912	\$2,686,222	\$2,331,915
Adjustments:					
Policy acquisition costs	-	53,115	58,482	57,273	56,366
Nonadmitted assets, net	30,254	49,416	68,400	102,599	129,006
Line of credit fee and note issuance costs	-	9,391	14,115	20,189	21,095
Takeout bonuses	-	-	-	-	-
Other financing costs	-	52,950	69,668	86,392	103,113
Change in unearned assessment income	-	(23,712)	(22,658)	(39,877)	(61,496)
GAAP 2012 FIGA assessment receivable	(1,230)	(3,905)	(10,690)	-	-
Provision for Reinsurance	19	34	105	249	132
Accumulated unrealized gain on investments	<u>58,142</u>	<u>79,757</u>	<u>106,751</u>	<u>52,835</u>	<u>7,008</u>
Total net assets – GAAP basis	<u>\$3,424,216</u>	<u>\$3,419,509</u>	<u>\$3,227,085</u>	<u>\$2,965,882</u>	<u>\$2,587,139</u>

⁽¹⁾ Some amounts rounded or omitted.

Source: Citizens Property Insurance Corporation

The information provided above relates only to the Coastal Account. The presentation in Note 14 to the audited statutory financial statements as of December 31, 2013, included as APPENDIX C attached hereto are made on a consolidated basis and additionally includes information from the PLA and CLA.

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Adjusted GAAP Surplus for the Coastal Account

Citizens' Plan provides for a Plan Year Deficit to be determined using Adjusted GAAP. Adjusted GAAP Surplus is calculated by reducing GAAP surplus by Citizens' non-liquid, non-available assets. These assets include unamortized takeout bonuses, deferred financing costs and deferred income tax assets. Even with such reduction to GAAP, the Plan's Adjusted GAAP calculation typically results in a surplus amount greater than that determined using SAP.

Adjusted GAAP for
the Coastal Account

	<u>2014*</u>	<u>2013**</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Retained surplus – GAAP basis	\$3,424,216	\$3,419,509	\$3,227,085	\$2,965,882	\$2,587,139
Deferred financing costs	-	-62,341	-83,785	-106,580	-124,208
Restricted cash – FLSO account	-25,348	-15,339	-11,112	-11,726	-13,651
Unamortized take-out bonuses	-	-	-	-	-
Net assets related to pre-event notes	<u>-309,382</u>	<u>-105,614</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted GAAP Surplus	<u>\$3,089,486</u>	<u>\$3,236,215</u>	<u>\$3,132,188</u>	<u>\$2,847,576</u>	<u>\$2,449,280</u>

*Unaudited

**Certain amounts presented in the 2013 audited financial statements will be restated in 2014.

Source: Citizens Property Insurance Corporation

The information provided above relates only to the Coastal Account.

2015 Operating Budget

The budget for the Coastal Account for 2015 adopted by the Board of Governors on December 15, 2014 calls for net loss of \$72 thousand based upon expected net earned premiums of approximately \$308.3 million from 288,420 policies as of December 31, 2015. This budget was adopted assuming no major storms during 2015 that would cause significant losses in the Coastal Account.

Pension and Other Post Employment Benefits

Citizens contributes to a 401(a) defined contribution plan for its employees, which is administered by a third party. Citizens does not otherwise provide any post employment benefits to its employees. Citizens' employees are not State employees and do not receive benefits or retirement benefits received by State employees. Citizens also administers a frozen pension plan for former FWUA employees. There are 105 persons (either employees or spouses of employees) eligible to participate (the "Participants") in such frozen pension plan. Of those 105 Participants, 21 are currently receiving pension benefits. Citizens' liabilities related to the pension plan are currently fully funded on an actuarial basis.

Current employees of Citizens are not entitled to retiree medical benefits or life insurance or any other retirement benefit except for the 401(a) defined contribution plan described above. Citizens does provide retiree medical benefits and life insurance for a closed group comprised of the seven individuals currently receiving pension benefits, all of whom are retired FWUA employees and their spouses. No person other than such closed group of seven former FWUA employees is entitled to receive retiree medical benefits or life insurance from Citizens. Citizens currently budgets and pays for such retiree medical benefits and life insurance on an annual basis.

INVESTMENTS

Citizens' invested assets are invested pursuant to the following four separate investment policies: (i) Liquidity Fund (taxable); (ii) Liquidity Fund (tax-exempt); (iii) Claims-Paying Fund (taxable); and (iv) Claims-Paying Fund (tax-exempt). See "APPENDIX I - CITIZENS' INVESTMENT POLICIES" for copies of the four investment policies.

Liquidity Fund (Taxable). The investment policy for the Liquidity Fund (taxable) generally governs the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis. The maximum permitted final maturity of this portfolio is 42 months and maximum dollar weighted maturity is 397 days. The following diversification restrictions apply to this portfolio: Treasury and Agency securities, Treasury and Agency Money Market Funds, notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must be in total at least 50% of the Portfolio, and Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 50% of the Portfolio. At the time of purchase, all securities must be rated in accordance with the following: (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of Baa1 by Moody's Investors Service, Inc. ("Moody's"); BBB+ by Standard & Poor's Ratings Services ("S&P"); and/or BBB+ by Fitch Ratings ("Fitch"), (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch, and (3) Securities that are rated Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 10% of the Portfolio, with the securities of a single issuer representing no more than 1% of the Portfolio.

Liquidity Fund (Tax-Exempt): The investment policy for the Liquidity Fund (tax-exempt) generally governs the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis. The maximum permitted final maturity of this portfolio is 42 months and maximum dollar weighted maturity is restricted in two separate ways that restrict the fund to 397 days (using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised. The dollar weighted average life maturity of the portfolio may not exceed 730 days, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature ("VRDO") using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. The following diversification restrictions apply to this portfolio: Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or liquidity support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit. Further, investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund. Tax-exempt commercial paper shall not represent more than 20% of the total portfolio. At the time of purchase, all investments must be rated in accordance with the following: (1) Securities with short-term investment ratings (other than VRDOs, must be rated by at least two of Moody's, S&P and/or Fitch, and must have minimum ratings of MIG 1 by Moody's, SP-1 by S&P, and/or F1 by Fitch, (2) Securities with long-term investment ratings must be rated

by at least two of Moody's, S&P and/or Fitch, and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch, and (3) Subordinate obligations must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A2 by Moody's, A by S&P, and/or A by Fitch. There are currently no funds invested pursuant to this policy.

Claims-Paying Fund (Taxable): The investment policy for the Claims-Paying Fund (taxable) generally governs the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. The maximum permitted final maturity of this portfolio is 85 months and maximum dollar weighted maturity is 48 months. The following diversification restrictions apply to this portfolio: Treasury and Agency securities, Treasury and Agency Money Market Funds, notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must be in total at least 35% of the Portfolio, and Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 65% of the Portfolio. At the time of purchase, all securities must be rated in accordance with the following: (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch, (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of P-1 by Moody's; SP-1 by S&P; and/or F1 by Fitch, and (3) Securities that are rated Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 10% of the Portfolio, with the securities of a single issuer representing no more than 1% of the Portfolio.

Claims-Paying Fund (Tax-exempt): The investment policy for the Claims-Paying Fund (tax-exempt) generally governs the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent funds invested in the Liquidity Fund. The maximum permitted final maturity of this portfolio is 61 months for Series 2009A-1 Bond proceeds, Series 2010A-1 Bond proceeds, and Series 2011A-1 Bond proceeds and will be 73 months for Series 2015A Bond proceeds and any future pre-event bond issuances and maximum dollar weighted maturity is 42 months for Series 2009A-1, 2010A-1 and 2011A-1 and will be 48 months for Series 2015A or any other financing. The following diversification restrictions apply to this portfolio: Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or liquidity Support provider. Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund. Tax-exempt commercial paper ("TECP") shall not represent more than 20% of the total portfolio. At the time of purchase, all investments must be rated in accordance with the following: (1) Securities with short-term investment ratings VRDOs, must be rated by two of Moody's, S&P and/or Fitch, and must have minimum ratings of MIG 1 by Moody's, SP-1 by S&P, and/or F1 by Fitch, (2) Securities with long-term investment ratings must be rated by two of Moody's, S&P and/or Fitch, and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch, and (3) Subordinate obligations must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A2 by Moody's, A by S&P, and/or A by Fitch.

The policies' primary investment objectives are to achieve competitive current income consistent with stability of principal and liquidity, while maximizing investment returns. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses quickly. Paying such losses fully and in a timely manner is

the highest priority for Citizens. Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount. Claims Paying Fund moneys will be used after Liquidity Funds moneys are expended to pay claims.

Citizens' Investment Policies for Operating Funds (the Liquidity Fund (taxable) and Claims Paying Fund (taxable)) apply to all funds under the control of Citizens that are not subject to the Tax-Exempt Investment Policies. Citizens internally manages a portion of its operating funds which are invested in money market mutual funds, bank instruments and United States Treasury or Agency securities. The majority of Citizens' operating funds are managed by third-party professional investment management firms engaged by Citizens, in accordance with Citizens' applicable taxable investment policy.

The portfolio includes only fixed income securities. Fixed income securities are securities that pay interest dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its investment managers invest include corporate debt securities, bank instruments, United States Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Municipal securities, and shares of money market mutual funds.

In accordance with Citizens' Investment Policies for Tax-Exempt Bond Proceeds, such as the Series 2015A Bonds (the Liquidity Fund (tax-exempt) and Claims Paying Fund (tax-exempt)), proceeds of the Series 2015A Bonds will be invested only in Non-AMT Tax-Exempt Securities. The objective of such Tax-Exempt Investment Policies are to maintain the exclusion from gross income for federal income tax purposes of interest on the Series 2015A Bonds and to maintain a stable portfolio of Non-AMT Tax-Exempt Securities, while minimizing liquidity cost, and providing full liquidity upon an event.

The Investment Policies may be changed by Citizens from time to time. See "RISK FACTORS – Investment Risk" herein.

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As of April 30, 2015, Citizens' funds related to the Coastal Account are invested as shown on the chart below. There have been no substantial reallocations of the investments since April 30, 2015. This chart does not include proceeds from the Series 2015A Bonds. Fixed income securities and cash represented 100% of the investments and the chart below shows the distribution of such investments by sector.

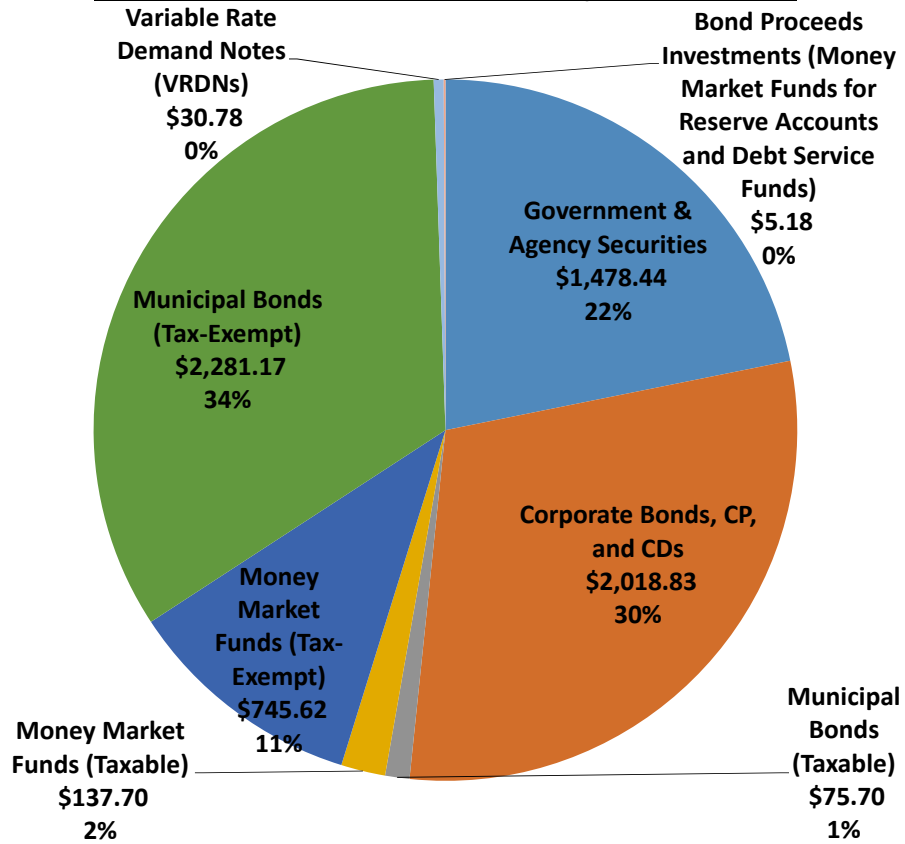
<u>Investments</u>	<u>Amounts (in millions)</u>
Bond Proceeds and Other Tax-Exempt Funds	
Tax-Exempt Money Market Funds(1)	\$746
Tax-Exempt Fixed Rate Municipal Bonds	2,281
Tax-Exempt VRDN's Municipal Bonds	31
Other Investments (Money Market for Reserve Accounts and Debt Service Funds)	5
Total Investments	<u>\$3,063</u>
Operating Funds	
Treasury and Agency Securities	\$1,478
Corporate Bonds, Commercial Paper, and CDs	2,019
Municipal Bonds	76
Money Market Funds	138
Total Operating Funds	<u>\$3,711</u>
Total Invested Assets	<u>\$6,773</u>

(1) Includes 2009A-1, 2010A-1 and 2011A-1 Debt Service Funds.

Source: Citizens Property Insurance Corporation

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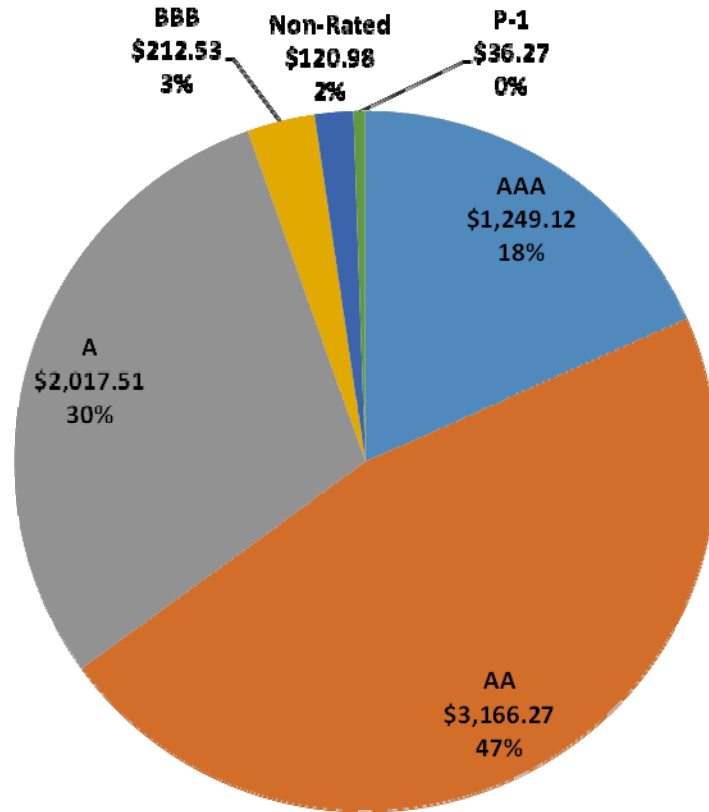
Total Coastal Account Portfolio Composition (\$MM)



Total Coastal Account Portfolio Composition chart is as of April 30, 2015.

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Total Coastal Account Portfolio Rating Distribution (\$MM)



Total Coastal Account Portfolio Rating Distribution chart is as of April 30, 2015.

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CITIZENS BOARD OF GOVERNORS AND SENIOR MANAGEMENT

Board of Governors

As of the date hereof, the Board of Governors is comprised of the following members:

<u>Name</u>	<u>Geographical Area</u>	<u>Occupation</u>
Christopher Gardner, Chairman	Orange County	Insurance Agency Executive
Donald Glisson, Jr., Vice Chairman	St. Johns County	Financial Services Executive
Gary Aubuchon	Lee County	Real Estate Executive
Bette Brown	Monroe County	Bank Executive
Juan Cocuy	Palm Beach County	Certified Public Accountant
Jim Henderson	Seminole County	Insurance Agency Executive
James Holton	Pinellas County	Attorney
Freddie Schinz	Okaloosa County	Real Estate Executive
John Wortman	St. Johns County	Insurance Agency Executive (retired)

The terms of four current members of the Board expire on July 31, 2016 and the terms of another four expire on July 31, 2017. The term of one current member will expire July 31, 2015. The Legislature created staggered terms so that half of the members have two-year terms and half of the members have three-year terms. A vacancy of a Board member results in the appointing officer making a new appointment to fill the unexpired term. In addition, members of the Board may be removed at any time by the respective appointing officer.

Senior Management

Barry Gilway is Citizens' President/CEO and Executive Director. Mr. Gilway oversees all operations and is the liaison to Citizens' Board of Governors. Mr. Gilway is an accomplished insurance executive with over 40 years of experience in insurance including: CEO of Zurich Canada, Executive VP of Zurich North America, CEO of Maryland Casualty Companies and Executive VP of Crum and Forster along with additional senior management positions.

Mr. Gilway began his insurance career in regional management roles for the Insurance Company of North America (INA), Crum and Forster, and WR Berkley Corporation. In 1990, Mr. Gilway became President of the \$900 million Maryland Casualty Commercial Lines Company. He was subsequently promoted to CEO of the entire Maryland Casualty Group. In 1999, Mr. Gilway moved to Canada to turn around a troubled Zurich Canada operation, consisting of personal lines, commercial lines, specialty, life and health companies. Following the divestiture of the Canadian business, he returned to the U.S. as Executive Vice President for Zurich's \$17 billion commercial operation, managing and leading 5,000 employees responsible for the Zurich infrastructure in the U.S. while also acting as M & A liaison. Mr. Gilway retired from Zurich in 2006 and became a consultant for Mystic Capital Advisors. He completed several significant transactions before joining one of Mystic Capital's clients, Economical Insurance Group of Canada. For the three years immediately prior to joining Citizens, Mr. Gilway led the turnaround of Mattei Insurance Services as Chief Executive Officer, reporting to the Economical Board of Directors.

Jennifer Montero, CPA, is Chief Financial Officer. In this capacity, Ms. Montero is responsible for planning and developing the financial course of the corporation. She oversees all aspects of financial reporting, accounting operations, treasury, remittance processing, and budgeting. She also has oversight of a \$13 billion investment portfolio and is responsible for developing, negotiating and implementing Citizens' financing program and risk transfer strategy, including traditional reinsurance and the capital markets. Having served in positions of increasing responsibility with Citizens (and its predecessor, the FRPCJUA) since 1999, Ms. Montero has developed an unmatched institutional knowledge and in-depth understanding of Citizens' financial needs and business model. Previous positions at Citizens include Controller and Manager of the Accounting and Finance Departments. She has nearly 20 years of experience in accounting and related areas, including internal audit. Ms. Montero received her Bachelor of Science degree in Accounting from Florida State University and is a Florida licensed Certified Public Accountant (CPA).

Kelly Booten serves as Chief Systems and Operations Officer. She is responsible for Strategy & Planning, Enterprise Vendor Management, the Program & Project Management Office, and Information Technology. In addition, Ms. Booten has been the executive overseeing the Core Insurance Systems implementation (policy, billing and claims suite). She has been with Citizens since 2002. Prior roles at Citizens include Vice President of Enterprise Planning and Project Portfolio Management & Vice President of Application Development in Information Technology. Ms. Booten has over 30 years of experience in Information Technology, management and project management, with over 10 years in the insurance industry. Prior to joining Citizens in December 2002, Ms. Booten served as Enterprise Project Manager for the Florida Legislature where she managed several enterprise-wide projects that delivered automated process improvement initiatives to both the Florida Senate and House. Other prior experience includes management of customer service, training, delivery services and consulting services with a software organization and manager of application development for an education quasi-governmental organization. Ms. Booten earned her Bachelor of Arts degree in Computer Science from Clarke College.

Joe Martins is the Chief of Internal Audit. Mr. Martins joined Citizens during June 2012 as Chief of Internal Audit based in Jacksonville. Mr. Martins is an accomplished audit executive with broad-based expertise in a variety of areas including Governance, Insurance, Finance, Accounting, Manufacturing and Forensic Analysis. Prior to joining Citizens Mr. Martins was working with the Zurich Insurance Group, first as the Head of Audit for Zurich Insurance Company (South Africa) and later as Assistant Vice President (Audit Director) at Zurich North America. Mr. Martins is a Certified Internal Auditor, Certified Fraud Examiner and has a Certification in Risk Management Assurance (CRMA).

John Rollins is Chief Risk Officer. Mr. Rollins joined Citizens in October 2013 and is responsible for Actuarial, Product Development, Corporate Analytics and Enterprise Risk Management business units.

Mr. Rollins previously owned and operated Rollins Analytics, Inc., a firm he founded at the end of 2009. The firm delivered professional actuarial analysis and strategic consulting to institutions concerned with insurance risk in the private and public sector.

Mr. Rollins is a former vice president at AIR Worldwide, a global provider of risk modeling software and consulting services. He has 24 years of experience as a U.S. property and casualty actuary in many environments, including personal and commercial lines insurers, global and regional consulting firms, a top-tier accounting firm, and an insurance advisory organization. He has worked as chief actuary at both Citizens and Florida Farm Bureau Insurance Companies. He served on the Board of Governors of Citizens, appointed by Florida Governor Rick Scott, from 2011-2013.

Mr. Rollins has wide-ranging technical expertise, including personal and commercial lines ratemaking, catastrophe modeling, reinsurance and “cat bond” structuring, and loss and expense reserving for insurers and self-insurers. He has authored several prize-winning papers in the journals of the Casualty Actuarial Society, and has spoken and testified on catastrophe management and property lines ratemaking topics to the U.S. Congress, several state legislatures, regulators, rating agencies, insurance leaders, academics and the media.

In addition to qualification as a Fellow of the Casualty Actuarial Society (FCAS) and Member of the American Academy of Actuaries (MAAA), Mr. Rollins holds a B.A. in mathematics from Duke University and M.A. in economics from the University of Florida. A fourth-generation Floridian, he resides in the Gainesville area with his wife and children.

Jay Adams is the Chief Claims Officer. Mr. Adams is responsible for overseeing the Claims Operation which consists of Non Catastrophe and Catastrophe claims, Commercial Claims, Litigated and Disputed Claims, Vendor Relations, and Special Investigative Units. He previously served as the Senior Director of Claims where his focus was on the development of ClaimCenter which is the claims management system utilized by Claims. He brings 26 years of insurance experience in Underwriting, Portfolio Management, Claims and Business Analysis. Prior to joining Citizens in 2009, Mr. Adams served at Nationwide Insurance Company for 19 years. During his last assignment, he was responsible for the design and implementation of a new large loss claims handling process, implemented a Direct Repair Program and a Water Mitigation Program, and merged multiple Claims operations into a single operation. Mr. Adams earned a Bachelor of Science in Finance from Virginia Polytechnic Institute.

Daniel Y. Sumner currently serves as General Counsel. In this role, he oversees Legal, Ethics and Compliance, Policy Development and Corporate Integrity. Mr. Sumner also served as Interim Executive Director of Citizens’ predecessor, the Florida Property and Casualty Joint Underwriting Association from its activation in September 2006 until it was merged into Citizens in June 2007. He also served as Executive Director of the original Florida Property and Casualty Joint Underwriting Association during in 1987. Prior to coming to Citizens, Mr. Sumner had a distinguished career with the Florida Department of Financial Services, serving as Deputy Chief of Staff and as General Counsel. Mr. Sumner’s service in the Department of Insurance, prior to Cabinet reorganization, included serving as Executive Senior Counsel, General Counsel, Director of Legal Services, Director of Insurance Rating and Deputy State Treasurer. Mr. Sumner has been involved in the drafting and legal defense of key insurance reforms in the State of Florida, including the Tort Reform Act of 1986; Workers’ Compensation Reform Acts of 1990 and 1995; Property Insurance Reforms and creation of Citizens Property Insurance Corporation in 2002. Mr. Sumner received his bachelor’s and law degree from the University of Florida.

RISK FACTORS

Set forth below are certain specific risk factors associated with an investment in the Series 2015A Bonds which should be carefully considered by prospective investors. The following enumeration of risk factors is not intended to be, and is not, exhaustive. See "LITIGATION AND OTHER MATTERS" herein for a description of certain litigation which may affect the financial condition of Citizens. Prospective investors should consider carefully the following factors relating to Citizens' Coastal Account, in addition to the other information contained in this Official Statement, before purchasing the Series 2015A Bonds.

Catastrophe Losses

The incidence and severity of catastrophes are inherently unpredictable. Citizens' policies in the Coastal Account are concentrated in those coastal areas that appear to be at the highest risk of hurricane damage based upon historical experience and loss model results. Coastal development in recent years has significantly changed the risk profile of hurricane prone coastal areas.

While Citizens cannot predict the level of hurricanes or other catastrophes in the State, the National Oceanic and Atmospheric Administration has concluded that the United States has been in a cycle of heightened Atlantic Ocean hurricane activity since 1995 because of naturally occurring cycles in tropical climate patterns near the equator. This "tropical multi-decadal cycle" can, based upon historical patterns, last 20 to 30 years or even longer.

In addition to hurricanes, other unforeseen catastrophes and acts of God may occur which could cause property losses and disrupt the operations of Citizens.

Collectability of Surcharge, Assessments and Assessment Base

The Act grants Citizens the authority to impose Citizens Policyholder Surcharges, Regular Assessments and Emergency Assessments in the amount required to cure any deficit in any Account, plus interest, fees, commissions, required reserves, and other costs associated with financing the deficits. Amendments to the Act in 2007 significantly expanded and diversified the assessment base for Plan Year Deficits occurring in 2007 and thereafter. Although the State Constitution and the Act generally prohibit the impairment of contracts, in the future, the Florida Legislature could reduce or increase Citizens' surcharges and assessments or reduce or increase the maximum percentage or amount collectible in any given year, including expanding or reducing the assessment base, as long as it does not impair Citizens' ability to repay the Indenture Obligations, including the Series 2015A Bonds. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Certain Covenants" herein for a description of certain covenants contained in the Indenture wherein Citizens agrees to fix, levy, charge and timely collect sufficient funds, including, without limitation, Citizens Policyholder Surcharges, Regular Assessments and Emergency Assessments, which will be sufficient to pay Annual Debt Service. See also "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE – Collection of Assessments and Other Moneys" herein for revisions to those covenants upon execution and delivery of the Master Trust Indenture.

Although Citizens and its predecessors have imposed and collected surcharges on their policyholders as well as Regular Assessments and Emergency Assessments, Citizens has no experience with the levy of the assessments on the 2007-expanded assessment base. However, Citizens' expanded assessment base is substantially identical to that of the FHCF, which levied its first emergency assessment on this expanded assessment base commencing January 1, 2007.

In addition, the arithmetic calculations and the certification of the Board of Governors of the Emergency Assessments and any modifications thereto are subject to verification and approval by the Office. If the Office refuses to verify Emergency Assessments or if the legality of the Act, the Regular Assessments or the Emergency Assessments is successfully challenged, then Citizens may not be able to collect sufficient assessment proceeds to pay amounts, if needed and levied, due under its indebtedness, including the Series 2015A Bonds. The Office has verified the Emergency Assessment related to the 2005 Hurricane Season. Any modification requires subsequent verification by the Office. The Emergency Assessment related to the 2005 Hurricane Season was reduced once by Citizens and verified by the Office and has been approved by the

Office to be terminated on July 1, 2015 pursuant to an Order of the Office. The Act does not provide a time frame for the imposition of Emergency Assessments. See, however, "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Certain Covenants – Revenues" and "Collection of Assessments and Other Moneys" herein for a description of the covenant of Citizens provided in the Indenture with respect to the time frames for the imposition of Emergency Assessments in respect of Plan Year Deficits paid, in whole or in part, from Draws from the Proceeds Account under the Indenture. See also "PROSPECTIVE AMENDMENT AND RESTATEMENT IN ITS ENTIRETY OF THE INDENTURE – Collection of Assessments and Other Moneys" herein for revisions to those covenants upon execution and delivery of the Master Trust Indenture.

In addition to assessments that may be imposed by Citizens, other statutory entities such as the FHCF and FIGA may also impose assessments on the same insurers and/or policyholders on which Citizens imposes assessments. The FHCF may impose assessments on policyholders of up to 6% of its applicable gross DWP on all property and casualty insurance, except for workers' compensation, medical malpractice and accident and health insurance, for any single year deficit and not to exceed 10% in the aggregate for multiple year deficits. Such assessments would be levied on a broad assessment base that is identical to Citizens' Emergency Assessment base. The FHCF levied only a 1% emergency assessment on its assessment base for a six-year period commencing on January 1, 2007 and on April 27, 2010 such emergency assessment was increased from 1% to 1.3% effective January 1, 2011 to support annual debt service on post-event bonds to fund its deficit from 2005 hurricane losses. However, FHCF has defeased all remaining post-event bonds and as of July 21, 2014, such FHCF Emergency Assessment for all policies issued or renewed on or after January 1, 2015, has been terminated.

FIGA may impose assessments on insurers (including Citizens) of up to 2% of net DWP written on all lines of property and casualty insurance in Florida, except workers' compensation, which the insurers may assess policyholders through premium rate increases. Citizens would pay any FIGA assessments from premium revenue. Such FIGA assessments would be levied on a portion of the assessment base levied upon by Citizens for Emergency Assessments. In the context of a major hurricane, FIGA may impose an additional special assessment of 2% if FIGA issues bonds to cover the payment of claims of insolvent insurers. Citizens is assessable by FIGA even when FIGA does not issue bonds. Citizens was subject to the assessments levied by FIGA in 2007, 2009 and 2012. Citizens received approval from the Office to recoup such assessments from its policyholders. FIGA's last levied assessment was a 0.9% assessment on November 9, 2012 that was payable by December 31, 2012 and was subject to recoupment from its policyholders.

Total combined surcharges and assessments in a single year levied by Citizens, FIGA and FHCF on a Citizens policyholder could equal up to 63% of the policyholder's premium and up to 20% of the premium of a policyholder in the assessment base that is not a Citizens policyholder. Citizens has never levied nor attempted to collect surcharges and assessments at such levels. Although the Legislature intervened in 2007 to limit the impact of the 2005 Plan Year Deficit, there is no assurance that such intervention would occur in the future. Based on Citizens' Claims Paying Capacity as shown on the chart entitled "Coastal Account Liquidity And Claims-Paying Capacity – Single Event", for a 1-100 year event for the 2015 hurricane season, Citizens is projected to have no surcharges and/or assessments, as it has sufficient financial resources to meet its potential obligations in a 1-100 year event. See "THE COASTAL ACCOUNT - Liquidity Resources and Loss Exposures". For a 1-100 year event for the 2015 hurricane season, the FHCF could potentially have to issue post-event bonds in the amount of \$3.2 billion in order to meet its projected maximum obligation of \$17 billion, which would require a 0.64% emergency assessment over 30 years.

In addition, the Florida Legislature could reduce or increase Citizens' surcharges and assessments or reduce or increase the maximum percentage or amount collectible in any given year. See " – Future Legislative and Regulatory Changes" herein.

The cumulative impact of these surcharges and assessments could have a material adverse effect on the financial condition of (and collectability of surcharges and assessments from) Florida policyholders and certain insurers, including Citizens, and which could lead insurers to reduce their writings in the State and could lead to political pressures on Citizens' assessment mechanism described herein. If Citizens is unable to collect a substantial portion of its assessments and surcharges, it may be unable to pay amounts due under its indebtedness, including the Series 2015A Bonds. The amount of assessments collected for a given assessment percentage in any one year could decrease if there is a decrease in industry-wide DWP due to further legislative changes or changes in the Florida economy.

Future Legislative and Regulatory Changes

Citizens is a governmental entity created by the Florida Legislature. Changes in the political climate in the State, particularly following a major hurricane, a series of hurricanes or other catastrophic events, could adversely affect Citizens. There can be no assurance that the Legislature would not attempt to grant relief to policyholders in the aftermath of such a catastrophe. In addition, the Florida Legislature may from time to time consider changes in the structure of Citizens including its assessment and rate structure. Changes in the Act or in the insurance laws or regulations of the State could have a material adverse effect on the financial position and the operations of Citizens. See " – Collectability of Surcharge, Assessments and Assessment Base" for a description of the statutory and constitutional requirements relating to the ability to amend the Act in a fashion that could reduce Citizens' Assessment Base and/or the level of Pledged Revenues collected.

In addition, Citizens is subject to regulation by the Office. See "CITIZENS PROPERTY INSURANCE CORPORATION - Background" herein. Moreover, the Office determines the rates to be charged by Citizens and Citizens is unable to appeal such determination. The Office's interpretation of, or a change in its interpretation of, any law or regulation binding upon Citizens, or a change in Citizens' Plan ordered by the Commission, could also have a material adverse effect on the financial position and the operations of Citizens. Changes in Florida law applicable to the FHCF or Citizens could have a material adverse effect on the financial position and operations of Citizens. As described herein, the Florida Legislature enacted various changes to the Act in prior years including during its most recent 2015 regular legislative session. Additional amendments to the Act may be introduced and passed during future legislative sessions. However, the Act requires that "[i]n recognition of s. 10, Art. I of the State Constitution, prohibiting the impairment of obligations of contracts, it is the intent of the Legislature that no action be taken whose purpose is to impair any bond indenture or financing agreement or any revenue source committed by contract to such bond or other indebtedness." See "RISK FACTORS – Future Legislative and Regulatory Changes" and "FLORIDA PROPERTY AND CASUALTY INSURANCE MARKET" herein.

Possible Changes in the Market for Property Insurance

The availability and affordability of property insurance in the State has been and may continue to be affected by changes in premiums charged, risk covered, deductible imposed, willingness of companies to write policies and the financial stability of such companies as well as regulatory requirements and statutory changes. One or more storms in the future could result in Citizens incurring significant losses and therefore additional deficits and any assessments levied (in addition to those of FHCF and FIGA, if any) in the event of a future deficit would further increase the cost of insurance. In addition, the cumulative effect of the

assessments described above could have a material adverse effect on the level of real estate development and economic activity in the State. In addition, the transfer of additional policies from the voluntary market to the Coastal Account or other account may have a material adverse change on the financial condition and the operations of Citizens. Citizens cannot predict any market or legislative changes which may increase the number of additional policies to Citizens. See "FLORIDA PROPERTY AND CASUALTY INSURANCE MARKET" herein. There is no assurance that voluntary market insurers will not discontinue covering property in Florida, causing additional growth in Citizens' policy count and loss exposure.

Citizens' Exposure

As a residual market mechanism, Citizens is required, through the Coastal Account, to provide coverage to all insurable risks within the Eligible Areas which the private property insurance market will not accept at certain rates and, as a consequence, limited underwriting standards are applicable and standard selective underwriting practices are not utilized by Citizens. In the event that voluntary market writings of windstorm coverage in the Eligible Areas decrease (which could occur, for example, as a result of a large hurricane or series of hurricanes impacting the State), the Coastal Account would absorb a greater fraction of the total wind insurance coverage in the Eligible Areas. See "FLORIDA PROPERTY AND CASUALTY INSURANCE MARKET" herein. There would be several consequences to the Coastal Account from such an event. First, premium revenues of Citizens would increase due to increased writings and the DWP on which the Citizens Policyholder Surcharge would be based would increase. Second, in-force liability and exposure of the Coastal Account would increase. However, assuming no statewide premium growth, the statewide DWP on which Regular Assessments would be based would decrease, while the Emergency Assessment Base would remain essentially unchanged. Furthermore, there can be no assurance that the Florida Legislature will not extend or contract the Eligible Areas in the future.

Conversely, if the writings of Citizens' Coastal Account decline over time, the premium revenues of the Coastal Account would be reduced. Depending on the particular policies which remain in the Coastal Account, such reduction in premium revenues may be disproportionate to the reduction in the modeled exposure (PML's) of the Coastal Account. Such an event could occur, for example, if voluntary market insurers selectively pick lower risk policies in the Coastal Account under a depopulation program for Citizens or otherwise. See "THE COASTAL ACCOUNT – Liquidity Resources and Loss Exposures" herein for a description of the PML.

Limitations of Loss Modeling Analysis

Loss distributions are used for a variety of purposes, including a determination of potential exposure based on subjective assumptions relating to environmental, demographic and economic factors. Such factors are inherently uncertain and Citizens does not model all of the types of perils that may result in losses to Citizens. The assumptions and/or methodologies used by Citizens may not constitute the exclusive set of reasonable assumptions, and the use of alternative assumptions and/or methodologies could yield results materially different from those generated by Citizens. Each model run is based on exposure information that will differ from Citizens' actual exposure during the term of the Series 2015A Bonds based on future action Citizens may take, including changes to existing policies and the writing of new business. Loss distribution models are not facts, projections or predictions of future losses, and should not be relied upon as such. Actual loss experience can materially differ from the loss distributions generated by the model.

As a result of its ongoing process of internal review, Citizens may refine various model assumptions from time to time in light of new meteorological and other information as such information becomes available.

Such refinements may materially alter, and have in the past materially altered, the loss estimates generated by such models.

Insolvency of Insurers

Emergency Assessments are levied on policyholders. However, such Emergency Assessments will be collected by insurance companies and are required to be remitted to Citizens on a monthly basis. In the event an insurance company should become insolvent and be subject to liquidation prior to the time that the company remits collected Emergency Assessments to Citizens, such funds in the possession of the company may be subject to the prior claims of creditors or by a trustee to the insolvency proceeding.

Enforceability of Remedies

The remedies available to the Beneficial Owners of the Series 2015A Bonds upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the federal bankruptcy code, the Indenture (and the Master Trust Indenture when it becomes effective) and the Series 2015A Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2015A Bonds (including Bond Counsel's approving opinion) will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery.

Investment Risk

Moneys credited to the accounts and subaccounts for the Series 2015A Bonds under the Indenture will be invested and reinvested in Permitted Investments. See "INVESTMENTS" herein and "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto for a description of Permitted Investments. Earnings on moneys and investments in the Proceeds Account are expected to be used to pay a portion of interest on Indenture Obligations until such moneys and investments are needed to pay claims. However, Permitted Investments are exposed to changes in market value as well as price and yield volatility, and the value of such Permitted Investments could decline below their purchase price and the investment earnings thereon could be lower than anticipated. Such a decline may result in insufficient funds being available, when needed, to pay policy claims and other liabilities and expenses, including debt service on the Indenture Obligations.

Post-Event Bonds

Citizens expects that post-event bond issuances by Citizens may be needed in the event one or more windstorms create significant losses exceeding Citizens' available claims-paying resources. If issued, such bonds may need to be in an amount adequate to repay outstanding loss claims. See "THE COASTAL ACCOUNT – Liquidity Resources and Loss Exposures" and "PLAN OF FINANCING" herein. Citizens, the FHCF and FIGA may all seek to simultaneously issue bonds following the same windstorm event. There can be no assurance that there will be adequate capacity in the marketplace to permit the sale of bonds necessary to meet all of Citizens' needs or the needs of the FHCF. See "FLORIDA HURRICANE CATASTROPHE FUND" herein. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Additional Indenture Obligations" herein.

Additional Parity Indebtedness

The Indenture does not limit the amount of Additional Indenture Obligations that Citizens may issue on parity with the Series 2015A Bonds and the Prior Parity Bonds. However, Citizens' ability to use the proceeds from such Additional Indenture Obligations is subject to certain limitations. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Proceeds Account" and "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS – Additional Indenture Obligations" herein. In addition, the Security and Pledge Agreement does not limit the amount of Senior Secured Obligations that Citizens may issue on parity with Indenture Obligations.

FHCF and Reinsurance

The reimbursement contract provided by the FHCF constitutes a portion of Citizens' claims-paying program. See "FLORIDA HURRICANE CATASTROPHE FUND" herein. The FHCF is only obligated to pay reimbursement claims to the extent of its actual available resources. Citizens' recovery under its FHCF contract for the Coastal Account could be less than the forecasted recovery if the FHCF is unable to raise the financing equivalent to its forecasted estimated borrowing capacity. No representation is made by Citizens as to the ability of the FHCF to provide reimbursements to Citizens or the financial position of the FHCF. A significant departure from the forecasted ability of the FHCF to fund its reimbursement contracts, or a significant delay therein could have a material adverse impact on the financial condition of Citizens.

The FHCF does not reinsure commercial nonresidential policies. Accordingly, no FHCF coverage is provided for the commercial nonresidential policies in the Coastal Account. Citizens purchased private reinsurance for its nonresidential policies in 2014 and 2015. See "THE COASTAL ACCOUNT – Assessments, Surcharge and Other Funds – *Private Reinsurance*" herein for further discussion of the availability of private reinsurance.

Private Reinsurance

The Private Reinsurance contracts described herein do not constitute a portion of Citizens' claims-paying program. However, such Private Insurance may be used to lessen Citizens' reliance on its net premiums, assessments and surcharges collected by Citizens in respect of the Coastal Account to pay claims. Citizens' recovery under its Private Reinsurance could be less than the forecasted recovery if the providers of such Private Reinsurance are unable to fulfill the Private Reinsurance contracts. No representation is made by Citizens as to the ability of the providers of the Private Reinsurance to provide reimbursements to Citizens or the financial position of any provider of Private Reinsurance. A significant departure from the forecasted ability of the providers of the Private Reinsurance to fund its reinsurance contracts, or a significant delay therein could have a material adverse impact on the financial condition of Citizens. Citizens may determine in the future to purchase lower amounts of Private Reinsurance or to exit that market due to affordability of such Private Reinsurance, reliability of Private Reinsurance providers or other factors. No representations are made as to Citizens future participation in the Private Reinsurance markets.

Consolidation of Accounts

Pursuant to the Act, all revenues, assets, liabilities, losses and expenses of Citizens are separated by account as described above. The Act further requires Citizens to exercise its best efforts, consistent with prudent investment policies that minimize the cost of carrying debt, to retire existing debt or to obtain approval of necessary parties to amend the terms of existing debt, so as to structure the most

efficient plan to consolidate the PLA, the CLA and the Coastal Account into a single account. On February 1, 2007, Citizens' Board submitted to the Legislature and Commission a report that analyzed the advantages and disadvantages of combining its three Accounts into a single account. While the report noted several potential advantages of combining accounts, it also described the legal and financial challenges which could result from this approach. After considering the potential costs and benefits of combining accounts pursuant to the report, neither the Legislature nor the Board has taken further action in this regard.

Any such consolidation (prior to the execution and delivery of the Master Trust Indenture) would require amendments to the Pledge and Security Agreement and the Indenture. See "APPENDIX B – COMPOSITE FORM OF THE PLEDGE AND SECURITY AGREEMENT" and "APPENDIX A – COMPOSITE FORM OF THE TRUST INDENTURE AND FORM OF TENTH SUPPLEMENTAL INDENTURE" attached hereto for procedures which must be adhered to in order to effect such amendments. In addition, the Legislature may be required to amend the Act in order to consolidate the accounts. See "SECURITY FOR THE SERIES 2015A BONDS AND OTHER INDENTURE OBLIGATIONS" herein. Prospective purchasers of the Series 2015A Bonds should not rely on this Official Statement for information regarding the PLA or the CLA.

Delinquency Proceedings

Citizens believes that it is likely to be deemed either an insurance company or a municipality for the purposes of Delinquency Proceedings (as defined in the DOI Agreement). In either such event, it is unlikely that the security interest in the Collateral would be impaired unless the Act were amended to so affect the Collateral. See "- Future Legislative and Regulatory Changes" above. However, in the unlikely event that Citizens is eligible for relief under the General Bankruptcy laws, a bankruptcy petition thereunder could result in (i) the avoidance of the security interest of the Indenture Trustee in the Pledged Revenues (as defined), (ii) disgorgement of preferential transfers received against the holders of the Series 2015A Bonds for payments made within 90 days preceding such petition, (iii) reduction of the payments made to Holders of Series 2015A Bonds, and (iv) other material alterations of the provisions of the Series 2015A Bonds. Such results could materially impair the ability of Citizens to repay amounts due under the Series 2015A Bonds and other pari passu debt. Pursuant to the Act, as long as Citizens has bonds outstanding, it may not file a voluntary petition under Chapter 9 of the Federal Bankruptcy Code.

TAX MATTERS

In the opinion of Greenberg Traurig, P.A., Bond Counsel, under existing law: (i) interest on the Series 2015A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (ii) the Series 2015A Bonds and the income thereon are exempt from taxation under the laws of the State of Florida, except estate taxes imposed by Chapter 198, Florida Statutes, as amended, and net income and franchise taxes imposed by Chapter 220, Florida Statutes, as amended. Bond Counsel expresses no opinion as to any other tax consequences regarding the Series 2015A Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of Citizens contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2015A Bonds

are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of Citizens' certifications and representations or the continuing compliance with Citizens' covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Series 2015A Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by Citizens may cause loss of such status and result in the interest on the Series 2015A Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2015A Bonds. Citizens has covenanted to take the actions required of it for the interest on the Series 2015A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2015A Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2015A Bonds or the market value of the Series 2015A Bonds.

A portion of the interest on the Series 2015A Bonds earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Series 2015A Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2015A Bonds. Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2015A Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2015A Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Series 2015A Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2015A Bonds will not have an adverse effect on the tax status of interest on the Series 2015A Bonds or the market value of the Series 2015A Bonds.

Prospective purchasers of the Series 2015A Bonds should consult their own tax advisers regarding pending or proposed federal and state tax legislation and court proceedings, and prospective purchasers of the Series 2015A Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Series 2015A Bonds ends with the issuance of the Series 2015A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend Citizens or the owners of the Series 2015A Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2015A Bonds, under current IRS procedures, the IRS will treat Citizens as the taxpayer and the beneficial owners of the Series 2015A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2015A Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2015A Bonds.

Original Issue Premium

The Series 2015A-1 Bonds (the "Premium Bonds") as indicated on the inside cover of this Official Statement were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually (or a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering at the price for that Premium Bond stated on the inside cover of this Official Statement who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

OWNERS OF PREMIUM BONDS SHOULD CONSULT THEIR OWN TAX ADVISERS AS TO THE DETERMINATION FOR FEDERAL INCOME TAX PURPOSES OF THE AMOUNT OF BOND PREMIUM PROPERLY ACCRUABLE OR AMORTIZABLE IN ANY PERIOD WITH RESPECT TO THE PREMIUM BONDS AND AS TO OTHER FEDERAL TAX CONSEQUENCES AND THE TREATMENT OF BOND PREMIUM FOR PURPOSES OF STATE AND LOCAL TAXES ON, OR BASED ON, INCOME.

RATINGS

The Series 2015A Bonds that do not represent Insured Series 2015A Bonds have been assigned long-term ratings of "A+" (stable outlook), "A1" (stable outlook) and "AA-" (stable outlook), by S&P,

Moody's and Fitch, respectively. Such ratings and related outlooks reflect only the views of such organizations and any desired explanation of their significance should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, S&P, 55 Water Street, New York, New York, 10041 and Fitch, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its rating and related outlook on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings or related outlooks will continue for any given period of time or that such ratings or related outlooks will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings or related outlooks may have an adverse effect on the market price of the Series 2015A Bonds.

LITIGATION AND OTHER MATTERS

In the opinion of Citizens' General Counsel, there is no litigation now pending or, to his knowledge, threatened (i) to restrain or enjoin the issuance or sale of the Series 2015A Bonds or (ii) questioning or affecting the validity of the Series 2015A Bonds, the Indenture or the pledge of the Pledged Revenues by Citizens or the proceedings for the authorization, sale, execution or delivery of the Series 2015A Bonds.

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 therefrom, 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.

Citizens v. Perdido Sun. Citizens is currently involved in a case before the Florida Supreme Court, *Citizens v. Perdido Sun Condominium*, which raises the issue of whether Citizens has immunity against a cause of action asserting statutory bad faith pursuant to Section 624.155 Florida Statute. An appellate court in Florida recently ruled that a statutory bad faith claim can be brought against Citizens. In 2010, another Florida appellate court had concluded that Citizens has immunity from such claims. The Florida Supreme Court has held oral argument on the matter to resolve this conflict among the lower Florida appellate courts. A decision which rules that Citizens was subject to bad faith claims could have a material adverse impact on Citizens. The Court's opinion has not been issued to date.

Further, in October 2013, Citizens received a subpoena from the Securities and Exchange Commission ("SEC") requesting information relating to catastrophe bonds issued by Everglades Re Ltd. in 2012 and 2013. Citizens is voluntarily cooperating with the SEC and is of the belief that any action by the SEC will not materially affect the financial condition of Citizens.

Citizens has not determined the potential financial exposure, if any, of the above actions.

FINANCIAL STATEMENTS

The statutory basis financial statements of Citizens Property Insurance Corporation as of December 31, 2013 and December 31, 2012, and for the years then ended, included as APPENDIX C to this Official Statement, have been audited by Johnson Lambert & Co. LLP, as stated in the report appearing therein. The

Audited Financial Statements of Citizens Property Insurance Corporation as of December 31, 2013 and December 31, 2012, and for the years then ended, included in APPENDIX D to this Official Statement, have been audited by Johnson Lambert & Co. LLP, as stated in the report appearing therein. Johnson Lambert & Co. LLP, has consented to the inclusion of such audited financial statements in this Official Statement and has performed certain procedures in connection herewith. It has not performed an audit of Citizens for any years prior to 2010. Johnson Lambert & Co. LLP was selected by competitive process to complete the audits. Pursuant to a recently completed competitive process, Dixon Hughes Goodman LLP was selected for the three year period subsequent to the year ended December 31, 2014 and Johnson Lambert & Co. LLP, will no longer serve as Citizens' auditor subsequent to the audit for the year ended December 31, 2014. Citizens expects the Audited Financial Statements of Citizens Property Insurance Corporation as of December 31, 2014 to be available on or before June 1, 2015, at which time a supplement to this Official Statement is expected to be published.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance of the Series 2015A Bonds are subject to the legal opinion of Greenberg Traurig, P.A., Miami, Florida, whose legal services as Bond Counsel, have been retained by Citizens. The signed legal opinion, dated and premised on law in effect as of the date of original delivery of the Series 2015A Bonds, will be delivered to the Underwriters at the time of original delivery of the Series 2015A Bonds.

The proposed legal opinion is set forth in APPENDIX F attached hereto. The actual legal opinion to be delivered may vary from that text as necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution thereof by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

While Bond Counsel has participated in the preparation of certain portions of this Official Statement, it has not been engaged by Citizens to confirm or verify, and except as may be set forth in an opinion of Bond Counsel delivered to the Underwriters, Bond Counsel will express no opinion as to the accuracy, completeness or fairness of any statements in this Official Statement, or in any other reports, financial information, offering or disclosure documents or other information pertaining to Citizens or the Series 2015A Bonds that may be prepared or made available by Citizens, the Underwriters or others to the holders of the Series 2015A Bonds or other parties.

Certain legal matters will be passed upon for Citizens by Daniel Y. Sumner, Citizens' General Counsel and Bryant Miller Olive P.A., Tallahassee, Florida, Disclosure Counsel, and for the Underwriters by Nabors, Giblin & Nickerson, P.A., Tampa, Florida, Underwriters' Counsel.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Section 517.051, Florida Statutes, and the regulations promulgated thereunder (the "Disclosure Act") require that Citizens make a full and fair disclosure of any bonds or other debt obligations that it has issued or guaranteed and that are or have been in default as to principal or interest at any time after December 31, 1975 (including bonds or other debt obligations for which it has served only as a conduit issuer such as industrial development or private activity bonds issued on behalf of private businesses). Since December 31, 1975,

Citizens is not, and has not been, in default as to principal and interest on bonds or other debt obligations for which revenues of Citizens are pledged.

FINANCIAL ADVISOR

Raymond James & Associates, Inc., St. Petersburg, Florida, is serving as Financial Advisor to Citizens with respect to the sale of the Series 2015A Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the Series 2015A Bonds. Raymond James & Associates, Inc., did not engage in any underwriting activities with regard to the issuance and sale of the Series 2015A Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and is not obligated to review or ensure compliance with the undertaking by Citizens to provide continuing secondary market disclosure.

UNDERWRITING

The Series 2015A Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Citigroup Global Markets Inc., Jefferies LLC, Morgan Stanley & Co. LLC, RBC Capital Markets, LLC ("RBC CM"), Ramirez & Co., Inc., Stifel, Nicolaus & Company, Incorporated, and Wells Fargo Bank, National Association (collectively, the "Underwriters").

The Underwriters have agreed to purchase the Series 2015A-1 Bonds at a price of \$790,918,744.81 which represents the par amount of the Series 2015A-1 Bonds plus original issue premium of \$93,566,850.00 and less an underwriting discount of \$2,648,105.19. The Underwriters have also agreed to purchase the Series 2015A-2 Bonds at a price of \$299,037,905.96, which represents the par amount of the Series 2015A-2 Bonds less an underwriting discount of \$962,094.04.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. In the course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of Citizens (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with Citizens. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2015A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may

purchase Series 2015A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2015A Bonds that such firm sells

Citigroup Global Markets Inc., an underwriter of the Series 2015A Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Series 2015A Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries including Wells Fargo Bank, National Association. Wells Fargo Bank, National Association is serving as both underwriter and Collateral Trustee for the Series 2015A Bonds.

Wells Fargo Bank, National Association ("WFBNA"), one of the Underwriters of the Series 2015A Bonds, has entered into separate agreements (the "Distribution Agreements") with Wells Fargo Advisors, LLC ("WFA") and Estrada Hinojosa & Company ("Estrada") for the distribution of certain municipal securities offerings (with respect to Estrada, limited only to municipal securities issued by Citizens), including the Series 2015A Bonds. Pursuant to the Distribution Agreements, WFBNA will share a portion of its underwriting compensation with respect to the Series 2015A Bonds with WFA and Estrada. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2015A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Certain subsidiaries of Wells Fargo & Company (parent company of Wells Fargo Bank, National Association, one of the Underwriters for the Series 2015A Bonds) have provided, from time to time, investment banking services, commercial banking services or advisory services to Citizens, for which they have received customary compensation. Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for Citizens in the ordinary course of their respective businesses.

Morgan Stanley, parent company of Morgan Stanley & Co., LLC, one of the Underwriters of the Series 2015A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co., LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co., LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2015A Bonds.

CONTINGENT FEES

Citizens has retained Bond Counsel, Disclosure Counsel, the Financial Advisor and the Underwriters (who in turn retained Underwriters' Counsel), with respect to the authorization, sale, execution and delivery of the Series 2015A Bonds. Payment of certain of the fees of such professionals is contingent upon the issuance of the Series 2015A Bonds.

CONTINUING DISCLOSURE

Citizens has covenanted for the benefit of Series 2015A Bondholders to provide certain financial information and operating data relating to Citizens and the Series 2015A Bonds in each year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated material events. Such covenant will only apply so long as the Series 2015A Bonds remain outstanding under the Indenture (including the Master Trust Indenture). The covenant will also cease upon the termination of the continuing disclosure requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule"), by legislative, judicial or administrative action. The Annual Report and any notices of material events will be filed by Citizens with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system for municipal securities disclosures as described in the Form of Continuing Disclosure Certificate attached hereto as APPENDIX G. The specific nature of the information to be contained in the Annual Report and the notices of material events are described in "APPENDIX G - FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto, which will be executed by Citizens at the time of issuance of the Series 2015A Bonds. Failure of Citizens to comply with the provisions of the Continuing Disclosure Certificate will not constitute an event of default under the Indenture (or under the Master Trust Indenture). It is the position of Citizens that the sole and exclusive remedy of any Holder of a Series 2015A Bond for enforcement of the provisions of the Continuing Disclosure Certificate will be an action of mandamus or specific performance to cause Citizens to comply with its obligations thereunder. These covenants have been made in order to assist the Underwriters in complying with the Rule. Citizens' dissemination agent for such undertakings is Digital Assurance Certification, L.L.C. Citizens has timely filed its annual reports required by past undertakings pursuant to the Rule but inadvertently omitted its HRA Liquidity Resources from the filing for fiscal year 2013. Such information had been included in its prior annual reports and was available on its website.

FORWARD LOOKING STATEMENTS

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "forecast," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

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MISCELLANEOUS

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Series 2015A Bonds, the security for the payment of the Series 2015A Bonds, and the rights and obligations of holders thereof.

The appendices attached hereto are integral parts of this Official Statement and must be read in their entirety together with all of the foregoing statements. The information contained in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Series 2015A Bonds.

The information in this Official Statement has been compiled from official or other sources deemed to be reliable, and is believed to be correct as of the date of the Official Statement, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation, by the Underwriters. All information contained herein has been provided by Citizens, except where attributed to other sources.

The execution and delivery of this Official Statement by Citizens' Chairman, its President and its Chief Financial Officer have been duly authorized by the Board. At the time of delivery of the Series 2015A Bonds, the undersigned will furnish a certificate to the effect that nothing has come to their attention which would lead them to believe that the Official Statement (excluding information regarding DTC, its book-entry only system of registration, "TAX MATTERS", and "UNDERWRITING" herein, as to which no opinion is expressed), as of its date and as of the date of delivery of the Series 2015A Bonds, contains an untrue statement of a material fact or omits to state a material fact which should be included therein for the purposes for which the Official Statement is intended to be used, or which is necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

CITIZENS PROPERTY INSURANCE CORPORATION

By: /s/ Christopher Gardner
Christopher Gardner, Chairman

By: /s/ Barry Gilway
Barry Gilway, President/CEO and Executive Director

By: /s/ Jennifer Montero
Jennifer Montero, Chief Financial Officer

APPENDIX A

**COMPOSITE FORM OF THE TRUST INDENTURE
AND FORM OF TENTH SUPPLEMENTAL INDENTURE**

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APPENDIX A

COMPOSITE FORM OF THE TRUST INDENTURE DATED AUGUST 6, 1997, AS AMENDED AND SUPPLEMENTED

The following is a composite of the Trust Indenture dated as of August 6, 1997 (the "Original Indenture"), as supplemented and amended to date. All amendments to the Original Indenture have been incorporated into the Composite Form of Trust Indenture set forth below without additional explanation. The Composite Form of Trust Indenture set forth below intentionally omits Exhibit A (Form of Notes) and certain annexes to the Original Indenture and certain terms relating solely to the Indenture Obligations issued pursuant to the particular Supplemental Indenture for such Series of Indenture Obligations that are not relevant to the Series 2015A Bonds.

In addition to the Composite Form of Trust Indenture, there is also set forth below in its entirety the Tenth Supplemental Indenture dated as of June 1, 2015, which serves as the Supplemental Indenture for the Series 2015A Bonds and provides certain specific terms and details thereof.

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COMPOSITE TRUST INDENTURE

between

CITIZENS PROPERTY INSURANCE CORPORATION
(successor to Florida Windstorm Underwriting Association)

and

REGIONS BANK
(successor to U.S. Bank National Association, Wachovia Bank, National Association
and The Bank of New York),
as Indenture Trustee

securing

Securities

of

CITIZENS PROPERTY INSURANCE CORPORATION
(successor to Florida Windstorm Underwriting Association)

(COASTAL ACCOUNT)

Dated

as of

August 6, 1997, as supplemented and amended by a
Series 1999A Supplemental Indenture dated as of March 31, 1999,
a Second Supplemental Indenture dated as of August 1, 2002,
a Third Supplemental Indenture dated as of May 1, 2004,
a Fourth Supplemental Indenture dated as of June 1, 2006,
a Fifth Supplemental Indenture dated as of February 1, 2007,
a Sixth Supplemental Indenture dated as of June 1, 2008,
a Seventh Supplemental Indenture dated as of May 1, 2009,
an Eighth Supplemental Indenture dated as of April 1, 2010 and
a Ninth Supplemental Indenture dated as of July 1, 2011

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TRUST INDENTURE

THIS TRUST INDENTURE (the "Indenture") dated as of August 6, 1997, is made by and between Citizens Property Insurance Corporation (successor to Florida Windstorm Underwriting Association), a statutorily created corporation organized under the laws of the State of Florida ("Citizens") and Regions Bank (successor to U.S. Bank National Association, Wachovia Bank, National Association and The Bank of New York), an Alabama state bank organized and existing under the laws of the State of Alabama and qualified to exercise trust powers under the laws of the State of Florida, with its designated place of business located in Jacksonville, Florida (the "Indenture Trustee"), as Indenture Trustee, under the circumstances summarized in the following recitals (the capitalized terms not defined in the recitals and granting clauses being used therein as defined in Article I hereof):

(A) Citizens is a statutorily created corporation created pursuant to Section 627.351(6), Florida Statutes, as amended (the "Act"), to function as a residual market mechanism to provide residential and commercial windstorm insurance for those who cannot procure such insurance through the voluntary market.

(B) The Act grants to Citizens the power to borrow funds, by issuing bonds or by incurring other indebtedness, and such other powers as are reasonably necessary to effectuate the requirements of the Act.

(C) In order to enhance its ability to pay claims upon the occurrence of a catastrophic hurricane or other windstorm event, Citizens deems it in its best interest to provide for the issuance of the 1997 Notes and the Additional Indenture Obligations authorized and secured by this Indenture. Citizens is authorized to execute and deliver this Indenture and to do or cause to be done all acts provided or required herein to be performed on its part.

(D) All acts and conditions required to happen, exist and be performed precedent to and in the issuance of the 1997 Notes and the execution and delivery of this Indenture have happened, exist and have been performed, or at the delivery of the 1997 Notes will exist, will have happened and will have been performed (i) to make the 1997 Notes, when issued, delivered and authenticated, valid obligations of Citizens in accordance with the respective terms thereof and hereof and (ii) to make this Indenture a valid, binding and legal trust agreement for the security of the Indenture Obligations.

(E) The Indenture Trustee has accepted the trusts created by this Indenture, and in evidence thereof has joined in the execution hereof.

(F) In order to induce the Holders to purchase and accept, from time to time, Indenture Obligations to be issued hereunder and any Credit Enhancement Facility Issuer to issue, from time to time, its Credit Enhancement Facility in respect of a Series of Additional Indenture Obligations, and to induce prospective purchasers and other holders of certain other indebtedness and other financial obligations of Citizens to purchase or hold, as the case may be, such indebtedness or other financial obligations, Citizens has, pursuant to the Pledge and Security Agreement referred to herein, pledged and granted continuing liens upon and security

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interests in and to the Collateral in favor of the Collateral Trustee (for the benefit of the holders of "Secured Obligations", as defined in the Pledge and Security Agreement, in the order of priority provided in said Pledge and Security Agreement) to secure Citizens' obligations under this Indenture and its obligations in respect of such other indebtedness and other financial obligations.

NOW, THEREFORE, THIS INDENTURE WITNESSETH, in consideration of the premises and the acceptance by the Indenture Trustee of the trusts created herein, the purchase and acceptance of the Indenture Obligations by the Holders, from time to time, the issuance by any Credit Enhancement Facility Issuer of its Credit Enhancement Facility in respect of a Series of Additional Indenture Obligations, from time to time, and in order to provide for the issuance of Indenture Obligations under this Indenture, the security and payment of the principal of, redemption premium, if any, and interest thereon, any reimbursement due to a Credit Enhancement Facility Issuer, if any, for any drawing on its Credit Enhancement Facility issued in respect of a Series of Additional Indenture Obligations, as required under the terms of the corresponding Credit Enhancement Facility Agreement, the rights of the Holders and the performance and observance of all of the covenants contained herein and in said Indenture Obligations and in any Credit Enhancement Facility Agreement, Citizens has pledged and granted continuing liens upon and security interests in and to the Collateral in favor of the Collateral Trustee as described in paragraph F. above, and, intending to be legally bound hereby, Citizens hereby assigns, transfers, sets over and pledges to the Indenture Trustee and grants a continuing, first priority lien on all of the right, title and interest of the Association in and to the amounts described in clause (b) of the definition of Pledged Revenues contained herein, and all books and records (including, without limitation, lists, files, printouts and other records, and computer programs and computer materials only to the extent permitted under Citizens' agreements with the applicable vendors) of Citizens pertaining to any of the Pledged Revenues, as security for the payment of the principal of, redemption premium, if any, and interest on any Indenture Obligations issued hereunder and any reimbursement due to any Credit Enhancement Facility Issuer for any drawing on its Credit Enhancement Facility issued in respect of any Series of Additional Indenture Obligations, as required under the terms of the corresponding Credit Enhancement Facility Agreement, all in the manner hereinafter provided, and Citizens further hereby agrees with and covenants unto the Indenture Trustee as follows:

TO HAVE AND TO HOLD unto the Indenture Trustee and its successors in that trust and its and their assigns as Indenture Trustee forever;

BUT IN TRUST, NEVERTHELESS, and subject to the provisions hereof,

(a) to establish the terms under which all present and future Holders of the Indenture Obligations issued or to be issued under and secured by this Indenture will hold such Indenture Obligations,

(b) for the enforcement of the payment of moneys payable hereunder, when payable, including moneys payable with respect to the principal of, redemption premium, if any, and interest on the Indenture Obligations, any and all amounts due to a Credit Enhancement Facility Issuer, and the payment of Program Costs, all according to the true intent and meaning of this Indenture, and

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(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with United States generally accepted accounting principles as in effect on the date hereof; and

(4) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

In addition to the words and terms defined elsewhere in this Indenture or by reference to the Pledge and Security Agreement (with all terms used as defined terms herein, and defined in the Pledge and Security Agreement but not herein, being used as such terms are defined in the Pledge and Security Agreement), unless the context or use clearly indicates another meaning or intent:

"Account" or "Accounts" means any one or more of the Accounts established pursuant to Sections 6.01 through 6.09 of this Indenture.

"Accreted Value" shall mean, as of any date of computation with respect to any Capital Appreciation Indenture Obligation, an amount equal to the principal amount of such Indenture Obligation (the principal amount on the date of original issuance), plus the interest accrued on such Indenture Obligation from the date of original issuance to the Interest Payment Date next preceding the date of computation or the date of computation if an Interest Payment Date, compounded periodically at the times provided for in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Indenture Obligations, and if such date of computation is not an Interest Payment Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Payment Date (or the date of original issuance if such date of computation is prior to the first Interest Payment Date) and the Accreted Value as of the immediately succeeding Interest Payment Date, calculated based on the assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a year of twelve 30-day months.

"Act" means Section 627.351(6), Florida Statutes, as the same may be amended from time to time; provided, however, that Section 627.351(2), Florida Statutes, as amended, shall be deemed to be included as part of the Act to the extent necessary to implement the provisions of Section 627.351(6)(p), Florida Statutes, as amended.

"Additional Indenture Obligations" means bonds, notes and other forms of indebtedness which may be issued under Section 2.04 of this Indenture secured by a lien on and pledge of the Pledged Revenues on a parity with the lien thereon for the benefit of holders of the 1997 Notes.

"Agent Member" with respect to any Global Security means a member of or participant in the Depositary for such Global Security.

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(c) for the performance and observance of and compliance with the covenants, agreements, obligations, terms and conditions of this Indenture, in each case (except as otherwise provided in this paragraph), without preference, priority or distinction, as to lien or otherwise, of any one Indenture Obligation over any other by reason of designation, number, date of the Indenture Obligations or of authorization, issuance, sale, execution, authentication, delivery or maturity thereof, or otherwise, so that each Indenture Obligation and all Indenture Obligations shall have the same right, lien and privilege under this Indenture and shall be secured equally and ratably hereby (except as otherwise provided in the Supplemental Indenture relating to a Series of Indenture Obligations, subject, in all cases, to the provisions of Section 6.02(b) hereof); provided further, however, that

(i) if the principal of the Indenture Obligations and the interest due or to become due thereon together with any premium required by redemption of any of the Indenture Obligations prior to maturity shall be well and truly paid, at the times and in the manner to which reference is made in the Indenture Obligations, according to the true intent and meaning thereof, or the outstanding Indenture Obligations shall have been paid and discharged in accordance with Article X hereof,

(ii) if all payments due or to become due which are to be paid under this Indenture, including all payments of the principal of, redemption premium, if any, and interest on the Indenture Obligations, all amounts due to each Credit Enhancement Facility Issuer and all Program Costs, shall be well and truly paid, and

(iii) if all of the covenants, agreements, obligations, terms and conditions of Citizens under this Indenture shall have been kept, performed and observed and there shall have been paid to the Indenture Trustee, the Registrar, the Paying Agents and the Authenticating Agents all sums of money due or to become due to them in accordance with the terms and provisions hereof,

then this Indenture and the rights assigned hereby shall cease, determine and be void, except as provided in Section 10.03 hereof with respect to the survival of certain provisions hereof; otherwise, this Indenture shall be and remain in full force and effect.

It is declared that all Indenture Obligations issued hereunder and secured hereby are to be issued, authenticated and delivered, and that all interests assigned hereby are to be dealt with and disposed of under, upon and subject to, the terms, conditions, stipulations, covenants, agreements, obligations, trusts, uses and purposes provided in this Indenture. Citizens has agreed and covenanted, and agrees and covenants with the Indenture Trustee and with each and all Holders, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. For all purposes of this Indenture and of any Supplemental Indenture, except as otherwise expressly provided or unless the context otherwise requires:

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"Agent Member Transferee" has the meaning specified in Section 3.06(d)(i) hereof.

"Agent Member Transferor" has the meaning specified in Section 3.06(d)(i) hereof.

"Annual Budget" means the annual budget of Citizens with respect to the Coastal Account as adopted by the Board in accordance with the Plan of Operation.

"Annual Debt Service" means, as of any particular date of calculation and for the particular Fiscal Year in question, (i) as to the Indenture Obligations, the aggregate of all Debt Service Charges payable in such Fiscal Year on the Indenture Obligations Outstanding, (ii) as to any Term Loans, the principal amount of each Outstanding Term Loan payable in such Fiscal Year plus the interest payable in such Fiscal Year on such Term Loans, all as required under the Line of Credit, (iii) as to any Liquidity Loans, the principal amount of each Outstanding Liquidity Loan payable in such Fiscal Year, plus the interest payable in such Fiscal Year on such Liquidity Loans, all as required under the Line of Credit, (iv) as to any Indenture Obligation Hedge Agreement, the unpaid net amounts (other than any termination payment not then due and payable) scheduled to be payable by Citizens under such Indenture Obligation Hedge Agreement in such Fiscal Year and (v) as to any Line of Credit Hedge Agreement, the unpaid net amounts (other than any termination payment not then due and payable) scheduled to be payable by Citizens under such Line of Credit Hedge Agreement in such Fiscal Year.

For purposes of determining the interest component of the Annual Debt Service, (i) the interest on Variable Rate Indenture Obligations shall be calculated on the basis specified in the Supplemental Indenture authorizing such Variable Rate Indenture Obligations; (ii) the interest on Variable Rate Indenture Obligations containing a put option in favor of the Holders, which Variable Rate Indenture Obligations are not subject to any Credit Enhancement Facility insuring against such put option, shall be calculated at the maximum rate specified in the Supplemental Indenture authorizing such Variable Rate Indenture Obligations; (iii) the interest on Indenture Obligations bearing interest at a fixed rate shall be calculated at such fixed rate; (iv) the interest on other indebtedness bearing interest at a variable rate (including, without limitation, indebtedness under the Line of Credit) shall be calculated at the variable rate then in effect plus 1.5%, provided, that as to any portion of such indebtedness with respect to which Citizens has fixed the rate by entering into a Line of Credit Hedge Agreement, interest thereon shall be calculated at the variable rate then in effect; and (v) the interest on other indebtedness bearing interest at a fixed rate shall be calculated at such fixed rate.

For purposes of calculating the Annual Debt Service in respect of any Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement, the following assumptions shall be made:

(A) in the case of amounts payable by Citizens under an Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement based on a variable rate, the projected unpaid net amounts shall be calculated using (i) an assumed rate equal to the sum of such variable Reference Rate in effect at the time such calculation is made plus 1.5% per annum, with respect to Citizens' obligations, and (ii) the fixed reference rate applicable to such counterparty's obligations at such time, with respect to the counterparty's obligations;

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(B) in the case of amounts payable by Citizens under an Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement based on a fixed rate, the projected unpaid net amounts shall be calculated using (A) such fixed Reference Rate, with respect to Citizens' obligations and (B) the variable reference rate then in effect with respect to the counterparty's obligations (unless otherwise specified in any Supplemental Indenture authorizing any Variable Rate Indenture Obligations);

(C) in the case of amounts payable by Citizens in respect of any other type of Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement, Annual Debt Service shall be calculated in accordance with the joint recommendations of two dealers in instruments similar to such Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement, one of whom shall be selected by Citizens and the other of whom shall be selected by the Indenture Trustee; and

(D) Annual Debt Service shall include the amount of any termination payment only to the extent such termination payment is then due and payable.

"Applicable Procedures" means, with respect to any transfer or exchange of a beneficial interest in a Global Security, the rules and procedures of the Depositary for such Global Security, Euroclear and Cedelbank to the extent the same are applicable to such transfer or exchange.

"Appreciated Value" shall mean, (i) as of any date of computation with respect to any Capital Appreciation and Income Indenture Obligation up to the Interest Commencement Date set forth in the Supplemental Indenture authorizing such Capital Appreciation and Income Indenture Obligations, an amount equal to the principal amount of such Capital Appreciation and Income Indenture Obligations (the principal amount on the date of original issuance) plus the interest accrued on such Indenture Obligation from the date of original issuance of such Indenture Obligation to the Interest Payment Date next preceding the date of computation or the date of computation if an Interest Payment Date, such increased value to accrue at the stated rate per annum of such Indenture Obligation compounded on the Interest Payment Dates of such year, plus, if such date of computation shall not be an Interest Payment Date, a portion of the difference between the Appreciated Value as of the immediately preceding Interest Payment Date (or the date of original issuance if the date of computation is prior to the first Interest Payment Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Interest Payment Date calculated based upon an assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve 30-day months and (ii) as of any date of computation on and after the Interest Commencement Date, the Appreciated Value on the Interest Commencement Date.

"Assessable Insured" or "Assessable Insureds" has the meaning specified in paragraph (b)1. of the Act and in Section 4 of the Plan of Operation.

"Assessable Insurer" or "Assessable Insurers" has the meaning specified in paragraph (b)1. of the Act and in Section 4 of the Plan of Operation.

"Authenticating Agent" means the Indenture Trustee and the Registrar for any Series of Indenture Obligations and any bank, trust company or other Person designated as an

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"Capital Appreciation Indenture Obligations" shall mean any Indenture Obligation or Indenture Obligations of a Series issued under this Indenture as to which interest is compounded periodically on each of the applicable periodic dates designated for compounding in the corresponding Supplemental Indenture and payable in an amount equal to the then current Accreted Value to the date of maturity or redemption prior to maturity as designated in such corresponding Supplemental Indenture and which may be either Serial Indenture Obligations or Term Indenture Obligations.

"Cedelbank" means Cedelbank (formerly known as Cedel Bank, Societe Anonyme).

"Certificated Security" means any Indenture Obligation other than a Global Security.

"Citizens" means Citizens Property Insurance Corporation and its lawful successors.

"Citizens Account" means the Account so designated and established pursuant to Section 6.08 of this Indenture.

"Closing Date", when used with respect to Indenture Obligations of any Series (or of any identifiable tranche of any Series), means the last date of original issuance of any Indenture Obligations of such Series (or tranche).

"Collateral" means any and all amounts and interests pledged or granted to, or otherwise held by, the Collateral Trustee under the Pledge and Security Agreement, but only to the extent that such amounts and interests are derived, result or originate, in any manner whatsoever, from the Coastal Account. It is hereby understood and agreed that "Collateral", as used in this Indenture, shall not include amounts or interests that are derived, result or originate, in any manner whatsoever, from the Personal Lines Account or the Commercial Lines Account.

"Collateral Trustee" means SunTrust Bank, Central Florida, National Association, a national banking association, not in its individual capacity but solely as Collateral Trustee under the Pledge and Security Agreement, and such entity's successors as Collateral Trustee under the Pledge and Security Agreement and any co-trustee appointed pursuant to the terms of the Pledge and Security Agreement.

"Commercial Lines Account" means the account which is required to be established under the Act for commercial lines residential coverages, as established and further defined in the Plan of Operation.

"Commission" means the Securities and Exchange Commission or any successor thereto, from time to time constituted, created under the Exchange Act.

"Costs of Issuance Subaccount" means the Subaccount so designated and established within the Proceeds Account pursuant to Section 6.01(a) of this Indenture.

"Coverage Account" means the Account so designated and established pursuant to Section 6.06 of this Indenture.

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Authenticating Agent for such Series of Indenture Obligations by or in accordance with Section 7.13 of this Indenture, each of which shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934, as amended.

"Authorized Citizens Representative" means the Person or Persons designated at the time, pursuant to a certificate of Citizens delivered to the Indenture Trustee and which certificate has not been revoked or superseded, to act on behalf of Citizens hereunder.

"Authorizing Resolution" means (a) when used with reference to the 1997 Notes, the Board Resolution or Resolutions providing for their issuance and approving this Indenture and related matters; and (b) when used with reference to an additional issue of Indenture Obligations, the Board Resolution or Resolutions providing for the issuance of such Indenture Obligations and approving the Supplemental Indenture specifying the terms of such Indenture Obligations and related matters; in each case as amended or supplemented from time to time.

"Bank Agent" means, with respect to any Line of Credit, the administrative agent for the Banks thereunder.

"Bank Collateral Agreement" means (a) with respect to the initial Line of Credit, the Bank Collateral Agreement dated as of August 6, 1997, by and among Citizens, the Bank Agent and The Chase Manhattan Bank, as custodian, under the initial Line of Credit, as amended and supplemented from time to time, and (b) with respect to any subsequent Line of Credit, the agreement or agreements corresponding to the Bank Collateral Agreement entered into with respect to the initial Line of Credit.

"Banks" means the lenders from time to time listed in the Line of Credit.

"Board" means the Board of Governors of Citizens.

"Board Resolution" means a copy of a resolution certified by the Executive Director of Citizens to have been duly adopted by the Board (or a duly authorized committee thereof) and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City, Jacksonville, Florida, or any other city or cities in which the principal offices of the Indenture Trustee, the Collateral Trustee, any Indenture Obligation Hedge Counterparty or any Credit Enhancement Facility Issuer are located, are authorized by law to close.

"Capital Appreciation and Income Indenture Obligations" shall mean any Indenture Obligation or Indenture Obligations of a Series issued under this Indenture as to which accruing interest is not payable prior to the Interest Commencement Date specified in the corresponding Supplemental Indenture and the Appreciated Value for such Indenture Obligations is compounded periodically on certain dates designated in such corresponding Supplemental Indenture prior to the Interest Commencement Date for such Capital Appreciation and Income Indenture Obligations and which may be either Serial Indenture Obligations or Term Indenture Obligations.

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"Coverage Account Requirement" means, at any time, an amount equal to twenty percent (20%) of (a) the Annual Debt Service on all Indenture Obligations Outstanding at such time (but excluding any Indenture Obligations which are not secured by or payable from moneys in the Coverage Account, as expressly provided in the Supplemental Indenture authorizing such Series of Indenture Obligations), less (b) the amount then on deposit in the Defeasance Sub-account in respect of such Indenture Obligations, and less (c) the amount on deposit in the Debt Service Account available to pay principal of and interest on the Indenture Obligations in the immediately succeeding Fiscal Year. For purposes of determining the Coverage Account Requirement, the interest on Indenture Obligations shall be determined in accordance with the second paragraph of the definition of "Annual Debt Service" contained in this Indenture.

"Credit Enhancement Facility" means any credit enhancement mechanism such as an irrevocable letter of credit, a surety bond, a bond insurance policy, a corporate or other guarantee, a purchase agreement, a credit agreement or other similar facility applicable to any Series of Indenture Obligations, as established pursuant to the applicable Supplemental Indenture, resulting in the applicable Series of Indenture Obligations being rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) of the Rating Agencies. Notwithstanding anything to the contrary contained in this Indenture, any one or more Series of Indenture Obligations may be issued without a Credit Enhancement Facility; the decision to provide a Credit Enhancement Facility in respect of any Indenture Obligations or Series of Indenture Obligations shall be within the absolute and sole discretion of Citizens.

"Credit Enhancement Facility Agreement" shall mean any agreement pursuant to which a Credit Enhancement Facility Issuer issues a Credit Enhancement Facility. The provisions of each Credit Enhancement Facility Agreement shall be subject, in all material respects, to the provisions of the Indenture.

"Credit Enhancement Facility Issuer" shall mean the issuer or guarantor of any Credit Enhancement Facility.

"Debt Service Account" means the Account so designated and established pursuant to Section 6.04 of this Indenture.

"Debt Service Charges" means, for any period or payable at any time, the principal (excluding any amounts in respect of principal on deposit in the Defeasance Subaccount of the Debt Service Account) of, mandatory defeasance redemption premium, if any, and interest (excluding any amounts in respect of accrued interest and capitalized interest for the relevant period on deposit in the Interest Subaccount of the Debt Service Account) on the Indenture Obligations for that period or payable at that time whether due at maturity or upon acceleration or redemption. If any Additional Indenture Obligations are issued as Capital Appreciation Indenture Obligations or Capital Appreciation and Income Indenture Obligations, the Debt Service Charges for any period or payable at any time in respect of any such Indenture Obligations shall be adjusted as provided in the Supplemental Indenture authorizing the issuance of such Indenture Obligations.

"Default Rate" means the rate or rates of interest which shall be borne by each Series of the Indenture Obligations upon the occurrence of an Event of Default, as specified in the

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Supplemental Indenture corresponding to each Series of Indenture Obligations. The Default Rate for the 1997 Notes shall be equal to the stated rate of interest on such 1997 Notes, plus two percent (2%).

“Defeasance Subaccount” means the Subaccount so designated and established within the Debt Service Account pursuant to Section 6.04 hereof.

“Defeasance Sub-subaccount” means each Sub-subaccount so designated and established within the Defeasance Subaccount pursuant to Section 6.04 hereof.

“Department of Insurance” means the State of Florida Department of Insurance; provided, however, that effective January 7, 2003, such term shall mean the Department of Insurance and Financial Services or such other successor to the Department of Insurance as specified by law.

“Depository” means, with respect to Indenture Obligations of any Series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depository for such Indenture Obligations as contemplated by the Indenture. The initial Depository for the 1997 Notes shall be The Depository Trust Company, New York, New York.

“DOI Agreement” means the Amended and Restated Department of Insurance Agreement dated as of August 1, 2002, by and among the Department of Insurance, Citizens, the Indenture Trustee and the Bank Agent, as amended and supplemented from time to time.

“Draw” means any amount drawn by Citizens from the Proceeds Account pursuant to Section 6.01 hereof in order to pay (a) policyholder claims and other liabilities and expenses giving rise to any Plan Year Deficit, (i) up to the amount of, and in anticipation of Citizens’ receipt of, all or a portion of Regular Assessments and FHCF Reimbursements, except to the extent of prior Draws under this Indenture or borrowings under the Line of Credit made against such Regular Assessments or FHCF Reimbursements (or portion thereof, as the case may be) or (ii) which Plan Year Deficit has been or is projected to be incurred by Citizens for a calendar year in excess of other amounts available to Citizens to fund such Plan Year Deficit (excluding for this purpose amounts available to Citizens under any Line of Credit) or (b) the principal of any Liquidity Loan made under the Line of Credit to the extent that such Liquidity Loan has not been repaid to the Banks at the maturity of such Liquidity Loan.

“Emergency Assessments” means the assessments authorized to be levied by Citizens under paragraph (b)3.d. of the Act in connection with a Plan Year Deficit in the Coastal Account.

“Event of Default” means an Event of Default as defined in Section 8.01 hereof.

“Euroclear” means Euroclear Bank S.A./N.V., or any successor thereto, as operator of the Euroclear System.

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended.

“Holder Transferee” has the meaning specified in Section 3.06(f)(i) hereof.

“Indenture” means this Trust Indenture, dated as of August 6, 1997, between Citizens and the Indenture Trustee, as amended and supplemented from time to time.

“Indenture Counsel” means a firm of nationally recognized attorneys, selected by Citizens, having a favorable reputation in matters relating to the issuance of obligations similar to the Indenture Obligations.

“Indenture Obligation Hedge Agreement” means and includes, subject to Section 11.15 hereof, an interest rate exchange agreement, an interest rate swap agreement, a forward purchase contract, a put option contract, a call option contract or any other financial product which is used by Citizens as a hedging device with respect to its obligation to pay debt service on any Indenture Obligations or in connection with any of its investments under this Indenture, entered into between Citizens and an Indenture Obligation Hedge Counterparty; provided that such Indenture Obligation Hedge Counterparty shall be an entity whose long-term debt obligations, or whose payment obligations under the Indenture Obligation Hedge Agreement are guaranteed by an entity whose long-term debt obligations, ranking pari passu with its obligation under the Indenture Obligation Hedge Agreement or its guarantee thereof, as the case may be, are rated (on the date the Hedge Agreement is entered into) at least “A2” by Moody’s and at least “A” by Standard & Poor’s; and, further provided, that such arrangement shall be specifically designated in a certificate of any Authorized Citizens Representative as an “Indenture Obligation Hedge Agreement” for purposes of this Indenture.

“Indenture Obligation Hedge Counterparty” means any Person (other than Citizens, the Indenture Trustee and the Collateral Trustee) that is a party to an Indenture Obligation Hedge Agreement.

“Indenture Obligations” means the 1997 Notes and any Additional Indenture Obligations.

“Indenture Trustee” or “Trustee” means The Bank of New York, a New York banking corporation, until a successor Indenture Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter, “Indenture Trustee” shall mean the successor Indenture Trustee.

“Initial Purchaser” means, with respect to each Series of Indenture Obligations, the Person or Persons identified in the applicable Purchase Agreement as the purchaser or purchasers of the Indenture Obligations from Citizens upon the initial issuance thereof. For purposes of the 1997 Notes, “Initial Purchaser” shall mean Chase Securities Inc., Bear, Stearns & Co. Inc., Credit Suisse First Boston Corporation, First Union Capital Markets Corp., PaineWebber Incorporated and Smith Barney Inc.

“Interest Commencement Date” means, with respect to any Capital Appreciation and Income Indenture Obligations, the date specified in the Supplemental Indenture authorizing such Capital Appreciation and Income Indenture Obligations after which interest accruing on such Indenture Obligations shall be payable on a periodic basis prior to maturity, with the first such payment date being the applicable Interest Payment Date on or immediately succeeding such Interest Commencement Date.

“Extraordinary Services” and “Extraordinary Expenses” mean all services rendered and all reasonable expenses properly incurred by the Indenture Trustee under this Indenture, other than Ordinary Services and Ordinary Expenses.

“FHCF” means the Florida Hurricane Catastrophe Fund created under Section 215.555, Florida Statutes, as the same may be amended from time to time, and its successors.

“FHCF Agreement” means the reimbursement contract from time to time in effect relating to the Coastal Account, by and between Citizens and the State Board of Administration of the State, which administers the FHCF, as such reimbursement contract may be supplemented or amended from time to time.

“FHCF Reimbursement” means any amount which Citizens is entitled to receive under the FHCF Agreement, including, without limitation, the amount of any advance payable by the FHCF in respect thereof.

“Fiscal Year” means the twelve (12) month period commencing on January 1 of a calendar year and ending on December 31 of such calendar year, or such other twelve (12) month period designated as Citizens’ Fiscal Year in the Plan of Operation.

“General Reserve Account” means the Account so designated and established pursuant to Section 6.09 hereof.

“Global Security” means any Indenture Obligation bearing the legend specified in Section 3.11 hereof, evidencing all or part of a Series of Indenture Obligations, authenticated and delivered to, and registered in the name of, the Depository with respect to such Series or a nominee thereof, and in which beneficial interests are evidenced on the records of such Depository or its Agent Members.

“Government Obligations” means direct obligations of the United States of America, or obligations the full and timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America (including any unit investment trusts or mutual funds consisting solely of such obligations).

“Hedge Obligations” means all obligations of Citizens under Indenture Obligation Hedge Agreements and Line of Credit Hedge Agreements.

“Hedge Receipts” means net payments received by Citizens, the Indenture Trustee or the Collateral Trustee, as applicable, from an Indenture Obligation Hedge Counterparty under an Indenture Obligation Hedge Agreement.

“Coastal Account” means the account required to be established under the Act for personal residential, commercial residential, commercial non-residential and quota share primary insurance coverages, as established and further defined in the Plan of Operation.

“Holder” means the Person in whose name an Indenture Obligation is registered on the Register.

“Interest Payment Date” or “Interest Payment Dates” means, (a) as to the 1997 Notes, each February 25 and August 25, commencing on February 25, 1998 and (b) as to any Series of Additional Indenture Obligations, the date or dates specified in the Supplemental Indenture authorizing such Additional Indenture Obligations.

“Interest Period” means the period from and including any Interest Payment Date to and excluding the next succeeding Interest Payment Date; provided, however, that (a) the first Interest Period for each Series of Indenture Obligations shall be from the date of delivery of such Indenture Obligations to and excluding the first Interest Payment Date for such Indenture Obligations, and (b) upon final payment of any Indenture Obligations at maturity or upon redemption, the Interest Period shall extend to, but not include, the date of such final payment, which shall always be a Business Day.

“Interest Subaccount” means the Subaccount so designated and established as a Subaccount within the Debt Service Account pursuant to Section 6.04 of this Indenture.

“Issue Date” means the date of issuance of any Indenture Obligations.

“Line of Credit” means (a) the Credit Agreement dated as of August 6, 1997, by and among Citizens, the Banks, the Managing Agents listed therein and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Bank Agent, as amended and supplemented from time to time, and (b) any other loan or credit agreement entered into by Citizens with respect to the Coastal Account, as amended and supplemented from time to time; provided, however, that Term Loans borrowed in respect of any Plan Year Deficit under such other loan or credit agreement must have a term of at least five (5) years and must be subject to scheduled amortization in annual percentages no later than provided in the initial Line of Credit described in (a).

“Line of Credit Hedge Agreement” means and includes any interest rate exchange agreement, an interest rate swap agreement, a forward purchase contract, a put option contract, a call option contract or any other financial product entered into by Citizens in connection with the Line of Credit in order to protect against fluctuations in interest rates; provided that the counterparty to any such Line of Credit Hedge Agreement shall be an entity which meets the requirements for an Indenture Obligation Hedge Counterparty as set forth in the definition of Indenture Obligation Hedge Agreement contained herein.

“Liquidity Loans” means all loans incurred by Citizens under the Line of Credit in anticipation of, and secured by, FHCF Reimbursements or, in anticipation of, and secured by, Regular Assessments.

“Liquidity Shared Revenues” means any Regular Assessments and FHCF Reimbursements in anticipation of which Citizens has (a) made a Draw of the type described in clause (a)(i) or (b) of the definition of “Draw” contained in this Indenture or (b) obtained a Liquidity Loan, together with investments made with such Regular Assessments and FHCF Reimbursements, all earnings on the foregoing and all proceeds of any or all of the foregoing.

“Loan” has the meaning specified for such term in the Line of Credit.

"Market Equalization Surcharges" means the market equalization surcharges imposed by Citizens pursuant to paragraph (c)10. of the Act, but only to the extent such market equalization surcharges result from the levying of a Regular Assessment with respect to a Plan Year Deficit in the Coastal Account.

"Maximum Annual Interest" means, as of any date of calculation, the maximum amount of interest due and payable in the then current or any future Fiscal Year on all Series of Indenture Obligations Outstanding. For purposes of the calculations required pursuant to Section 6.05 of this Indenture, the Maximum Annual Interest on Indenture Obligations shall be determined in accordance with the second paragraph of the definition of "Annual Debt Service" contained in this Indenture.

"Member" means any "assessable insurer" as defined in paragraph (b)1. of the Act and in Section 4 of the Plan of Operation.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and if such entity no longer performs the functions of a securities rating agency, "Moody's" shall refer to any other nationally recognized securities rating agency designated by Citizens.

"1997 Notes" means the Indenture Obligations authorized in Section 2.02 hereof to be issued by Citizens as Term Indenture Obligations in the original principal amount of \$750,000,000.

"1997 Notes due 2002" shall mean the 1997 Notes maturing in 2002.

"1997 Notes due 2004" shall mean the 1997 Notes maturing in 2004.

"1997 Notes due 2007" shall mean the 1997 Notes maturing in 2007.

"Ordinary Services" and "Ordinary Expenses" mean those services normally rendered, and those expenses normally incurred, by a trustee under instruments similar to this Indenture.

"Outstanding" means (a) as applied to Indenture Obligations (including references to "Outstanding Indenture Obligations" and "Indenture Obligations Outstanding"), as of the applicable date, all Indenture Obligations which have been authenticated and delivered, or which are being delivered by the Indenture Trustee under this Indenture, except:

(i) Indenture Obligations cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date,

(ii) Indenture Obligations, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient money has been received in trust for and irrevocably deposited and credited with the Indenture Trustee or any Paying Agents on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Indenture Obligations); provided, that if any of those Indenture Obligations are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Indenture Trustee shall have been made for giving notice of that redemption,

or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A) of this clause (i) provided that such securities are stripped by the Federal Reserve Bank of New York;

(ii) (A) notes, bonds, debentures or similar obligations of the Federal National Mortgage Association issued under its Charter Act; (B) notes, bonds, debentures or similar obligations of the Federal Home Loan Mortgage Corporation issued under its Charter Act; (C) consolidated notes, bonds, debentures or similar obligations of the Farm Credit Banks and System-wide notes, bonds, debentures or similar obligations of the Farm Credit Banks, in either case issued under Sections 4.2(c) and 4.2(d) of the Farm Credit Act of 1971, as amended; (D) notes, bonds, debentures or similar obligations of the Farm Credit System Financial Assistance Corporation issued under the Farm Credit Act of 1971, as amended; (E)(x) bonds, notes, debentures or similar obligations of the Resolution Funding Corporation, or Financing Corp., issued under Section 21B of the Federal Home Loan Bank Act, as amended or (y) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in sub-subclause (x) of this sub-clause (E) provided that such securities are stripped by the Federal Reserve Bank of New York; and (F) consolidated bonds, debentures, notes or similar obligations of the Federal Home Loan Banks issued under authority of Section 11 of the Federal Home Loan Bank Act; but shall include any unit investment instrument or mutual fund only if made up solely of such obligations described in the foregoing clauses (A) through (F); provided that, with respect to all such obligations, (I) such obligations shall be maintained in the book-entry system operated by the Federal Reserve Banks, and (II) the Indenture Trustee's securities intermediary shall credit such securities to the Indenture Trustee's account. As used herein, "securities intermediary" has the meaning assigned to such term in 24 C.F.R. § 81.2 (for investments of the types described in clauses (A) and (B) of this clause (ii)); 12 C.F.R. § 615.5450 (for investments of the types described in clauses (C) and (D)); 12 C.F.R. § 1511.1 (for investments of the types described in clause (E)); and 12 C.F.R. § 912.1 (for investments of the types described in clause (F));

(iii) certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States or any national banking association (the long-term unsecured debt obligations of which bank, trust company or national banking association are rated by each Rating Agency in one of their two (2) highest rating categories (without regard to gradations within such categories)), provided that such certificates of deposit must be purchased directly from such bank, trust company or national banking association and issued in the name of the Indenture Trustee, must at all times remain in the possession of the Indenture Trustee or such other bank acting as its agent, and must be continuously and fully insured by the Federal Deposit Insurance Corporation or collateralized (at 102%) by securities described in clause (i) above;

(iv) securities representing an interest or interests in money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAM-G, AAAM or Aam and a rating by Moody's of Aa or better; provided that, concurrently with such investment, such securities shall be registered in the name of the Indenture Trustee on the books of Citizens;

or waiver by the affected Holders of that notice satisfactory in form to the Indenture Trustee shall have been filed with the Indenture Trustee,

(iii) Indenture Obligations, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of Article X of this Indenture, and

(iv) Indenture Obligations in lieu of which others have been authenticated under Section 3.07 of this Indenture;

(b) as applied to any Liquidity Loan or Term Loan under the Line of Credit, as of the applicable date, all Liquidity Loans or Term Loans, as the case may be, deemed to be outstanding by reference to the provisions of the Line of Credit; (c) as applied to any obligation payable under an Indenture Obligation Hedge Agreement, as of the applicable date, all amounts then due and payable by reference to the provisions of the Indenture Obligation Hedge Agreement; and (d) as applied to any obligation payable under a Line of Credit Hedge Agreement, as of the applicable date, all amounts then due and payable by reference to the provisions of the Line of Credit Hedge Agreement.

"Owner Transferee" has the meaning specified in Section 3.06(d)(i) hereof.

"Owner Transferor" has the meaning specified in Section 3.06(d)(i) hereof.

"Paying Agent" means any bank or trust company designated as a Paying Agent by or in accordance with Section 7.12 of this Indenture.

"Permitted Investments" means any of the investments described in clauses (i) through (xii) below (provided that investments described in clause (xi) below shall be permitted investments only for amounts on deposit to the credit of the Subaccounts established in the Proceeds Account), so long as at the time of the making of such investment, (a) with respect to the investment of moneys in the Debt Service Account and the Reserve Account (and any Subaccounts therein), such obligations are rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) of each of the Rating Agencies and (b) with respect to the investment of moneys in the Proceeds Account, the Revenue Account, the Coverage Account, the Program Costs Account, the Citizens Account and the General Reserve Account (and any Subaccounts therein), such obligations are rated in one of the three (3) highest rating categories (without regard to any gradations within such categories) of each of the Rating Agencies; provided, however, that in the case of obligations described in clauses (iii), (v), (vi) and (vii) below, if the obligation itself is not assigned a rating as described in (a) and (b) above, then the rating assigned by each Rating Agency to the issuer, provider or transferor, as the case may be, must satisfy the requirements set forth in clauses (iii), (v), (vi) or (vii) below, as applicable.

(i) (A) any obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other receipt, certificate

(v) commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by each Rating Agency, which commercial paper is limited to issuers that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that are rated by each Rating Agency in one of their two (2) highest rating categories (without regard to any gradations within such categories) for Citizens' unsecured debentures, other than commercial paper (or, if an issuer does not have such a rating, such issuer's commercial paper is supported by a letter of credit or other obligation issued by a financial institution whose unsecured debt is rated by each Rating Agency in one of their two (2) highest rating categories); provided that purchases of eligible commercial paper may not exceed two hundred seventy (270) days maturity nor represent more than ten percent (10%) of the outstanding commercial paper of an issuing authority;

(vi) repurchase agreements collateralized by securities described in clauses (i) or (ii) above that satisfy the requirements of (a) and (b) above, as applicable, with any registered broker/dealer or with any domestic commercial bank whose unsecured long-term debt obligations are rated by each Rating Agency in one of their three (3) highest rating categories (without regard to any gradations within such categories); provided that (A) a specific written repurchase agreement governs the transaction, (B) the securities are held, free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and such third party is (I) a Federal Reserve Bank, or (II) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee, (C) the repurchase agreement has a term of thirty (30) days or less, or the Indenture Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five (5) Business Days of such valuation, and (D) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(vii) guaranteed investment contracts or funding agreements with banks, securities dealers or insurance companies whose unsecured long-term debt obligations are rated by each Rating Agency in one of their two (2) highest rating categories (without regard to gradations within such categories);

(viii) subject to the requirements of (a) and (b) above, corporate securities;

(ix) subject to the requirements of (a) and (b) above, municipal obligations;

(x) forward delivery contracts in respect of obligations described in clauses (i), (ii) and (v) above with banks, securities dealers or insurance companies whose unsecured long-term debt obligations are rated by each Rating Agency in one of their three (3) highest rating categories (without regard to gradations within such categories);

(xi) investments through the Chief Financial Officer pursuant to Florida Statutes, Section 17.61, representing an undivided interest in an investment pool maintained by the Chief Financial Officer consisting of securities described in Florida Statutes, Section 17.57 (hereinafter

referred to as the “Special Purpose Investment Account”); provided, however, that if at the time of any such investment the Special Purpose Investment Account is not assigned a rating (such rating may be a public rating or a non-public rating) in one of the three (3) highest rating categories (without regard to gradations within such categories) by at least two Rating Agencies, the investment in the Special Purpose Investment Account may not be made unless prior to such investment at least two of the Rating Agencies have issued written confirmation to the Indenture Trustee that such investment, in and of itself, will not result in the withdrawal or reduction of such Rating Agency’s current underlying rating on the outstanding Indenture Obligations; and

(xii) securities lending agreements substantially in the form prescribed by The Bond Market Association or any major lending agent bank (provided that if forms other than those prescribed by the Bond Market Association are used, the written consent of each Bond Insurer shall be required) with any registered broker/dealer or bank the long-term debt of which is rated by at least two of the Rating Agencies at least as high as the ratings assigned by such Rating Agencies to the Outstanding Indenture Obligations, provided that the obligations of such broker/dealer or bank under the securities lending agreement shall be collateralized by securities described in clauses above that satisfy the requirements of (a) and (b) above, as applicable, or cash held by a collateral undertaking custodian; provided, further that (A) a specific written securities lending agreement governs the transaction, (B) the securities lent and collateral therefor are held, free and clear of any lien except the lien of this Indenture, by the Indenture Trustee or an independent third party acting as collateral undertaking custodian, and such third party is a bank which is a member of the Federal Deposit Insurance Corporation and which has a combined capital, surplus and undivided profits of not less than \$100 million, in the case of a collateral undertaking custodian, and the Indenture Trustee shall have received written confirmation therefrom that it holds such collateral securities or cash as collateral undertaking custodian, free and clear of any lien except the lien of this Indenture, (C) the securities lending agreement has a term of thirty (30) days or less, or if longer, the Indenture Trustee or collateral undertaking custodian will value the collateral securities no less frequently than weekly and will demand initial collateral for a given loan of securities in an amount equal to 102% of the market value of the securities being lent (except that with respect to securities such as U.S. Treasury strips and bills, where the market functions so as to not allow for the sale of such securities at greater than par, initial collateral shall equal the lesser of 100% of the par value of the security on loan or 102% of its market value) and where the market value of the collateral held by the Indenture Trustee for such loan on the collateral marking date is less than the market value of the securities on loan, the Indenture Trustee shall require additional collateral so that such additional collateral, taken together with the collateral then held for such loan, shall be not less than 102% of the value of the securities on loan (or such lesser amount as is required with respect to securities such as U.S. Treasury strips and bills), and (D) in the case of a collateral undertaking custodian, the repurchase agreement has a term of thirty (30) days or less, or if longer, the collateral undertaking custodian will value the collateral securities no less frequently than weekly and will demand initial collateral either at 102% (or such lesser amount as may have been negotiated between the repurchase agreement counterparties or their agents) and will assure that such collateral level is restored each time the collateral is subsequently valued.

“Person” or words importing persons mean firms, associations, partnerships (including, without limitation, general, limited and limited liability partnerships), joint ventures, societies,

other Person in connection with the Indenture Obligations, this Indenture, any Credit Enhancement Facility or any Indenture Obligation Hedge Agreement.

“Program Costs Account” means the Account so designated and established pursuant to Section 6.07 of this Indenture.

“Purchase Agreement” means, as to the 1997 Notes, the Purchase Agreement among Citizens and the Initial Purchasers, and as to any Additional Indenture Obligations, the bond purchase or selling or placement agreement provided for in the Authorizing Resolution providing for the issuance of the Additional Indenture Obligations.

“Purchaser Letter” means a letter substantially in the form set forth in Annex J.

“QIB” has the meaning specified in Section 3.01 hereof.

“Qualifying Bank Waiver” means the waiver of, or consent to, the occurrence of any event that, but for such waiver or consent, would constitute an “event of default” under a Qualifying Line of Credit, provided that such waiver or consent is given in accordance with the terms of the Qualifying Line of Credit and is evidenced to the Indenture Trustee (by a certificate from the Bank Agent under such Qualifying Line of Credit) prior to the Indenture Trustee giving notice of acceleration under Section 8.03 hereof as a result of the occurrence of such event.

“Qualifying Line of Credit” means any Line of Credit then in effect, but only to the extent that the sum of all loans outstanding under such Line of Credit and the total amount of remaining available commitments thereunder, equals or exceeds the lesser of \$500,000,000 or the aggregate principal amount of all Outstanding Indenture Obligations.

“Rating Agency” or “Rating Agencies” means Moody’s and Standard & Poor’s.

“Redemption Date” has the meaning specified in Section 4.02 hereof.

“Redemption Price” means, as to any Additional Indenture Obligations which are voluntarily redeemable, at any time, the redemption price applicable to such Additional Indenture Obligations at such time as set forth in the Supplemental Indenture with respect thereto.

“Reference Rate” means the reference or index rate applicable to Citizens, as specified in each Indenture Obligation Hedge Agreement entered into by Citizens or the Indenture Trustee on behalf of Citizens.

“Register” means the books kept and maintained by the Registrar for registration and transfer of Indenture Obligations pursuant to Section 3.06 hereof.

“Registrar” means, as to the 1997 Notes, the Indenture Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of this Indenture and as to any Series of Additional Indenture Obligations, the bank, trust company or other Person designated as such by or pursuant to the applicable Authorizing Resolution or Supplemental

estates, trusts, corporations, limited liability corporations, public or governmental bodies, other legal entities and natural persons.

“Personal Lines Account” means the account required to be established under the Act for personal lines residential coverages, as established and further defined in the Plan of Operation.

“Plan of Operation” means Citizens’ Plan of Operation approved by the Department of Insurance as required by the Act, as such Plan of Operation may be amended from time to time.

“Plan Year” has the meaning specified in Section 4 of the Plan of Operation.

“Plan Year Deficit” has the meaning specified for such term in Section 4 of the Plan of Operation, but only to the extent such term is used in connection with a deficit in the Coastal Account.

“Pledge and Security Agreement” means the Pledge, Security and Trust Agreement dated as of August 6, 1997, by and among Citizens, the Collateral Trustee and SunTrust Bank, Central Florida, National Association, as custodian, as amended and supplemented from time to time.

“Pledged Revenues” means, collectively, (a) the undivided fractional interest of the Indenture Trustee in and to any and all Collateral, and (b) any and all other moneys and investments held from time to time in the Accounts and Subaccounts established under this Indenture as provided herein, including, without limitation, investment earnings thereon; provided, however, that amounts received by the Indenture Trustee which constitute (i) proceeds of Regular Assessments in anticipation of which Citizens has not made a Draw and (ii) FHCF Reimbursements in excess of the amount of such FHCF Reimbursements required to be deposited into the Proceeds Account in order to fully reimburse the amount of a Draw made in anticipation thereof, in each case, shall be deposited immediately upon receipt thereof by the Indenture Trustee in the Citizens Account and shall be released to Citizens free and clear of the pledge and lien of this Indenture, except as otherwise provided in Section 6.08 hereof.

“Predecessor Indenture Obligation” of any particular Indenture Obligation means every previous Indenture Obligation evidencing all or a portion of the same debt as that evidenced by the particular Indenture Obligation. For the purposes of this definition, any Indenture Obligation authenticated and delivered under Section 3.07 of this Indenture in lieu of a lost, stolen or destroyed Indenture Obligation shall, except as otherwise provided in Section 3.07, be deemed to evidence the same debt as the lost, stolen or destroyed Indenture Obligation.

“Principal Subaccount” means the Subaccount so designated and established within the Debt Service Account pursuant to Section 6.04 of this Indenture.

“Proceeds Account” means the Account so designated and established pursuant to Section 6.01(a) of this Indenture.

“Program Costs” means the reasonable fees, costs and expenses, whether one-time or recurrent, of the Indenture Trustee, the Registrar, any Paying Agent, any Authenticating Agent, any Credit Enhancement Facility Issuer, any Indenture Obligation Hedge Counterparty and any

Indenture; each Registrar shall be a transfer agent registered in accordance with Section 17A(c) of the Exchange Act.

“Regular Assessment” means the assessments authorized to be levied by Citizens on Assessable Insurers and Assessable Insureds under paragraphs (b)3.a., (b)3.b. and (g)1. of the Act, in connection with a Plan Year Deficit in the Coastal Account.

“Regular Record Date” means (i) with respect to the 1997 Notes, each February 10 and August 10 (in each case, whether or not a Business Day) and (ii) with respect to any Series of Additional Indenture Obligations, such dates as provided for such Series of Additional Indenture Obligations in the Supplemental Indenture authorizing the same.

“Regulation S” means Regulation S promulgated under the Securities Act, as hereafter amended from time to time.

“Regulation S Global Security” has the meaning specified in Section 3.01 hereof.

“Regulation S Global Transferred Amount” has the meaning specified in Section 3.06(d)(iii) hereof.

“Reserve Account” means the Account so designated and established pursuant to Section 6.05 of this Indenture.

“Reserve Account Insurance Policy” means the insurance policy, surety bond or other evidence of insurance, if any, deposited to the credit of the Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein, which policy, bond or other evidence of insurance constitutes an obligation of the issuer thereof. The issuer thereof shall be an entity whose obligations ranking pari passu with its obligations under such policy, bond or other evidence of insurance are rated at all times that such policy, bond or other evidence of insurance is on deposit to the credit of the Reserve Account in any of the two (2) highest rating categories (without regard to any gradation within such categories) of the Rating Agencies.

“Reserve Account Letter of Credit” means the irrevocable, transferable letter or line of credit, if any, deposited for the credit of the Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein, which letter or line of credit constitutes an unconditional senior obligation of the issuer thereof. The issuer of such letter or line of credit shall be a banking association, bank or trust company or branch thereof whose obligations ranking pari passu with its obligations under such letter or line of credit are rated at all times such letter or line of credit is on deposit to the credit of the Reserve Account in any of the two (2) highest rating categories (without regard to any gradation within such categories) of the Rating Agencies.

“Reserve Account Requirement” means an amount equal to one hundred percent (100%) of the Maximum Annual Interest on all Indenture Obligations Outstanding, unless otherwise provided in the Supplemental Indenture providing for the issuance of a particular Series of Additional Indenture Obligations. The foregoing notwithstanding, to the extent that a Series of Indenture Obligations issued hereunder is issued as Tax-Exempt Bonds, the Reserve Account Requirement for such Series of Indenture Obligations shall not exceed the amount that may be

funded in a reasonably required reserve under the provisions of the Internal Revenue Code of 1986, as amended, all as more specifically provided in the Supplemental Indenture pursuant to which such Series of Indenture Obligations is issued.

“Restricted Certificated Securities” means Certificated Securities that are Restricted Securities.

“Restricted Certificated Transferred Amount” has the meaning specified in Section 3.06(e)(i) hereof.

“Restricted Global Security” has the meaning specified in Section 3.01 hereof.

“Restricted Global Transferred Amount” has the meaning specified in Section 3.06(d)(i) hereof.

“Restricted Holder Transferor” has the meaning specified in Section 3.06(e)(i) hereof.

“Restricted Period” has the meaning specified in Section 3.01 hereof.

“Restricted Securities” has the meaning specified in Section 3.01 hereof.

“Restrictive Legends” has the meaning specified in Section 3.06(b) hereof.

“Revenue Account” means the Account so designated and established pursuant to Section 6.03 of this Indenture.

“Rule 144” means Rule 144 under the Securities Act or any successor provision thereto, as hereafter amended from time to time.

“Rule 144A” means Rule 144A under the Securities Act or any successor provision thereto, as hereafter amended from time to time.

“Rule 144A Information” has the meaning specified in Section 11.15 hereof.

“Securities Act” means the Securities Act of 1933, as amended.

“Serial Indenture Obligations” means the Indenture Obligations of a Series which shall be stated to mature in sequential years.

“Series” means the Indenture Obligations delivered at any one or more times under the provisions of this Indenture which are designated by or pursuant to this Indenture or any Supplemental Indenture as constituting a single Series.

“Sinking Fund Subaccount” means the Subaccount so designated and established within the Debt Service Account pursuant to Section 6.04 of this Indenture.

“Sinking Fund Sub-subaccount” means each Sub-subaccount so designated and established within the Sinking Fund Subaccount pursuant to Section 6.04 of this Indenture.

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“Variable Rate Indenture Obligations” means any Additional Indenture Obligations issued with a variable, adjustable, convertible or other similar interest rate which is not fixed in percentage at the date of issue for the entire term thereof. If Variable Rate Indenture Obligations are issued pursuant to the provisions of this Indenture, the Supplemental Indenture pertaining to such Variable Rate Indenture Obligations shall prescribe a method of determining the Debt Service Charges with respect thereto, based on a percentage of a nationally published index of interest rates reasonably reflective of the interest rate on such Variable Rate Indenture Obligation or on a percentage of the actual rates on such Variable Rate Indenture Obligations over the preceding 12 months (or shorter period as may be designated by Citizens).

“Withdrawal Deficiency Makeup Requirement” means, with respect to any deficiency (other than a valuation deficiency) in the Reserve Account or the Coverage Account, the obligation to cure such deficiency in full no later than 12 months after the withdrawal that caused such deficiency, by making monthly deposits into the applicable Account in an amount equal to the deficiency divided by 12.

SECTION 1.02. Interpretation. To the extent not inconsistent with applicable law, and subject to the provisions of Section 8.01(k) below, any reference herein to Citizens, to the Board or to any member or officer of either includes entities or officials succeeding to their respective functions, duties or responsibilities pursuant to or by operation of law or lawfully performing their functions.

Any reference to a section or provision of the Constitution of the State or the Act, or to a section, provision or chapter of the Florida Statutes, or to any statute of the United States of America, includes that section, provision or chapter as amended, modified, revised, supplemented or superseded from time to time; provided, that no amendment, modification, revision, supplement or superseding section, provision or chapter shall be applicable solely by reason of this paragraph, if it constitutes in any way an impairment of the rights or obligations of Citizens, the Holders, the Indenture Trustee or any Credit Enhancement Facility Issuer under this Indenture, the Authorizing Resolution, the Indenture Obligations or any other instrument or document entered into in connection with any of the foregoing, including, without limitation, any alteration of the obligation to pay Debt Service Charges in the amount and manner, at the times, and from the sources provided in this Indenture, except as permitted herein; or, if but for the provisions of this paragraph, such amendment, modification, revision, supplement or superseding section would, with the giving of notice or with the lapse of time (or both), constitute an Event of Default under Section 8.01 hereof.

Unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa. The terms “hereof,” “hereby,” “herein,” “hereto,” “hereunder,” “hereinafter” and similar terms refer to this Indenture; and the term “hereafter” means after, and the term “heretofore” means before, the date of this Indenture. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

SECTION 1.03. Captions and Headings. The captions and headings in this Indenture are solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, subsections, paragraphs, subparagraphs or clauses hereof.

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“Special Record Date” means, with respect to any Indenture Obligation, the date established by the Indenture Trustee in connection with the payment of overdue interest on that Indenture Obligation pursuant to Section 3.05 hereof.

“Standard & Poor’s” means Standard & Poor’s Rating Services, a division of McGraw-Hill Corporation, its successors and assigns, and if such entity no longer performs the functions of a securities rating agency, “Standard & Poor’s” shall refer to any other nationally recognized securities rating agency designated by Citizens.

“State” means the State of Florida.

“Subaccount” or “Subaccounts” means any Subaccount or Subaccounts established pursuant to Sections 6.01 through 6.09 of this Indenture.

“Subordinate Debt” means bonds, notes or other indebtedness described in Section 2.05 hereof.

“Subject Lines of Business” has the meaning specified for such term in Section 4 of the Plan of Operation.

“Supplemental Indenture” means any indenture supplemental to this Indenture entered into between Citizens and the Indenture Trustee in accordance with Article IX hereof.

“Surplus Lines Agent” has the meaning specified for such term in Section 4 of the Plan of Operation.

“Surplus Lines Service Office” means the Surplus Lines Service Office established pursuant to Section 626.921, Florida Statutes, as amended.

“Term Indenture Obligations” means that portion of the Indenture Obligations of any Series which are stated to mature on one date in a calendar year with no stated maturity in the immediately preceding or in the immediately succeeding years, regardless of whether such Indenture Obligations are subject to mandatory sinking fund redemption. The 1997 Notes are being issued as Term Indenture Obligations and are not subject to mandatory sinking fund redemption. The Supplemental Indenture pursuant to which a Series of Indenture Obligations is issued, any portion of which consists of Term Indenture Obligations, shall specify whether such Term Indenture Obligations are subject to mandatory sinking fund redemption.

“Term Loan” means all term loans incurred by Citizens under the Line of Credit, but shall exclude all Liquidity Loans.

“Transfer Restrictions” has the meaning specified in Section 3.06(b) hereof.

“Unrestricted Global Security” has the meaning specified in Section 3.01 hereof.

“Unrestricted Global Transferred Amount” has the meaning specified in Section 3.06(d)(iv) hereof.

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ARTICLE II

AUTHORIZATION AND TERMS OF 1997 NOTES; ADDITIONAL INDENTURE OBLIGATIONS

SECTION 2.01. Authorized Amount of Indenture Obligations. No Indenture Obligations may be issued under the provisions of this Indenture except in accordance with this Article. The first Series of Indenture Obligations issued hereunder shall consist of the 1997 Notes. The total authorized principal amount of 1997 Notes which shall be issued under the provisions of this Indenture is \$750,000,000. Citizens may issue, sell and deliver one or more Series of Additional Indenture Obligations for the purposes, upon satisfaction of the conditions and in the manner provided herein.

SECTION 2.02. Issuance of 1997 Notes. It is determined to be necessary to, and Citizens shall, issue, sell and deliver \$750,000,000 aggregate principal amount of 1997 Notes for the purpose of (a) making a deposit to the Proceeds Account for the purpose of paying policyholder claims and other liabilities and expenses giving rise to any one or more Plan Year Deficits, as the same may occur from time to time, (b) making a deposit to the Reserve Account in the amount of the Reserve Account Requirement (unless such amount is otherwise deposited in the Reserve Account from other funds available to Citizens), (c) making a deposit in the Interest Subaccount of the Debt Service Account in respect of capitalized interest in accordance with Section 2.03(b) and (d) paying the costs of issuance of the 1997 Notes (unless paid from other funds available to Citizens). The 1997 Notes shall be designated “Florida Windstorm Underwriting Association 6.50% Series 1997A Senior Secured Notes due 2002”, “Florida Windstorm Underwriting Association 6.70% Series 1997A Senior Secured Notes due 2004” or “Florida Windstorm Underwriting Association 6.85% Series 1997A Senior Secured Notes due 2007,” respectively; shall be issuable only in fully registered form, substantially as set forth in Exhibit A-1, A-2 or A-3, as the case may be, to this Indenture; shall be numbered consecutively from 1 upwards; shall be in the denominations of \$100,000 and integral multiples of \$1,000 in excess thereof; shall be dated as of August 6, 1997; and shall bear interest from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from their date, payable on each Interest Payment Date. Interest on the 1997 Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The 1997 Notes shall be issued as Term Indenture Obligations maturing in the principal amounts and on such dates, and shall bear interest at the annual interest rate set forth below:

Maturity Date	Maturity Amount	Interest Rate
August 25, 2002	\$300,000,000	6.50%
August 25, 2004	\$150,000,000	6.70%
August 25, 2007	\$300,000,000	6.85%

The 1997 Notes shall constitute a single Series of Indenture Obligations for purposes of this Indenture. The 1997 Notes shall not be subject to sinking fund redemption prior to maturity or to optional redemption prior to maturity.

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SECTION 2.03. Delivery of 1997 Notes. (a) Upon the execution and delivery of this Indenture, the Pledge and Security Agreement and the DOI Agreement, and satisfaction of the conditions in the Purchase Agreement for delivery of the 1997 Notes, Citizens shall execute the 1997 Notes and deliver them to the Indenture Trustee. Thereupon, the Indenture Trustee shall authenticate the 1997 Notes and deliver them to, or on the order of, the Initial Purchaser thereof, as directed by Citizens in accordance with this Section 2.03.

Before the Indenture Trustee delivers any 1997 Notes, the Indenture Trustee shall have received a request and authorization to the Indenture Trustee on behalf of Citizens, signed by an Authorized Citizens Representative, to authenticate and deliver the 1997 Notes to, or on the order of, the Initial Purchaser upon payment to the Indenture Trustee of the amount specified therein (including, without limitation, any accrued interest), which amount shall be deposited as provided in Sections 2.03(b) and 6.01 hereof.

(b) From the net proceeds of the 1997 Notes, (i) capitalized interest in the amount of \$0, shall be deposited in the Interest Subaccount of the Debt Service Account, (ii) \$50,100,000 (which is an amount equal to the Reserve Account Requirement for the 1997 Notes) shall be deposited in the Reserve Account (unless such amount is otherwise deposited in the Reserve Account from other funds available to Citizens), (iii) \$0 shall be deposited in the Costs of Issuance Subaccount of the Proceeds Account, for the payment of the costs of issuance of the 1997 Notes (unless such amount is otherwise paid, or deposited in the Costs of Issuance Subaccount for the payment of such costs, from other funds available to Citizens) and (iv) \$745,305,000.00, constituting the balance of the net proceeds of the 1997 Notes, shall be deposited in the Proceeds Account, for disbursement to Citizens in accordance with the provisions of Section 6.01 hereof.

SECTION 2.04. Issuance and Delivery of Additional Indenture Obligations. Citizens may issue Additional Indenture Obligations from time to time, either prior or subsequent to the occurrence of a Plan Year Deficit for the purpose of paying all or any portion of one or more Plan Year Deficits as the same may occur from time to time. The proceeds of any such Additional Indenture Obligations must either (a) be applied to repay outstanding loans under the Line of Credit, (b) be applied to refinance existing Indenture Obligations or (c) be deposited into, and shall be applied in accordance with the provisions governing, the Accounts established pursuant to Article VI hereof, all as provided in the corresponding Supplemental Indenture. Amounts deposited into the Proceeds Account pursuant to such Supplemental Indenture shall be disbursed by the Indenture Trustee only upon satisfaction of the conditions set forth in Section 6.01(c) and (d) hereof. The Additional Indenture Obligations of each Series shall be issued in the form thereof attached as an exhibit to the corresponding Supplemental Indenture. The Supplemental Indenture authorizing the issuance of such Additional Indenture Obligations shall set forth the details of the Additional Indenture Obligations, including, among other things, the principal amount of such Additional Indenture Obligations, the authorized denominations of such Additional Indenture Obligations, the date thereof, the method of accrual and payment of interest thereon, the maturity of such Additional Indenture Obligations, the redemption provisions, if any, relating to such Additional Indenture Obligations, including, without limitation, the sinking fund mandatory redemption provisions for Term Indenture Obligations, if any, the defeasance provisions relating to such Additional Indenture Obligations, the Paying Agent therefor, the Registrar therefor, whether the Additional Indenture Obligations shall be issuable in book entry

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which amount shall be deposited in the Accounts established pursuant to Article VI hereof as provided in the applicable Authorizing Resolution or Supplemental Indenture.

4. The written opinion of Indenture Counsel, to the effect that: (i) the documents submitted to the Indenture Trustee in connection with the request then being made comply with the requirements of this Indenture; (ii) the issuance of the Additional Indenture Obligations has been duly authorized; (iii) all filings and/or recordings required to be made under Section 11.11 of this Indenture have been made; and (iv) all conditions precedent to the delivery of the Additional Indenture Obligations have been fulfilled.

5. A written opinion of Indenture Counsel, to the effect that when executed for and in the name and on behalf of Citizens and when authenticated and delivered by the Indenture Trustee, those Additional Indenture Obligations will be valid and legal obligations of Citizens, enforceable in accordance with their terms and will be secured hereunder equally and on a parity with all other Additional Indenture Obligations at the time outstanding hereunder as to the pledge of and lien on the Pledged Revenues.

6. A certificate of Citizens, signed by an Authorized Citizens Representative, specifying the application of the proceeds of such Additional Indenture Obligations. If the Additional Indenture Obligations are being issued subsequent to the occurrence of a Plan Year Deficit, such certificate shall specify, among other things, the amount of such proceeds expected to be applied to pay claims as a result of such Plan Year Deficit. In addition, such certificate shall state that (i) there does not then exist an Event of Default (or an event that with the giving of notice or passage of time, or both, would result in such Event of Default) and (ii) the Pledge and Security Agreement and the DOI Agreement have not been supplemented or amended (except as permitted by the respective terms thereof) and each such agreement remains in full force and effect.

When (i) the documents listed above have been received by the Indenture Trustee, and (ii) the Additional Indenture Obligations have been executed and authenticated, the Indenture Trustee shall deliver the Additional Indenture Obligations to or on the order of the Initial Purchaser thereof, but only upon payment to the Indenture Trustee of the specified amount (including, without limitation, any accrued interest) set forth in the request and authorization to which reference is made in paragraph 3 above.

SECTION 2.05. Issuance of Subordinate Debt. Citizens will not issue or voluntarily incur any other obligations for borrowed money in respect of or allocable to the Coastal Account, except for Additional Indenture Obligations, Indenture Obligation Hedge Agreements and any Line of Credit (including, without limitation, any Line of Credit Hedge Agreements) hereafter issued under the conditions and in the manner provided herein, secured by the Collateral prior to or on a parity with the Indenture Obligations, nor will Citizens voluntarily create or cause to be created any debt, lien, pledge, assignment, encumbrance or any other charge on the Collateral having priority to or being on a parity with the lien of the Indenture Obligations issued pursuant to this Indenture; provided, however, that neither the provisions of this Section 2.05 nor any other provision contained in this Indenture shall restrict or limit Citizens from entering into (a) the Line of Credit or obtaining Liquidity Loans or Term Loans thereunder, (b) any Indenture Obligation Hedge Agreements, (c) any Line of Credit Hedge Agreements or (d) any indebtedness

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or certificated form and, if such Additional Indenture Obligations bear interest based on a floating rate, the method of computing interest thereon for purposes of the definition of "Annual Debt Service". The Supplemental Indenture authorizing the Additional Indenture Obligations shall also specify whether a Credit Enhancement Facility, Reserve Account Insurance Policy or Reserve Account Letter of Credit is to be issued in connection with such Additional Indenture Obligations and, if so, the Supplemental Indenture shall set forth or provide for such additional covenants and agreements required in order to obtain such Credit Enhancement Facility, Reserve Account Insurance Policy or Reserve Account Letter of Credit.

Additional Indenture Obligations issued under this Indenture shall be on a parity with the 1997 Notes and any Additional Indenture Obligations theretofore or thereafter issued and outstanding as to the pledge of and lien on the Pledged Revenues.

Before the Indenture Trustee shall authenticate and deliver any Additional Indenture Obligations, the Indenture Trustee shall receive the following items:

1. Original executed counterparts of the Supplemental Indenture entered into in connection with the issuance of the Additional Indenture Obligations, containing such terms and conditions as are necessary or advisable, in the opinion of Indenture Counsel, to provide that the Additional Indenture Obligations will be issued in compliance with the provisions of this Indenture. Without limiting the generality of the foregoing, the Supplemental Indenture shall contain provisions, if applicable, describing (i) any Indenture Obligations of the Series that shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of those set forth in Sections 3.10 and 3.11 hereof and any circumstances in addition to or in lieu of those set forth in Section 3.06 hereof in which any such Global Security may be exchanged in whole or in part for Indenture Obligations registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof, and any circumstances in addition to or in lieu of those set forth in Section 3.06 hereof in which transfers of interests in Global Securities may be made and any related certificates in addition to or in lieu of those set forth in Section 3.12 hereof; and (ii) the form of any legend(s) which shall be borne by any Restricted Securities in addition to or in lieu of those set forth in Sections 3.10 and 3.11 hereof, any circumstances in addition to or in lieu of those set forth in Section 3.06 hereof in which such legend(s) may be removed or modified, and any circumstances in addition to or in lieu of those set forth in Section 3.06 hereof in which Restricted Securities may be registered for transfer or may be transferred to a Person who takes delivery thereof in the form of a beneficial interest in a Global Security and any related certificates in addition to or in lieu of those set forth in Section 3.12 hereof.

2. A copy of the Authorizing Resolution, certified by an Authorized Citizens Representative.

3. A request and authorization to the Indenture Trustee on behalf of Citizens, signed by an Authorized Citizens Representative, to authenticate and deliver the Additional Indenture Obligations to, or on the order of, the Initial Purchaser thereof upon payment to the Indenture Trustee of the amount specified therein (including, without limitation, any accrued interest),

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secured or payable only by moneys or other assets within, or allocable to, the Personal Lines Account and/or the Commercial Lines Account. The foregoing notwithstanding, Citizens may issue or incur Subordinate Debt, payable from amounts on deposit in the General Reserve Account as and to the extent provided in Section 6.09 hereof and from other moneys of Citizens within, or allocable to, the Coastal Account. Any Subordinate Debt issued or incurred by Citizens shall contain an express statement that such obligation may not be accelerated and is junior, inferior and subordinate in all respects to the Indenture Obligations as to lien on and source and security for payment from the Collateral, and in all other respects.

SECTION 2.06. Capital Appreciation Indenture Obligations; Capital Appreciation and Income Indenture Obligations. For purposes of determining the principal amount of a Capital Appreciation Indenture Obligation or a Capital Appreciation and Income Indenture Obligation for redemption, acceleration or computation of the amount of Indenture Obligations held by the Holder thereof in giving to Citizens or the Indenture Trustee any notice, covenant, request or demand pursuant to this Indenture for any purpose whatsoever, the principal amount of a Capital Appreciation Indenture Obligation shall be deemed to be its Accreted Value and the principal amount of a Capital Appreciation and Income Indenture Obligation shall be deemed to be its Appreciated Value.

ARTICLE III

TERMS OF INDENTURE OBLIGATIONS GENERALLY

SECTION 3.01. Form of Indenture Obligations. The Indenture Obligations, the certificate of authentication and the form of assignment shall be substantially in the respective forms thereof set forth in Exhibit A-1, A-2 or A-3, as the case may be, to this Indenture with, in the case of Additional Indenture Obligations, any omissions, insertions and variations which may be required or permitted by the Supplemental Indenture authorizing the issuance of such Additional Indenture Obligations, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor, all consistent with this Indenture.

All Indenture Obligations shall be in fully registered form and, except as otherwise provided in this Indenture, the Holder shall be regarded as the absolute owner thereof for all purposes of this Indenture. Unless otherwise provided herein, all Indenture Obligations issued as Certificated Securities shall contain the legend set forth in Section 3.10(b) hereof; and all Indenture Obligations issued as Global Securities shall contain the legends set forth in Section 3.10(a) and Section 3.11 hereof.

The Indenture Obligations of one Series shall bear any designations which may be necessary or advisable to distinguish them from Indenture Obligations of any other Series. The Indenture Obligations shall be negotiable instruments and shall express the purpose for which they are issued and any other statements or legends which may be required by law. Pending delivery of the Indenture Obligations in definitive form, the Indenture Obligations may be issued, authenticated and delivered in temporary form on such conditions as the Indenture Trustee and Citizens shall deem appropriate, and such temporary Indenture Obligations until

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exchanged for definitive Indenture Obligations shall constitute Indenture Obligations for all purposes of this Indenture.

Except as otherwise provided herein, Indenture Obligations of any Series offered and sold as part of their initial distribution in reliance on Regulation S under the Securities Act shall be issued in the form of one or more Global Securities of such Series in definitive, fully registered form without coupons, substantially in the form set forth herein, with such applicable legends as are provided for in Sections 3.10 and 3.11 hereof. Such Global Securities shall be registered in the name of the Depositary for such Global Securities or its nominee and deposited with the Indenture Trustee, at its designated corporate trust office, as custodian for such Depositary, duly executed by Citizens and authenticated by the Indenture Trustee as herein provided, for credit by the Depositary to the respective accounts of beneficial owners of such Indenture Obligations (or to such other accounts as they may direct) at Euroclear or Cedelbank. Until such time as the applicable Restricted Period shall have terminated, each such Global Security shall be referred to herein as a "Regulation S Global Security". After such time as the applicable Restricted Period shall have terminated, each such Global Security shall be referred to herein as an "Unrestricted Global Security". The aggregate principal amount of any Regulation S Global Security and any Unrestricted Global Security may from time to time be increased or decreased by adjustments made on the records of the Indenture Trustee, as custodian for the Depositary for such Global Security, as provided in Section 3.06 hereof. As used herein, the term "Restricted Period", with respect to Global Securities of any Series (or any identifiable tranche of any Series) initially offered and sold in reliance on Regulation S, means the period of forty (40) consecutive days beginning on and including the later of (i) the day that the underwriter(s) or placement agent(s), if any, for the offering of Indenture Obligations of such Series (or tranche) advises Citizens and the Indenture Trustee in writing is the day on which such Indenture Obligations of such Series were first offered to persons other than distributors (as defined in Regulation S) in reliance on Regulation S and (ii) the Closing Date. No Regulation S Global Security shall be issued except as provided in this paragraph to evidence Securities offered and sold as part of their initial distribution in reliance on Regulation S.

Except as otherwise provided herein, Indenture Obligations of any Series offered and sold as part of their initial distribution in transactions exempt from the registration requirements of the Securities Act ("Restricted Securities"), other than pursuant to Regulation S, to Persons who are "qualified institutional buyers", as defined in Rule 144A under the Securities Act ("QIBs") shall be issued in the form of one or more Global Securities of such Series (each a "Restricted Global Security") in definitive, fully registered form without coupons, substantially in the form set forth in Exhibit A hereto, with such applicable legends as are provided for in Sections 3.10 and 3.11 hereof. Such Global Securities shall be registered in the name of the Depositary for such Global Security or its nominee and deposited with the Indenture Trustee, at its designated corporate trust office, as custodian for such Depositary, duly executed by Citizens and authenticated by the Indenture Trustee as hereinafter provided. The aggregate principal amount of any Restricted Global Security may from time to time be increased or decreased by adjustments made on the records of the Indenture Trustee, as custodian for the Depositary for such Global Security, as provided in Section 3.06 hereof.

Except as otherwise provided herein, Restricted Securities of any Series offered and sold as part of their initial distribution to Persons who are not QIBs, other than pursuant to Regulation

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may be executed by any person authorized by the Indenture Trustee or Authenticating Agent, but it shall not be necessary that the same authorized person sign the certificates of authentication on all of the Indenture Obligations of a Series.

SECTION 3.04. Source of Payment of Indenture Obligations. The Indenture Obligations and all other obligations arising under this Indenture shall be direct and general obligations of Citizens attributable to the Coastal Account (subject to paragraph (b)2.a., b., c. and d. of the Act), secured solely by the Pledged Revenues as provided herein. The Holders of the Indenture Obligations and the Indenture Trustee shall have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or the Commercial Lines Account) in respect of the Indenture Obligations or any other obligation arising under this Indenture. Notwithstanding anything to the contrary in the Indenture Obligations or this Indenture, the Indenture Obligations do not and shall not represent or constitute a debt or pledge of the faith and credit or the taxing power of the State or of any political subdivision, municipality or other local agency thereof or of any Assessable Insurer.

SECTION 3.05. Payment and Ownership of Indenture Obligations. Debt Service Charges shall be payable in lawful money of the United States of America without deduction for the services of the Indenture Trustee or any Paying Agent. Subject to the provisions of the second paragraph of this Section, and to any agreements entered into pursuant to Section 3.09 of this Indenture, (i) the final payment of principal of and any premium on any Indenture Obligation shall be payable when due to a Holder upon presentation and surrender of such Indenture Obligation at the designated corporate trust office of the Indenture Trustee or at the office, designated by the Indenture Trustee, of any Paying Agent, and (ii) interest on any Indenture Obligation shall be paid on each Interest Payment Date by check or draft which the Indenture Trustee shall cause to be mailed by first class mail, postage prepaid, on that date to the Person in whose name the Indenture Obligation (or one or more Predecessor Indenture Obligations) is registered at the close of business on the Regular Record Date applicable to that Interest Payment Date on the Register at the address appearing therein. All other payments of principal of and any premium on the Indenture Obligations will be payable when due to a Holder at the designated corporate trust office of the Indenture Trustee or at such designated office of any Paying Agent. Subject to the provisions of the second paragraph of this Section, any Holder of Indenture Obligations in an aggregate principal amount of at least \$1,000,000 (or, if less, five percent (5%) of the outstanding principal amount of the applicable Series of Indenture Obligations) is entitled on fifteen (15) days' prior written request to the Indenture Trustee (including instructions and information as to the recipient bank and account) to the payment of interest by bank transfer or credit to a domestic bank or domestic trust account or by wire transfer of immediately available funds. If and to the extent, however, that Citizens shall fail to make payment or provision for payment of interest on any Indenture Obligation on any Interest Payment Date, that interest shall cease to be payable to the Person who was the Holder of that Indenture Obligation (or of one or more Predecessor Indenture Obligations) as of the applicable Regular Record Date. When monies become available for payment of interest, (x) the Indenture Trustee shall, pursuant to Section 8.06(c), establish a Special Record Date for the payment of that interest which shall be not more than fifteen (15) nor fewer than ten (10) days prior to the date of the proposed payment, and (y) the Indenture Trustee shall cause notice of the proposed payment and of the Special Record Date to be mailed by first-class mail, postage prepaid, to each Holder at its address as it

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S, shall be issued in the form of Restricted Certificated Securities in definitive, fully registered form without interest coupons, substantially in the form set forth in Exhibit A hereto, with such applicable legends as are provided for in Section 3.10 hereof. Restricted Certificated Securities may not be transferred or exchanged for interests in a Global Security except as provided in Section 3.06 hereof.

For purposes of this Indenture, the term "Restricted Securities" shall include all Indenture Obligations issued upon registration of transfer of, exchange for or in lieu of Restricted Securities except as otherwise provided in Section 3.06 hereof.

Unless otherwise agreed to by Citizens, no Restricted Certificated Security shall be authenticated and delivered hereunder unless and until each purchaser of a beneficial interest in such Restricted Certificated Security shall have executed and delivered to Citizens and the underwriter(s) or placement agent(s), if any, for the offering of such Indenture Obligations a Purchaser Letter substantially in the form set forth in Annex J and Citizens certifies to the Indenture Trustee in writing to that effect.

SECTION 3.02. Variable Terms. Subject to the provisions of this Indenture, each Series of Indenture Obligations shall be dated, shall mature in the years and the amounts, shall bear interest at the rate or rates per annum, shall be payable on the dates, shall have the Registrar, Paying Agents and Authenticating Agents, shall be of the denominations, shall be subject to redemption on the terms and conditions and shall have any other terms which are set forth or provided for in this Indenture in the case of the 1997 Notes, and in this Indenture and the applicable Supplemental Indenture, in the case of any issue of additional Indenture Obligations.

SECTION 3.03. Execution and Authentication of Indenture Obligations. Unless otherwise provided in the applicable Authorizing Resolution or Supplemental Indenture, each Indenture Obligation shall be signed by the Chairman or Vice Chairman of the Board or by the Executive Director of Citizens, and shall be attested by the Chief Financial Officer of Citizens (or, if the Executive Director is not the person signing such Indenture Obligations, the Executive Director may attest the Indenture Obligations), in their official capacities (provided that either or both of the execution and attestation signatures may be facsimiles). In case any officer whose signature or a facsimile of whose signature shall appear on any Indenture Obligation shall cease to be that officer before the issuance of the Indenture Obligation, his signature or the facsimile thereof nevertheless shall be valid and sufficient for all purposes, the same as if he had remained in office until that time. Any Indenture Obligation may be executed on behalf of Citizens by an officer who, on the date of execution is the proper officer, although on the date of the Indenture Obligation that person was not the proper officer.

No Indenture Obligation shall be valid or become obligatory for any purpose or shall be entitled to any security or benefit under this Indenture unless and until a certificate of authentication, substantially in the form set forth in Exhibit A to this Indenture, has been signed by the Indenture Trustee or by any Authenticating Agent for that Series on behalf of the Indenture Trustee. The authentication by the Indenture Trustee or by an Authenticating Agent upon any Indenture Obligation shall be conclusive evidence that the Indenture Obligation so authenticated has been duly authenticated and delivered hereunder and is entitled to the security and benefit of this Indenture. The certificate of the Indenture Trustee or an Authenticating Agent

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appears on the Register not fewer than ten (10) days prior to the Special Record Date, and thereafter the interest shall be payable to the Persons who are the Holders of the Indenture Obligations (or their respective Predecessor Indenture Obligations) at the close of business on the Special Record Date. Except as otherwise provided in this paragraph, each Indenture Obligation delivered under this Indenture upon transfer thereof, or in exchange for or in replacement of any other Indenture Obligation, shall carry the rights to interest accrued and unpaid, and to accrue on that Indenture Obligation.

Debt Service Charges on the 1997 Notes shall be payable:

(i) on any 1997 Note represented by a Global Security, in same day federal funds (A) in the case of principal of such 1997 Note, delivered or transmitted to the Depositary or its authorized representative when due, provided that if the entire outstanding principal amount of any such 1997 Note is due, only upon presentation and surrender of such 1997 Note at the designated corporate trust office of the Indenture Trustee or at the office designated by the Indenture Trustee, of any Paying Agent, and (B) in the case of interest on such 1997 Note, delivered or transmitted on any Interest Payment Date to the Depositary or nominee that was the Holder of that 1997 Note (or a predecessor 1997 Note) at the close of business on the Regular Record Date (or the Special Record Date, as the case may be) applicable to that Interest Payment Date; and

(ii) on any Note not represented by a Global Security, as provided in the first paragraph of this Section.

Except as provided in the first paragraph of Section 3.07 hereof, (i) the Holder of any Indenture Obligation shall be deemed and regarded as the absolute owner thereof for all purposes of this Indenture, (ii) payment of or on account of the Debt Service Charges on any Indenture Obligation shall be made only to or upon the order of that Holder or its duly authorized attorney in the manner permitted by this Indenture, and (iii) neither Citizens, the Indenture Trustee, the Registrar nor any Paying Agent or Authenticating Agent shall, to the extent permitted by law, be affected by notice to the contrary. All of those payments shall be valid and effective to satisfy and discharge the liability upon that Indenture Obligation, including, without limitation, the interest thereon, to the extent of the amount or amounts so paid.

SECTION 3.06. Registration, Registration of Transfer and Exchange of Indenture Obligations. (a) *General.* So long as any of the Indenture Obligations remain outstanding, Citizens will cause books for the registration and transfer of Indenture Obligations, as provided in this Indenture, to be maintained and kept at the designated office of the Registrar.

Subject to the further provisions of this Section 3.06 and Section 3.10 hereof, unless otherwise provided in the applicable Supplemental Indenture for a Series of Indenture Obligations, Indenture Obligations may be exchanged, at the option of their Holder, for Indenture Obligations of the same Series and of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Indenture Obligations being exchanged. The exchange shall be made upon presentation and surrender of the Indenture Obligations being exchanged at the designated office of the Registrar or at the

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designated office of any Authenticating Agent for that Series of Indenture Obligations, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which shall be satisfactory to the Registrar or the Authenticating Agent, as the case may be.

Subject to the further provisions of this Section 3.06 and Section 3.10 hereof (and any comparable provisions of any Supplemental Indenture), any Indenture Obligation may be transferred upon the Register, upon presentation and surrender thereof at the designated office of the Registrar or the designated office of any Authenticating Agent for the Series thereof, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which shall be satisfactory to the Registrar or the Authenticating Agent, as the case may be. Upon transfer of any Indenture Obligation and on request of the Registrar or the Authenticating Agent, Citizens shall execute in the name of the transferee, and the Registrar or the Authenticating Agent, as the case may be, shall authenticate and deliver, a new Indenture Obligation or Indenture Obligations of the same Series, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Indenture Obligations presented and surrendered for transfer.

In all cases in which Indenture Obligations shall be exchanged or transferred hereunder, Citizens shall execute, and the Registrar or any Authenticating Agent, as the case may be, shall authenticate and deliver, Indenture Obligations in accordance with the provisions of this Indenture. The exchange or transfer shall be made without charge; provided, that Citizens and the Registrar or the Authenticating Agent, as the case may be, may make a charge for every exchange or transfer of Indenture Obligations sufficient to reimburse them for any tax or excise required to be paid with respect to the exchange or transfer. The charge shall be paid before a new Indenture Obligation is delivered.

All Indenture Obligations issued upon any transfer or exchange of Indenture Obligations shall be the valid obligations of Citizens, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Indenture Obligations surrendered upon transfer or exchange. Neither Citizens, the Registrar nor any Authenticating Agent, as the case may be, shall be required to make any exchange or transfer of an Indenture Obligation during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of Indenture Obligations pursuant to Section 4.04 hereof and ending at the close of business on the day of such mailing or to transfer or exchange any Indenture Obligations selected for redemption, in whole or in part.

In case any Indenture Obligation is redeemed in part only, on or after the redemption date and upon presentation and surrender of the Indenture Obligation, Citizens, subject to the provisions of Section 3.09 hereof, shall cause execution of, and the Registrar or any Authenticating Agent for the Series of that Indenture Obligation shall authenticate and deliver, a new Indenture Obligation or Indenture Obligations of the same Series in authorized denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturing on the same date or dates as, the Indenture Obligation redeemed in part.

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upon a certificate of Citizens executed by an Authorized Citizens Representative in accordance with this Section 3.06(b).

As used in this Section 3.06(b), the term “transfer” encompasses any sale, pledge, transfer or other disposition of any Indenture Obligations referred to herein.

(c) *Global Securities.* Each Global Security authenticated under this Indenture shall be registered in the name of the Depository designated for such Global Security or a nominee thereof and delivered to such Depository or a nominee thereof or custodian therefor at its designated corporate trust office, and each such Global Security shall constitute a single Indenture Obligation for all purposes of this Indenture.

Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Indenture Obligations registered, and no transfer of a Global Security in whole or part may be made or registered, in the name of any Person other than the Depository for such Global Security or a nominee thereof unless (A) such Depository (i) has notified Citizens that it is unwilling or unable to continue to act as Depository for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act or any other applicable statute or regulation, and, in either case, a successor Depository is not appointed by Citizens within ninety (90) days of such event, (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security, or (C) Citizens in its sole discretion shall have notified the Depository that the Global Securities shall be exchanged for such Indenture Obligations. Any Global Security exchanged pursuant to clause (A) above shall be so exchanged in whole and not in part and any Global Security exchanged pursuant to clause (B) or (C) above may be exchanged in whole or from time to time in part as directed by the Depository for such Global Security. Notwithstanding any other provision in this Indenture, a Global Security to which the restriction set forth in the second preceding sentence shall have ceased to apply may be transferred only to, and may be registered and exchanged for Indenture Obligations registered only in the name or names of, such Person or Persons as the Depository for such Global Security shall have directed and no transfer thereof other than such a transfer may be registered. Nothing in this Section 3.06(c) shall prohibit or render ineffective any transfer of a beneficial interest in a Global Security effected in accordance with this Section 3.06.

Subject to the preceding paragraph, any exchange of a Global Security for other Indenture Obligations may be made in whole or in part, and all Indenture Obligations issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depository for such Global Security shall direct.

Every Indenture Obligation authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Indenture Obligation is registered in the name of a Person other than the Depository for such Global Security or a nominee thereof.

Until the termination of the Restricted Period with respect to Indenture Obligations of a Series, interests in any Regulation S Global Security of such Series may be held only through

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For purposes of this Section, the Indenture Trustee shall establish the designated office of the Registrar and the Authenticating Agent.

(b) *Restricted Securities.* Restricted Securities of each Series shall be subject to the restrictions on transfer (the “Transfer Restrictions”) provided in the applicable legend(s) the (“Restrictive Legends”) required to be set forth on the face of each Restricted Security pursuant to Section 3.10 hereof or as otherwise specified as contemplated by Section 2.04 for the Restricted Securities of such Series, and each Holder of a Restricted Security, by its acceptance thereof, agrees to be bound by, and to comply with, the Transfer Restrictions, in each case unless compliance with the Transfer Restrictions shall be waived by Citizens in writing delivered to the Indenture Trustee.

Except as otherwise specified as contemplated by Section 2.04 for the Indenture Obligations of any Series, the Transfer Restrictions shall cease and terminate with respect to any particular Restricted Security upon receipt by Citizens of evidence satisfactory to it (which may include an opinion of independent counsel experienced in matters of United States federal securities law) that, as of the date of determination, such Restricted Security (a) could be transferred by the Holder thereof pursuant to Rule 144(k) promulgated under the Securities Act, (b) has been sold pursuant to an effective registration statement under the Securities Act, or (c) has been transferred (i) in a transaction satisfying all the requirements of Rule 903 or 904 (as applicable) of Regulation S promulgated under the Securities Act or (ii) pursuant to Rule 144 under the Securities Act, and receipt by the Indenture Trustee of a certificate from an Authorized Citizens Representative certifying that Citizens has received such evidence and that the Transfer Restrictions have ceased and terminated with respect to such Indenture Obligation. All references in the preceding sentence to any Regulation, Rule or provision thereof shall be deemed also to refer to any successor provisions thereof. In addition, Citizens may terminate the Transfer Restrictions with respect to any particular Restricted Security in such other circumstances as it determines are appropriate for this purpose and shall deliver to the Indenture Trustee a certificate from an Authorized Citizens Representative certifying that the Transfer Restrictions have ceased and terminated with respect to such Indenture Obligation.

At the request of the Holder and, upon the surrender of such Restricted Security to the Indenture Trustee or the Registrar for exchange in accordance with the provisions of this Section 3.06, any Restricted Security as to which the Transfer Restrictions shall have terminated in accordance with the preceding paragraph shall be exchanged for a new Indenture Obligation of like tenor and aggregate principal amount, but without the Restrictive Legends. Any Restricted Security as to which the Restrictive Legends shall have been removed pursuant to this paragraph (and any Indenture Obligations issued upon registration of transfer of, exchange for or in lieu of such Restricted Security) shall thereupon cease to be “Restricted Security” for all purposes of this Indenture.

Citizens shall notify the Indenture Trustee of the effective date of any registration statement registering any Restricted Securities under the Securities Act and shall ensure that any opinion of counsel received by it in connection with the removal of any Restrictive Legend is also addressed to the Indenture Trustee. The Indenture Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and without negligence on its part in reliance

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Agent Members acting for and on behalf of Euroclear and Cedelbank; provided, however, that the Indenture Trustee shall have no responsibility to determine compliance with this requirement.

(d) *Transfers Between Global Securities.* (i) Restricted Global Security to Regulation S Global Security. If the owner of a beneficial interest (an “Owner Transferor”) in a Restricted Global Security wishes at any time to transfer such beneficial interest to a person (an “Owner Transferee”) who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with the provisions of this Section 3.06(d)(i). Upon receipt by the Indenture Trustee, as custodian, at its designated corporate trust office of (1) written instructions given in accordance with the Applicable Procedures from the Agent Member whose account is to be debited (an “Agent Member Transferor”) with respect to the Restricted Global Security directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of another Agent Member (an “Agent Member Transferee”) (which shall be an account with Euroclear or Cedelbank or both) a beneficial interest in a Regulation S Global Security in a principal amount equal to the beneficial interest in the Restricted Global Security to be transferred (the “Restricted Global Transferred Amount”), (2) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with, and the account of the Agent Member Transferor to be debited for, the Restricted Global Transferred Amount, and (3) a certificate in substantially the form set forth in Section 3.12(a) given by the Owner Transferor, the Indenture Trustee, as Registrar, shall instruct the Depository for such Global Securities to reduce the principal amount of the Restricted Global Security, and to increase the principal amount of the Regulation S Global Security, by the Restricted Global Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Regulation S Global Security, and to debit or cause to be debited to the account of the Agent Member Transferor a beneficial interest in the Restricted Global Security, in each case having a principal amount equal to the Restricted Global Transferred Amount.

(ii) *Restricted Global Security to Unrestricted Global Security.* If an Owner Transferor wishes at any time to transfer a beneficial interest in a Restricted Global Security to an Unrestricted Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(d)(ii). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) written instructions given in accordance with the Applicable Procedures from the Agent Member Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee (which may but need not be an account with Euroclear or Cedelbank) a beneficial interest in the Unrestricted Global Security in a principal amount equal to the Restricted Global Transferred Amount, (2) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with, and the account of the Agent Member Transferor to be debited for, the Restricted Global Transferred Amount, and (3) a certificate in substantially the form set forth in Section 3.12(b) given by the Owner Transferor, the Indenture Trustee, as Registrar, shall instruct the Depository for such Global Securities to reduce the principal amount of the Restricted Global Security, and to increase the principal amount of the Unrestricted Global Security, by the Restricted Global Transferred Amount, and to credit or cause to be credited to

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the account of the Agent Member Transferee a beneficial interest in the Unrestricted Global Security, and to debit or cause to be debited to the account of the Agent Member Transferor a beneficial interest in the Restricted Global Security, in each case having a principal amount equal to the Restricted Global Transferred Amount.

(iii) *Regulation S Global Security to Restricted Global Security.* If an Owner Transferor wishes at any time to transfer a beneficial interest in a Regulation S Global Security to an Owner Transferee who wishes to take delivery thereof in the form of a beneficial interest in a Restricted Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(d)(iii). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) written instructions given in accordance with the Applicable Procedures from the Agent Member Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee a beneficial interest in the Restricted Global Security in a principal amount equal to that of the beneficial interest in the Regulation S Global Security to be so transferred (the “Regulation S Global Transferred Amount”), (2) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with, and the account of the Agent Member Transferor (which must be an account with Euroclear or Cedelbank or both) to be debited for, the Regulation S Global Amount, and (3) a certificate in substantially the form set forth in Section 3.12(c) given by the Owner Transferor or Owner Transferee, as the case may be, the Indenture Trustee, as Registrar, shall instruct the Depository for such Global Securities to reduce the principal amount of the Regulation S Global Security, and increase the principal amount of the Restricted Global Security, by the Regulation S Global Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Restricted Global Security, and to debit or cause to be debited to the account of the Agent Member Transferor a beneficial interest in the Regulation S Global Security, in each case having a principal amount equal to the Regulation S Global Transferred Amount.

(iv) *Unrestricted Global Security to Restricted Global Security.* If an Owner Transferor wishes at any time to transfer a beneficial interest in an Unrestricted Global Security to an Owner Transferee who wishes to take delivery thereof in the form of a beneficial interest in a Restricted Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(d)(iv). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) written instructions given in accordance with the Applicable Procedures from the Agent Member Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee (which may but need not be an account with Euroclear or Cedelbank) a beneficial interest in the Unrestricted Global Security in a principal amount equal to that of the beneficial interest in the Unrestricted Global Security to be so transferred (the “Unrestricted Global Transferred Amount”), (2) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with, and the account of the Agent Member Transferor to be debited for, the Unrestricted Global Transferred Amount, and (3) a certificate in substantially the form set forth in Section 3.12(d) given by the Owner Transferee, the Indenture Trustee, as Registrar, shall instruct the Depository for such Indenture Obligations to reduce the principal amount of the Unrestricted Global Security, and increase the principal amount of the Restricted Global Security, by the Unrestricted

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(which shall be an account with Euroclear or Cedelbank or both) a beneficial interest in a Regulation S Global Security in a principal amount equal to the Restricted Certificated Transferred Amount, (3) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with the Restricted Certificated Transferred Amount, and (4) a certificate in substantially the form set forth in Section 3.12(f) given by the Restricted Holder Transferor, the Indenture Trustee, as Registrar, shall cancel the Restricted Certificated Security and instruct the Depository for the Regulation S Global Security to increase the principal amount of the Regulation S Global Security by the Restricted Certificated Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Regulation S Global Security having a principal amount equal to the Restricted Certificated Transferred Amount. If any Restricted Security is to be transferred in part but not in whole, then Citizens shall execute and the Indenture Trustee shall authenticate and deliver, a new Restricted Certificated Security for the principal amount of the Restricted Certificated Security not so transferred, registered in the name of the Restricted Holder Transferor.

(iii) *Restricted Certificated Security to Unrestricted Global Security.* If a Restricted Holder Transferor wishes at any time to transfer all or any portion of a Restricted Certificated Security to an Owner Transferee who wishes to take delivery thereof in the form of a beneficial interest in an Unrestricted Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(e)(iii). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) the Restricted Certificated Security to be transferred duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to Citizens and the Registrar duly executed, by the Restricted Holder Transferor or his attorney duly authorized in writing providing for the transfer to the Depository for such Global Security or its nominee, (2) written instructions given in accordance with the Applicable Procedures from the Restricted Holder Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee (which may but need not be an account with Euroclear or Cedelbank) a beneficial interest in an Unrestricted Global Security in a principal amount equal to the Restricted Certificated Transferred Amount, (3) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with the Restricted Certificated Transferred Amount, and (4) a certificate in substantially the form set forth in Section 3.12(g) given by the Restricted Holder Transferor, the Indenture Trustee, as Registrar, shall cancel the Restricted Certificated Security and shall instruct the Depository for the Unrestricted Global Security to increase the principal amount of the Unrestricted Global Security by the Restricted Certificated Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Unrestricted Global Security having a principal amount equal to the Restricted Certificated Transferred Amount. If any Restricted Certificated Security is to be so transferred in part but not in whole, then Citizens shall execute and the Indenture Trustee shall authenticate and deliver, a new Restricted Certificated Security for the principal amount of the Restricted Certificated Security not so transferred, registered in the name of the Restricted Holder Transferor.

(i) *Transfers from Restricted Securities to Restricted Certificated Securities.* (i) *Restricted Certificated Securities to Restricted Certificated Securities.* If a Restricted Holder Transferor wishes at any time to transfer all or any portion of a Restricted Certificated Security

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Global Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Restricted Global Security, and to debit or cause to be debited to the account of the Agent Member Transferor a beneficial interest in the Unrestricted Global Security, in each case having a principal amount equal to the Unrestricted Global Transferred Amount.

(e) *Transfers from Certificated Securities to Global Securities.* (i) *Restricted Certificated Security to Restricted Global Security.* If a holder of a Restricted Certificated Security (a “Restricted Holder Transferor”) wishes at any time to transfer all or any portion of such Indenture Obligation to an Owner Transferee who wishes to take delivery thereof in the form of a beneficial interest in a Restricted Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(e)(i). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) the Restricted Certificated Security to be transferred duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to Citizens and Registrar duly executed, by the Restricted Holder Transferor or his attorney duly authorized in writing providing for the transfer to the Depository for such Restricted Global Security or its nominee, (2) written instructions given in accordance with the Applicable Procedures from the Restricted Holder Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee a beneficial interest in a Restricted Global Security in a principal amount equal to the principal of the Restricted Certificated Security to be so transferred (the “Restricted Certificated Transferred Amount”), (3) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferee to be credited with the Restricted Certificated Transferred Amount, and (4) a certificate in substantially the form set forth in Section 3.12(e) given by the Restricted Holder Transferor, the Indenture Trustee, as Registrar, shall cancel the Restricted Certificated Security and instruct the Depository for the Restricted Global Security to increase the principal amount of Restricted Global Security by the Restricted Certificated Transferred Amount, and to credit or cause to be credited to the account of the Agent Member Transferee a beneficial interest in the Restricted Global Security having a principal amount equal to the Restricted Certificated Transferred Amount. If any Restricted Certificated Security is to be transferred in part but not in whole, then Citizens shall execute and the Indenture Trustee shall authenticate and deliver, a new Restricted Certificated Security for the principal amount of the Restricted Certificated Security not so transferred, registered in the name of the Restricted Holder Transferor.

(ii) *Restricted Certificated Security to Regulation S Global Security.* If a Restricted Holder Transferor wishes at any time to transfer all or any portion of a Restricted Certificated Security to an Owner Transferee who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Global Security, such transfer may be effected, subject to the Applicable Procedures, only in accordance with this Section 3.06(e)(ii). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) the Restricted Certificated Security to be transferred duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to Citizens and the Registrar duly executed, by the Restricted Holder Transferor or his attorney duly authorized in writing providing for the transfer to the Depository for such Global Security or his nominee, (2) written instructions given in accordance with the Applicable Procedures from the Restricted Holder Transferor directing the Indenture Trustee, as Registrar, to credit or cause to be credited to a specified account of an Agent Member Transferee

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to a person who wishes to take delivery thereof in the form of a Restricted Certificated Security (a “Holder Transferee”), such transfer may be effected only in accordance with this Section 3.06(f)(i). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) the Restricted Certificated Security to be transferred duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to Citizens and the Registrar duly executed, by the Restricted Holder Transferor or his attorney duly authorized in writing providing for the transfer to the Holder Transferee, (2) a certificate in substantially the form set forth in Section 3.12(h) given by the Restricted Holder Transferor, and (3) if the transfer is other than (i) to Citizens, (ii) to a person who the Restricted Holder Transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or Rule 904 (as applicable) of Regulation S under the Securities Act, or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), a duly executed letter from the Holder Transferee in substantially the form of the Purchaser Letter contained in Annex J and any other additional documentation and evidence (including, but not limited to, an opinion of counsel) as Citizens or the Indenture Trustee may, in their absolute discretion, require to evidence that the transfer is being made in compliance with an applicable exemption from registration, the Indenture Trustee, as Registrar, shall cancel the Restricted Certificated Security, and Citizens shall execute and the Indenture Trustee shall authenticate and deliver, a new Restricted Certificated Security for the principal amount of the Restricted Certificated Security so transferred, registered in the name of the Holder Transferee. If any Restricted Certificated Security is so transferred in part but not in whole, then Citizens shall execute and the Indenture Trustee shall authenticate and deliver a new Restricted Certificated Security for the principal amount of the Restricted Certificated Security not so transferred, registered in the name of the Restricted Holder Transferor.

(ii) *Restricted Global Security to Restricted Certificated Security.* If an Owner Transferor wishes at any time to transfer a beneficial interest in a Restricted Global Security to a Holder Transferee, such transfer may be effected only in accordance with this Section 3.06(f)(ii). Upon receipt by the Indenture Trustee, as Registrar, at its designated corporate trust office of (1) a written order given in accordance with the Applicable Procedures containing information regarding the account of the Agent Member Transferor to be debited for the Restricted Global Transferred Amount, (2) a certificate in substantially the form set forth in Section 3.12(i) given by the Owner Transferor, and (3) if the transfer is other than (i) to Citizens, (ii) to a person who the Owner Transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or Rule 904 (as applicable) of Regulation S under the Securities Act, or (iv) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), a duly executed letter from the Holder Transferee in substantially the form of the Purchaser Letter contained in Annex J and any other additional documentation and evidence (including, but not limited to, an opinion of counsel) as Citizens or the Indenture Trustee may, in their absolute discretion, require to evidence that the transfer is being made in compliance with an applicable exemption from registration, the Indenture Trustee, as Registrar, shall instruct the Depository for the Restricted Global Securities to reduce the principal amount of the Restricted Global Security by the Restricted Global Transferred Amount, and to debit or cause to be debited to the account of the Agent Member Transferor a beneficial interest in the Restricted Global Security equal to the Restricted Global Transferred Amount, and the Indenture Trustee shall authenticate and deliver,

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a new Restricted Certificated Security for the Restricted Global Transferred Amount, registered in the name of the Holder Transferee.

(g) *Other Transfers and Exchanges.* In case of any transfer or exchange the procedures and requirements for which are not addressed in detail in this Section 3.06, such transfer or exchange will be subject to such procedures and requirements as may be reasonably prescribed by Citizens and the Indenture Trustee from time to time and, in the case of a transfer or exchange involving a Global Security, the Applicable Procedures.

SECTION 3.07. Mutilated, Lost, Wrongfully Taken or Destroyed Indenture Obligations. If any Indenture Obligation is mutilated, lost, wrongfully taken or destroyed, in the absence of written notice to Citizens or the Registrar that a lost, wrongfully taken or destroyed Indenture Obligation has been acquired by a bona fide purchaser, Citizens shall execute, and the Registrar shall authenticate and deliver, a new Indenture Obligation of like date, maturity, interest rate and denomination and of the same Series as the Indenture Obligation mutilated, lost, wrongfully taken or destroyed; provided, that (i) in the case of any mutilated Indenture Obligation, the mutilated Indenture Obligation first shall be surrendered to the Registrar, and (ii) in the case of any lost, wrongfully taken or destroyed Indenture Obligation there first shall be furnished to Citizens, the Indenture Trustee and the Registrar evidence of the loss, wrongful taking or destruction satisfactory to the Authorized Citizens Representative, the Indenture Trustee and the Registrar, together with indemnity satisfactory to them.

If any mutilated, lost, wrongfully taken or destroyed Indenture Obligation shall have matured, instead of issuing a new Indenture Obligation, the Authorized Citizens Representative may direct the Indenture Trustee to pay that Indenture Obligation without surrender thereof upon the furnishing of satisfactory evidence and indemnity in the case of issuance of a new Indenture Obligation. Citizens, the Registrar and the Indenture Trustee may charge the Holder of a mutilated, lost, wrongfully taken or destroyed Indenture Obligation their reasonable fees and expenses in connection with their actions pursuant to this Section.

Every new Indenture Obligation issued pursuant to this Section by reason of any being mutilated, lost, wrongfully taken or destroyed (i) shall constitute, to the extent of the outstanding principal amount of the Indenture Obligation lost, mutilated, taken or destroyed, an additional contractual obligation of Citizens, regardless of whether the mutilated, lost, wrongfully taken or destroyed Indenture Obligation shall be enforceable at any time by anyone and (ii) shall be entitled to all of the benefits of this Indenture equally and proportionately with any and all other Indenture Obligations issued and outstanding hereunder.

All Indenture Obligations shall be held and owned on the express condition that the foregoing provisions of this Section are exclusive with respect to the replacement or payment of mutilated, lost, wrongfully taken or destroyed Indenture Obligations and, to the extent permitted by law, shall preclude any and all other rights and remedies with respect to the replacement or payment of negotiable instruments or other investment securities without their surrender, notwithstanding any law or statute to the contrary now existing or enacted hereafter.

SECTION 3.08. Cancellation of Indenture Obligations. Any Indenture Obligation surrendered pursuant to this Article for the purpose of payment or retirement or for exchange,

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(a) Legend for Indenture Obligations issued as Global Securities:

NEITHER THIS GLOBAL SECURITY NOR ANY BENEFICIAL INTEREST HEREIN HAS BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). EACH OF THE HOLDER HEREOF AND EACH OWNER OF A BENEFICIAL INTEREST HEREIN, BY HOLDING THIS GLOBAL SECURITY AND ACQUIRING THEIR BENEFICIAL INTERESTS HEREIN, RESPECTIVELY, AGREES FOR THE BENEFIT OF CITIZENS PROPERTY INSURANCE CORPORATION ("CITIZENS") THAT THIS GLOBAL SECURITY AND BENEFICIAL INTERESTS HEREIN MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO CITIZENS, (2) SO LONG AS THIS GLOBAL SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) (RESALES DESCRIBED IN SUBCLAUSES (1) THROUGH (4) BEING REFERRED TO AS "SAFE HARBOR RESALES"), (5) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS GLOBAL SECURITY OTHERWISE THAN IN A SAFE HARBOR RESALE CITIZENS OR THE INDENTURE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS ABSOLUTE DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION AND WITH ANY STATE SECURITIES LAWS THAT MAY BE APPLICABLE), OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES. EACH OWNER OF A BENEFICIAL INTEREST IN THIS GLOBAL SECURITY, BY ACQUIRING SUCH BENEFICIAL INTEREST, REPRESENTS AND AGREES FOR THE BENEFIT OF CITIZENS THAT IT WILL NOTIFY ANY PURCHASER OF SUCH BENEFICIAL INTEREST FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND WILL BE REMOVED ONLY IN THE CIRCUMSTANCES SPECIFIED IN THE INDENTURE.

(b) Legend for Indenture Obligations issued as Restricted Certificated Securities:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF CITIZENS PROPERTY INSURANCE CORPORATION ("CITIZENS") THAT THIS SECURITY MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO CITIZENS, (2) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN

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replacement or transfer shall be cancelled upon presentation and surrender thereof to the Registrar, the Indenture Trustee or any Paying Agent or Authenticating Agent. Any Indenture Obligation cancelled by the Indenture Trustee or a Paying Agent or Authenticating Agent shall be transmitted promptly to the Registrar by the Indenture Trustee, Paying Agent or Authenticating Agent.

Citizens may deliver at any time to the Registrar for cancellation any Indenture Obligations previously authenticated and delivered hereunder, which Citizens may have acquired in any manner whatsoever. All Indenture Obligations so delivered shall be cancelled promptly by the Registrar. Certification of the surrender and cancellation shall be made to Citizens and the Indenture Trustee by the Registrar at least twice each calendar year. Unless otherwise directed by Citizens, cancelled Indenture Obligations shall be retained and stored by the Registrar for a period of seven (7) years after their cancellation. Those cancelled Indenture Obligations shall be destroyed by the Registrar by shredding or incineration seven (7) years after their cancellation or at any earlier time directed by Citizens. The Registrar shall provide certificates describing the destruction of cancelled Indenture Obligations to Citizens and the Indenture Trustee.

SECTION 3.09. Special Agreement with Holders. Notwithstanding any provision of this Indenture or of any Indenture Obligation to the contrary, with the approval of Citizens, the Indenture Trustee may enter into an agreement with any Holder providing for making all payments to that Holder of principal of and interest and any premium on that Indenture Obligation or any part thereof (other than any payment of the entire unpaid principal amount thereof) at a place and in a manner other than as provided in this Indenture and in the Indenture Obligation, without presentation or surrender of the Indenture Obligation, upon any conditions which shall be satisfactory to the Indenture Trustee and the Authorized Citizens Representative; provided, that payment in any event shall be made to the Person in whose name an Indenture Obligation shall be registered on the Register, with respect to payment of principal and premium, on the date such principal and premium is due, and, with respect to the payment of interest, as of the applicable Regular Record Date or Special Record Date, as the case may be.

The Indenture Trustee will furnish a copy of each of those agreements, certified to be correct by an officer of the Indenture Trustee, to the Registrar and Citizens. Any payment of principal, premium or interest pursuant to such an agreement shall constitute payment thereof pursuant to, and for all purposes of, this Indenture.

SECTION 3.10. Legends on Indenture Obligations. Unless otherwise specified pursuant to and in accordance with Section 3.06 hereof, every Indenture Obligation authenticated and delivered hereunder, including any issued upon transfer, exchange or replacement of such Indenture Obligations, shall bear, and shall be subject to the restrictions on transfer provided in subsection (a) hereof, if such Indenture Obligation is issued as a Global Security, or subsection (b) hereof, if such Indenture Obligation is issued as a Restricted Certificated Security. Any Indenture Obligations issued upon transfer, exchange or replacement of Indenture Obligations which in accordance with Section 3.06 have ceased to be Restricted Securities shall not bear such legends.

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ACCORDANCE WITH RULE 903 OR RULE 904 (AS APPLICABLE) OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) (RESALES DESCRIBED IN SUBCLAUSES (1) THROUGH (4) BEING REFERRED TO AS "SAFE HARBOR RESALES"), (5) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO REGISTRATION OF TRANSFER OF THIS SECURITY OTHERWISE THAN IN A SAFE HARBOR RESALE CITIZENS OR THE INDENTURE TRUSTEE MAY REQUIRE DELIVERY OF ANY DOCUMENTS OR OTHER EVIDENCE THAT IT, IN ITS ABSOLUTE DISCRETION, DEEMS NECESSARY OR APPROPRIATE TO EVIDENCE COMPLIANCE WITH SUCH EXEMPTION AND WITH ANY SECURITIES LAWS THAT MAY BE APPLICABLE), OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF CITIZENS THAT IT WILL NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THIS LEGEND WILL BE REMOVED ONLY IN THE CIRCUMSTANCES SPECIFIED IN THE INDENTURE.

SECTION 3.11. Form of Legend for Global Securities. In addition to the legend required by Section 3.10(a) hereof, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form:

"THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN THE DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE. UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITARY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO CITIZENS OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY SECURITY ISSUED IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN."

SECTION 3.12. Certification Forms. (a) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(d)(i) of this Indenture in connection with the transfer of a beneficial interest in a Restricted Global Security to a person who wishes to

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take delivery thereof in the form of a beneficial interest in a Regulation S Global Security, such certification shall be provided substantially in the form of Annex A to this Indenture, with only such changes as shall be approved in writing by Citizens.

(b) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(d)(ii) of this Indenture in connection with the transfer of a beneficial interest in a Restricted Global Security to a person who wishes to take delivery thereof in the form of a beneficial interest in an Unrestricted Global Security, such certification shall be provided substantially in the form of Annex B to this Indenture, with only such changes as shall be approved in writing by Citizens.

(c) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certifications are required to be given pursuant to Section 3.06(d)(iii) of this Indenture in connection with the transfer of a beneficial interest in the Regulation S Global Security to a person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Security, such certifications shall be provided substantially in the form of Annex C to this Indenture, with only such changes as shall be approved in writing by Citizens.

(d) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(d)(iv) of this Indenture in connection with the transfer of a beneficial interest in an Unrestricted Global Security to a person who wishes to take delivery thereof in the form of a beneficial interest in the Restricted Global Security, such certification shall be provided substantially in the form of Annex D to this Indenture, with only such changes as shall be approved in writing by Citizens.

(e) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(e)(i) of this Indenture in connection with the transfer of all or any portion of such Restricted Certificated Security to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Restricted Global Security, such certification shall be provided substantially in the form of Annex E to this Indenture, with only such changes as shall be approved in writing by Citizens.

(f) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(e)(ii) of this Indenture in connection with the transfer of all or any portion of such Restricted Certificated Security to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Global Security, such certification shall be provided substantially in the form of Annex F to this Indenture, with only such changes as shall be approved in writing by Citizens.

(g) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(e)(iii) of this Indenture in connection with the transfer of all or any portion of

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such Series not previously called for redemption, by such method as the Indenture Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Indenture Obligations of that Series or any integral multiple thereof) of the principal amount of Indenture Obligations of such Series of a denomination larger than the minimum authorized denomination for Indenture Obligations of that Series. If less than all of the Indenture Obligations of such Series and of a specified tenor are to be redeemed, the particular Indenture Obligations to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Indenture Trustee, from the outstanding Indenture Obligations of such Series and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Indenture Trustee shall promptly notify Citizens in writing of the Indenture Obligations selected for redemption and, in the case of any Indenture Obligations selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Indenture Obligations shall relate, in the case of any Indenture Obligations redeemed or to be redeemed only in part, to the portion of the principal amount of such Indenture Obligations which has been or is to be redeemed.

SECTION 4.04. Notice of Redemption. Notice of redemption shall be given in the manner provided in this Section 4.04 not less than 30 nor more than 60 days prior to the Redemption Date, unless a shorter period is specified in the Indenture Obligations to be redeemed, to each Holder of Indenture Obligations to be redeemed.

All notices of redemption shall state:

- (1) the Redemption Date;
- (2) the Redemption Price;
- (3) if less than all the outstanding Indenture Obligations of any Series are to be redeemed, the identification (and, in the case of partial redemption of any Indenture Obligations, the principal amounts) of the particular Indenture Obligations to be redeemed;
- (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Indenture Obligation to be redeemed and, if applicable, that, unless Citizens defaults in making such redemption payment, interest thereon, if any, shall cease to accrue on and after such date;
- (5) the place or places where such Indenture Obligations are to be surrendered for payment of the Redemption Price; and
- (6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Indenture Obligations to be redeemed at the election of Citizens shall be given by Citizens or, at Citizens' request, by the Indenture Trustee in the name and at the expense of Citizens.

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such Restricted Certificated Security to a person who wishes to take delivery thereof in the form of a beneficial interest in an Unrestricted Global Security, such certification shall be provided substantially in the form of Annex G to this Indenture, with only such changes as shall be approved in writing by Citizens.

(h) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(f)(i) of this Indenture in connection with the transfer of all or any portion of such Restricted Certificated Security to a Person who wishes to take delivery thereof in the form of a Restricted Certificated Security, such certification shall be provided substantially in the form of Annex H to this Indenture, with only such changes as shall be approved in writing by Citizens.

(i) Except as otherwise specified as contemplated by Section 2.04 hereof for Indenture Obligations of any Series, whenever any certification is required to be given pursuant to Section 3.06(f)(ii) of this Indenture in connection with the transfer of all or any portion of a Restricted Global Security to a Person who wishes to take delivery thereof in the form of a Restricted Certificated Security, such certification shall be provided substantially in the form of Annex I to this Indenture, with only such changes as shall be approved in writing by Citizens.

ARTICLE IV

REDEMPTION OF INDENTURE OBLIGATIONS

SECTION 4.01. Applicability of Article. Indenture Obligations of any Series which are redeemable before their stated maturity date shall be redeemable in accordance with their terms and (except as otherwise specified in the Supplemental Indenture for Indenture Obligations of any Series) in accordance with this Article. The 1997 Notes are not subject to redemption at the option of Citizens prior to their stated maturity date.

SECTION 4.02. Election to Redeem; Notice to Indenture Trustee. The election of Citizens to redeem any Indenture Obligations shall be evidenced by a Board Resolution. In case of the redemption at the election of Citizens of the Indenture Obligations of any Series, Citizens shall, at least 60 days prior to the fixed date of redemption for such Indenture Obligations (the "Redemption Date") (unless a shorter notice shall be satisfactory to the Indenture Trustee), notify the Indenture Trustee of such Redemption Date, of the principal amount of Indenture Obligations of such Series to be redeemed at the redemption price and, if applicable, of the tenor of the Indenture Obligations to be redeemed. In the case of any redemption of Indenture Obligations prior to the expiration of any restriction on such redemption provided in the terms of such Indenture Obligations or elsewhere in this Indenture, Citizens shall furnish the Indenture Trustee with a certificate of an Authorized Citizens Representative evidencing compliance with such restriction.

SECTION 4.03. Selection by Indenture Trustee of Indenture Obligations to Be Redeemed. If less than all the Indenture Obligations of any Series are to be redeemed (unless all of the Indenture Obligations of such Series and of a specified tenor are to be redeemed), the particular Indenture Obligations to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Indenture Trustee, from the outstanding Indenture Obligations of

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SECTION 4.05. Deposit of Redemption Price. On or prior to 10:00 A.M. New York City time on any Redemption Date, Citizens shall deposit in immediately available funds with the Indenture Trustee or with a Paying Agent (or, if Citizens is acting as its own Paying Agent, segregate and hold in trust as provided herein and as required by the Trust Indenture Act) an amount of money (in the currency or units of currency in which the Indenture Obligations so called for redemption are denominated or an appropriate equivalent thereof) sufficient to pay the redemption price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Indenture Obligations which are to be redeemed on that date. Any and all such deposits shall be made only from moneys within or allocable to the Coastal Account.

SECTION 4.06. Indenture Obligations Payable on Redemption Date. Notice of redemption having been given as aforesaid, the Indenture Obligations so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless Citizens shall default in the payment of the Redemption Price and accrued interest) such Indenture Obligations shall cease to bear interest at the close of business on the Redemption Date or such other day as may be specified as contemplated for Indenture Obligations of such Series. On presentation and surrender of such Indenture Obligations for redemption in accordance with such notice, such Indenture Obligations shall be paid and redeemed by Citizens at the redemption price, together with accrued interest to the Redemption Date; provided, however, that, unless otherwise specified, installments of interest whose stated maturity date is on or prior to the Redemption Date shall be payable to the Holders of such Indenture Obligations, or one or more Predecessor Indenture Obligations, registered as such at the close of business on the relevant Record Dates according to their terms.

If any Indenture Obligation called for redemption shall not be so paid upon surrender thereof for redemption, the principal thereof so to be redeemed shall, until paid, bear interest from the Redemption Date at the Default Rate applicable to such Indenture Obligation.

SECTION 4.07. Indenture Obligation Redeemed in Part. Any Indenture Obligation which is to be redeemed only in part shall be surrendered at the place specified in the notice of redemption (with, if Citizens or the Indenture Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to Citizens and the Indenture Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and Citizens shall execute, and the Indenture Trustee shall authenticate and deliver to the Holder of such Indenture Obligation without service charge, a new Indenture Obligation or Indenture Obligations of the same Series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Indenture Obligation so surrendered.

SECTION 4.08. Variation of Redemption Provisions. The provisions of this Article IV, insofar as they apply to any Series of Additional Indenture Obligations, may be varied by the Supplemental Indenture providing for that Series of Additional Indenture Obligations.

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ARTICLE V
SINKING FUND PROVISIONS

SECTION 5.01. Applicability of Article. Indenture Obligations of any Series which are subject to a sinking fund for the retirement of such Indenture Obligations shall be subject to such sinking fund in accordance with their terms and (except as otherwise specified as contemplated in the Supplemental Indenture for Indenture Obligations of such Series) in accordance with this Article. The 1997 Notes are not subject to any sinking fund requirements.

The minimum amount of any sinking fund payment provided for by the terms of Indenture Obligations of any Series is herein referred to as a “mandatory sinking fund payment”, and any payment in excess of such minimum amount provided for by the terms of Indenture Obligations of any Series is herein referred to as an “optional sinking fund payment”. If provided for by the terms of Indenture Obligations of any Series, the cash amount of any sinking fund payment may be subject to reduction as provided therein. Each sinking fund payment shall be applied to the redemption of Indenture Obligations of any Series as provided for by the terms of the Indenture Obligations of such Series.

SECTION 5.02. Satisfaction of Sinking Fund Payments with Indenture Obligations. Citizens (1) may deliver outstanding Indenture Obligations of a Series (other than any previously called for redemption) and (2) may apply as a credit Indenture Obligations of a Series which have been redeemed either at the election of Citizens pursuant to the terms of such Indenture Obligations or through the application of permitted optional sinking fund payments pursuant to the terms of such Indenture Obligations in satisfaction of all or any part of any sinking fund payment with respect to the Indenture Obligations of such Series required to be made pursuant to the terms of such Indenture Obligations as provided for by the terms of such Series; provided, however, that such Indenture Obligations have not been previously so credited. Such Indenture Obligations shall be received and credited for such purpose by the Indenture Trustee at the Redemption Price specified in such Indenture Obligations for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 5.03. Redemption of Indenture Obligations for Sinking Fund. Not less than 60 days prior to each sinking fund payment date for any Series of Indenture Obligations, Citizens will deliver to the Indenture Trustee a certificate of an Authorized Citizens Representative specifying the amount of the next ensuing sinking fund payment for that Series pursuant to the terms of that Series, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Indenture Obligations of that Series pursuant to Section 5.02 and will also deliver to the Indenture Trustee any Indenture Obligations to be so delivered. Not less than 30 days before each sinking fund payment date the Indenture Trustee shall select the Indenture Obligations to be redeemed upon such sinking fund payment date in the manner specified in Section 4.03 and cause notice of the redemption thereof to be given in the name of and at the expense of Citizens in the manner provided in Section 4.04. Such notice having been duly given, the redemption of such Indenture Obligations shall be made upon the terms and in the manner stated in Sections 4.06 and 4.07.

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satisfaction of the conditions set forth in this Section 6.01(c), the Indenture Trustee shall transfer amounts from the Proceeds Account to Citizens. Subject to satisfaction of the conditions set forth in the following paragraphs of this subsection (c), and subject further to the stated maturities of the Indenture Obligations, Citizens may from time to time obtain a Draw from the Proceeds Account and, in its sole and absolute discretion, reimburse the amounts so drawn to the Proceeds Account and (subject to satisfaction of the conditions set forth in this Section 6.01(c)) obtain a new Draw in such amounts from the Proceeds Account (it being expressly understood that the reimbursement of prior Draws to the Proceeds Account shall not be a precondition to Citizens' ability to obtain Draws from amounts remaining in the Proceeds Account, so long as Citizens complies with the requisition requirements of the succeeding paragraphs of this Section 6.01(c)); provided, however, that no Draw may be made if Citizens shall have given written direction to the Indenture Trustee to apply amounts in the Proceeds Account in the manner provided in Section 6.10 hereof.

The requisition to be submitted by Citizens in order to obtain a Draw shall be based on Citizens' reasonable forecast of Annual Debt Service and the sources of revenue within or allocable to the Coastal Account available to pay the same on an annual basis. Generally, each such requisition shall contain a certification by the Authorized Citizens Representative to the effect that, after giving effect to the proposed Draw, the moneys remaining in the Proceeds Account and the other accounts established pursuant to this Indenture (other than the Defeasance Subaccount of the Debt Service Account), the Pledge and Security Agreement, the Bank Collateral Agreement, any Indenture Obligation Hedge Agreements and any Line of Credit Hedge Agreements, and all other amounts reasonably expected to be received by or on behalf of Citizens within or allocable to the Coastal Account, shall be sufficient to pay the Debt Service Charges on all Indenture Obligations Outstanding, the principal and interest on all Loans Outstanding under the Line of Credit, all net amounts due under Indenture Obligation Hedge Agreements and all net amounts due under Line of Credit Hedge Agreements, in each case as such obligations become due and payable. Each such requisition shall specify the purpose of the Draw and shall also specify the specific type or types of Collateral (either (a) premiums, surcharges and Emergency Assessments, (b) Regular Assessments or (c) FHCF Reimbursements) against which such Draw is to be made. In addition, each such requisition shall contain a certification by an Authorized Citizens Representative to the effect that: (i) the sum of (A) the amount then on deposit in the Debt Service Account (other than the Defeasance Subaccount thereof), (B) the amount to remain on deposit in the Proceeds Account immediately following such Draw and (C) the amount of Pledged Revenues reasonably expected to be received by the Indenture Trustee from or on behalf of Citizens in each year through the final maturity of the Indenture Obligations then Outstanding, will be sufficient to pay that portion of the Annual Debt Service when due in each year through the final maturity of the Indenture Obligations, on the Indenture Obligations then Outstanding; (ii) the sum of (A) all amounts then on deposit in the accounts established under the Bank Collateral Agreement for the payment of Liquidity Loans and Term Loans and (B) the amount of Collateral (excluding any Collateral included for purposes of clauses (i), (iii) or (iv) hereof) reasonably expected to be received by the Bank Agent from or on behalf of Citizens in each year through the final maturity of the Indenture Obligations then Outstanding, will be sufficient to pay that portion of the Annual Debt Service when due in each year through the final maturity of the Indenture Obligations, on the Liquidity Loans Outstanding and the Term Loans Outstanding; (iii) the sum of (A) all amounts then on deposit in the accounts established under the Pledge and Security Agreement or under any other

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SECTION 5.04. Variation of Sinking Fund Provisions. The provisions of this Article V, insofar as they apply to any Series of Additional Indenture Obligations, may be varied by the Supplemental Indenture providing for that Series of Additional Indenture Obligations.

ARTICLE VI

ESTABLISHMENT OF ACCOUNTS; FLOW OF FUNDS; INVESTMENT OF FUNDS

SECTION 6.01. Proceeds Account. (a) The Indenture Trustee is hereby authorized and directed to establish a “Citizens Property Insurance Corporation Proceeds Account” (the “Proceeds Account”) into which the proceeds of each Series of Indenture Obligations shall be deposited and used as provided in this Section. There shall be established within the Proceeds Account a separate subaccount designated as the “Citizens Property Insurance Corporation Costs of Issuance Subaccount” (the “Costs of Issuance Subaccount”). There may also be established from time to time such additional Subaccounts within the Proceeds Account as may be specified in any Board Resolution or Supplemental Indenture authorizing a Series of Additional Indenture Obligations (subject to the provisions of Section 6.02(b) hereof), to the extent such additional Subaccounts are necessary for the Additional Indenture Obligations. The Proceeds Account and the Subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Trust Indenture and from all other moneys of the Indenture Trustee.

The moneys in the Proceeds Account (and all Subaccounts therein) shall be held by the Indenture Trustee in trust and, pending application thereof for the purposes permitted in Section 6.01(c) hereof, shall be subject to a lien and charge in favor of the Holders of all Indenture Obligations from time to time issued and Outstanding under this Indenture and shall be held for the security of all such Holders, regardless of whether one or more Subaccounts shall have been established within the Proceeds Accounts. The establishment of one or more Subaccounts in the Proceeds Account shall not require, nor be interpreted or construed to mean, that the proceeds of the Series of Indenture Obligations for which such Subaccount was established secure only the Holders of such Series of Indenture Obligations, it being the intent hereof that all moneys on deposit to the credit of the Proceeds Account and all Subaccounts therein secure the Holders of all Outstanding Indenture Obligations equally pending application of such moneys for the purposes permitted in Section 6.01(c) hereof.

(b) Upon the issuance of the 1997 Notes, a portion of the proceeds thereof shall be deposited into the Proceeds Account and the Costs of Issuance Subaccount therein as and to the extent provided in Section 2.03(b). Upon each issuance of a Series of Additional Indenture Obligations, a portion of the proceeds thereof (as specified in the Pledge and Security Agreement) shall be deposited into the Proceeds Account and the Costs of Issuance Subaccount therein in the amounts set forth in a certificate of Citizens signed by an Authorized Citizens Representative delivered on the date of issuance of the Series of Additional Indenture Obligations.

(c) Subject to the provisions of the last paragraph of this Section 6.01(c), from time to time, upon receipt by the Indenture Trustee of a requisition in the form of Exhibit B hereto signed by an Authorized Citizens Representative requesting a Draw, and subject further to

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agreement and available for the payment of net amounts payable under Indenture Obligation Hedge Agreements (except for any termination payments not then due and payable) then in effect and (B) the amount of Collateral (excluding any Collateral included for purposes of clauses (i), (ii) or (iv) hereof) reasonably expected to be received by the Collateral Trustee from or on behalf of Citizens in each year through the final maturity of the Indenture Obligations then Outstanding will be sufficient to pay that portion of the Annual Debt Service when due in each year through the final maturity of the Indenture Obligations, in respect of all Indenture Obligation Hedge Agreements then in effect; (iv) the sum of (A) all amounts then on deposit in the accounts established under the Pledge and Security Agreement or under any other agreement and available for the payment of net amounts payable under Line of Credit Hedge Agreements then in effect (except for any termination payments not then due and payable) and (B) the amount of Collateral (excluding any Collateral included for purposes of clauses (i), (ii) or (iii) hereof) reasonably expected to be received by the Collateral Trustee from or on behalf of Citizens in each year through the final maturity of the Indenture Obligations then Outstanding, will be sufficient to pay that portion of the Annual Debt Service when due in each year through the final maturity of the Indenture Obligations, in respect of all such Line of Credit Hedge Agreements then in effect; and (v) there does not then exist an Event of Default hereunder or an event that with the passage of time (excluding with respect to the passage of time only, for purposes hereof, an event described in Section 8.01(n) hereof) or the giving of notice, or both, would constitute such an Event of Default. For purposes of the certification required by the foregoing clauses (i), (ii), (iii) and (iv) in cases only where, because of the size of the Plan Year Deficit, the assessments are to be levied on the basis of the aggregate direct written premiums for the Subject Lines of Business for the Coastal Account, the amount of Pledged Revenues and Collateral consisting of Regular Assessments and Emergency Assessments projected by Citizens to be received in each year subsequent to the year in which such requisition is delivered shall be based on the aggregate direct written premiums for the Subject Lines of Business for the Coastal Account in the year immediately preceding the year in which such requisition is delivered (or for the most recently available year), or such lower amount as Citizens may conservatively project, taking into consideration any potential future reduction in the aggregate direct written premiums based on reasonably available data obtained by Citizens from Assessable Insurers or the Department of Insurance (it being understood that, if the size of the Plan Year Deficit permits the Regular Assessments and the Emergency Assessments to be levied on the basis of a percentage of the Plan Year Deficit rather than on the basis of the aggregate direct written premiums, then the provisions of this sentence shall not apply).

Proposed advances to Citizens from the FHCF, proposed Liquidity Loans under the Line of Credit, and proposed drawings under the Line of Credit which provide for repayment of term loans over at least a five-year period shall not be subject to any Requisition. Prior to obtaining a Draw from the Proceeds Account in anticipation of FHCF Reimbursements, Citizens shall provide to the Indenture Trustee a certificate executed by an Authorized Citizens Representative, to the effect that Citizens' FHCF reimbursement contract is in full force and effect.

For purposes of the Citizens certification required in order to obtain a Draw from the Proceeds Account: (i) the debt service payable on Indenture Obligations no longer Outstanding (including Indenture Obligations that have been economically defeased pursuant to Article X hereof and Indenture Obligations that have been defeased pursuant to Section 11.17) shall not be included in the calculation of Annual Debt Service and (ii) the Annual Debt Service payable in

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respect of Indenture Obligations in any year subsequent to a year in which there is any deficiency in (x) the Coverage Account, shall be increased by such amount as is necessary to make the amount in the Coverage Account equal to the Coverage Account Requirement in the subsequent year and (y) the Reserve Account, shall be increased by such amount as is necessary to make the amount in the Reserve Account equal to the Reserve Account Requirement in the subsequent year.

Notwithstanding anything to the contrary contained in this Section 6.01(c) or elsewhere in this Indenture, Citizens shall be entitled to withdraw moneys from the Subaccounts in the Proceeds Account without the existence of a Plan Year Deficit and without regard to the requirements of this Section 6.01(c), to the extent, but only to the extent, of the principal amount of any Indenture Obligations actually paid or the principal amount of Indenture Obligations in respect of which Citizens has made the mandatory defeasance deposits required by Section 11.17(b) hereof; provided, however, that such principal payment or mandatory defeasance deposit shall not have been made from amounts withdrawn from the Subaccounts in the Proceeds Account. Amounts so withdrawn by Citizens may be used for any lawful purpose of the Coastal Account. Notwithstanding anything to the contrary contained in this Section 6.01(c) or elsewhere in this Indenture, upon the written direction of Citizens, the Indenture Trustee shall withdraw moneys from the Subaccounts in the Proceeds Account (other than proceeds of the 1997 Notes on deposit to the credit of the Proceeds Account) without the existence of a Plan Year Deficit and without regard to the requirements of this Section 6.01(c), for the purpose of depositing such moneys into (a) the corresponding Principal Subaccount and/or Interest Subaccount of the Debt Service Account, in order to pay scheduled principal of and/or interest on a Series of Indenture Obligations or (b) the corresponding Defeasance Sub-subaccount, in order to make the mandatory defeasance deposits required by Section 11.17(b) and the Supplemental Indenture pursuant to which such Indenture Obligations were issued. Amounts shall be withdrawn from the Sub-accounts in the Proceeds Account (other than proceeds of the 1997 Notes on deposit to the credit of the Proceeds Account) for any of the purposes specified in this paragraph only upon presentation to the Indenture Trustee of a requisition in the form of Exhibit C hereto signed by an Authorized Citizens Representative.

(d) Payments shall be made by the Indenture Trustee from the Costs of Issuance Subaccount upon written requisition of Citizens. The Indenture Trustee shall pay requisitions in the order in which they are received. Each such requisition shall be signed by an Authorized Citizens Representative and shall state (i) the amount to be paid, (ii) the party to whom payment is to be made, (iii) the service performed and (iv) that the cost to be paid is a proper cost of issuing the particular Series of Indenture Obligations. Amounts held in the Costs of Issuance Subaccount for more than sixty (60) days shall upon the written request of Citizens, signed by an Authorized Citizens Representative, be transferred to the Proceeds Account.

(e) All requisitions and certificates received by the Indenture Trustee pursuant to this Section 6.01 as conditions to drawing amounts from the Proceeds Account shall be retained in the possession of the Indenture Trustee, subject at all times to the inspection of Citizens, until the final payment of the Series of Indenture Obligations to which such requisitions and certificates relate.

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(b) The Accounts and Subaccounts specified in this Article VI shall be established under the Indenture for the benefit of any and all Series of Indenture Obligations issued under the Indenture; provided, however, that the Supplemental Indenture pursuant to which a Series of Indenture Obligations is issued may provide for the establishment of additional Accounts and Subaccounts in respect of the Series of Indenture Obligations to be issued under such Supplemental Indenture; provided further, however, that (i) no such additional Accounts and Subaccounts may be established in any manner that will adversely affect the parity lien of any Outstanding Indenture Obligations and any corresponding Credit Enhancement Facility Issuer on the Pledged Revenues or otherwise impair the Collateral for any Outstanding Indenture Obligations and any corresponding Credit Enhancement Facility Issuer and (ii) any such additional Accounts and Subaccounts established shall only apply to the specific Series of Indenture Obligations issued pursuant to such Supplemental Indenture. Moneys and investments in the various Accounts and Subaccounts created under a Supplemental Indenture expressly and solely for the benefit of the Series of Indenture Obligations issued under such Supplemental Indenture shall be held in trust by the Indenture Trustee for the benefit of the Holders of, and Credit Enhancement Facility Issuer with respect to, Indenture Obligations of that Series only. The foregoing notwithstanding, the establishment of one or more Subaccounts in the Proceeds Account shall not require, nor be interpreted or construed to mean, that the proceeds of the Series of Indenture Obligations for which such Subaccount was established secure only the Holders of such Series of Indenture Obligations, it being the intent of this Indenture that all moneys on deposit to the credit of the Proceeds Account and all Subaccounts therein secure the Holders of all Outstanding Indenture Obligations equally pending application of such moneys for the purposes permitted in Section 6.01(c) hereof.

SECTION 6.03. Revenue Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Revenue Account" (the "Revenue Account") into which the Indenture Trustee shall immediately deposit any and all Pledged Revenues received from or on behalf of Citizens (including, without limitation, any amounts representing the Indenture Trustee's interest in the Collateral which are transferred to the Indenture Trustee by the Collateral Trustee pursuant to the terms of the Pledge and Security Agreement). The Revenue Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Indenture and from all other moneys of the Indenture Trustee. On or before the tenth (10th) day of each month (commencing in the month immediately following the issuance and delivery of the 1997 Notes) and subject to the provisions of the last paragraph of this Section 6.03 regarding amounts constituting Liquidity Shared Revenues, the Indenture Trustee shall transfer from amounts on deposit in the Revenue Account to the Accounts and Subaccounts designated below, the following amounts in the following order of priority:

FIRST, moneys in the Revenue Account (other than amounts consisting of Liquidity Shared Revenues) shall be deposited into the Debt Service Account as follows: (a) to the Interest Subaccount an amount equal to one-sixth (1/6th) of the amount of interest payable on the Indenture Obligations on the succeeding Interest Payment Date (less any amount received as capitalized or accrued interest from the proceeds of any Indenture Obligations which is available for such interest payment and less any investment earnings or other amounts on deposit in the Debt Service Account, including, without limitation, amounts deposited pursuant to paragraph

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(f) The Indenture Trustee agrees to provide to the Collateral Trustee prompt written notice of any Draw hereunder. While any Draw remains unpaid, the Indenture Trustee shall provide a monthly statement to the Collateral Trustee on or before the penultimate Business Day of each month, setting forth, among other things, the unpaid principal balance of each Draw, the amount of principal, if any, due and payable on the Indenture Obligations on the immediately succeeding Interest Payment Date and any accrued and unfunded interest thereon, less any amounts on deposit in the subaccounts of the Debt Service Account and available to pay such principal and interest, and the amount of any deficiency in the Reserve Account or the Coverage Account.

SECTION 6.02. Pledge of Pledged Revenues. (a) The Indenture Trustee shall immediately deposit into the Revenue Account established under Section 6.03 hereof any and all Pledged Revenues received from or on behalf of Citizens (including, without limitation, any amounts representing the Indenture Trustee's interest in the Collateral which are transferred to the Indenture Trustee by the Collateral Trustee pursuant to the terms of the Pledge and Security Agreement). The Pledged Revenues are hereby pledged (as and to the extent provided in the granting clauses hereof) as security for the payment of the principal of, redemption premium, if any, and interest on all Indenture Obligations issued and Outstanding under this Indenture, all reimbursements due to any Credit Enhancement Facility Issuer for any drawing with respect to the Indenture Obligation on its Credit Enhancement Facility, including, without limitation, interest thereon, as required under the terms of the Credit Enhancement Facility Agreement, and the payment of all Program Costs, and as security for the performance of any other obligations of Citizens hereunder with respect to the Indenture Obligations.

The pledge to the Indenture Trustee of the Pledged Revenues (as and to the extent provided in the granting clauses hereof) as security for the payment of the principal of, redemption premium, if any, and interest on all Indenture Obligations issued and Outstanding under the Indenture, all reimbursements due to any Credit Enhancement Facility Issuer for any drawing with respect to the Indenture Obligations on its Credit Enhancement Facility and the payment of all Program Costs, and the performance of any other obligations of Citizens hereunder with respect to the Indenture Obligations, shall be valid and binding from the date hereof, and the covenants and agreements set forth herein to be performed by or on behalf of Citizens shall be, except as otherwise expressly provided or permitted herein, for the equal benefit, protection and security of the Holders and, to the extent herein provided, any such Credit Enhancement Facility Issuer, regardless of their times of issue and maturity, and shall be of equal rank, without preference, priority, or distinction of any one Indenture Obligation or any obligation owing under a Credit Enhancement Facility over any other Indenture Obligation or any other obligation owing under a Credit Enhancement Facility, except that, subject to the provisions of Section 6.02(b) hereof, the Holders of any particular Series of Indenture Obligations and the Credit Enhancement Facility Issuer with respect to such Indenture Obligations shall have the sole lien on moneys deposited in any Account or Subaccount established solely for such Series of Indenture Obligations pursuant to the Supplemental Indenture authorizing such Series of Indenture Obligations and shall not have a lien on moneys on deposit in any other Account or Subaccount established solely for any other Series of Indenture Obligations pursuant to the corresponding Supplemental Indenture.

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SECOND, below, or clause (ii) below, and available to be applied to the payment of interest on the Indenture Obligations on the next Interest Payment Date); (b) to the Principal Subaccount, an amount equal to 1/12th of the principal of any Indenture Obligations due and payable within the next twelve months less amounts on deposit in the Defeasance Subaccount available to be applied to the principal due and payable within such period; (c) to the Sinking Fund Subaccount, starting with the month which is thirteen (13) months immediately preceding the stated maturity date of the next maturing Indenture Obligations or the next succeeding mandatory sinking fund redemption date of the Indenture Obligations, an amount equal to one-twelfth (1/12th) of the principal amount of the Indenture Obligation due and payable on such stated maturity date or mandatory sinking fund redemption date (less any amount already on deposit in the Sinking Fund Subaccount and available to make such principal payment on the stated maturity date or mandatory sinking fund redemption date); and (d) to the Defeasance Subaccount, an amount in respect of each Series of Indenture Obligations as is specified in the Supplemental Indenture entered into in connection with such Series of Indenture Obligations (or (x) in the case of the 1997 Notes due 2002, starting with the 13th month following the issuance of the 1997 Notes due 2002, (y) in the case of the 1997 Notes due 2004, starting with the 25th month following the issuance of the 1997 Notes due 2004 and (z) in the case of the 1997 Notes due 2007, starting with the 37th month following the issuance of the 1997 Notes due 2007, an amount of cash equivalent on a discounted basis (computed in accordance with the yields on the Permitted Investments in which such cash is to be invested) to 1/48th of the initial principal amount of the 1997 Notes due 2002, or 1/60th of the initial principal amount of the 1997 Notes due 2004 or 1/84th of the initial principal amount of the 1997 Notes due 2007, at maturity, provided that Citizens may accelerate all or a portion of the foregoing schedule of defeasance payments so long as the cumulative deposits to the Defeasance Sub-subaccount in respect of the 1997 Notes at any time are no less than the cumulative amounts which would accrue on the basis of the foregoing schedule); provided, however, that:

(i) in each month intervening between the date of delivery of a Series of Indenture Obligations, and the next succeeding Interest Payment Date and the next succeeding principal payment date (if any), respectively, the amount specified in this paragraph shall be that amount which when multiplied by the number of deposits to the credit of the Debt Service Account required to be made during such respective periods will equal the amounts required (in addition to any amounts received as accrued interest or capitalized interest from the proceeds of such Indenture Obligations) for such next succeeding interest payment and next maturing installment (or mandatory amortization requirement) of principal, respectively;

(ii) the amount specified in clause (a) of this paragraph shall be adjusted to take into account the amounts to be received under any Indenture Obligation Hedge Agreement on or before the succeeding Interest Payment Date, to the extent that such amounts are deposited into the Debt Service Account;

(iii) with respect to any Variable Rate Indenture Obligations and Indenture Obligations payable other than semi-annually, the amount specified in this paragraph for the payment of interest shall be that amount necessary to provide substantially equal monthly payments for the payment of such interest on the payment dates therefor; and

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(iv) with respect to any Indenture Obligations the principal of which is payable other than annually, the amount specified in this paragraph for the payment of principal shall be that amount necessary to provide substantially equal monthly payments for the payment of such principal on the payment dates therefor.

SECOND, to the extent there is then unpaid any Draw described in clause (a)(i) or (b) of the definition of "Draw" contained herein, moneys in the Revenue Account consisting of the Liquidity Shared Revenues identified in the requisition pursuant to which such Draw was made (or such portion thereof as may be necessary) shall be deposited into the Proceeds Account in order to reimburse in full the entire amount of the Draw previously made and unpaid from the Proceeds Account; once all or a portion of the amount of such Draw is fully repaid to the Proceeds Account, such repaid amount may be redrawn by Citizens from the Proceeds Account upon compliance with the drawing requirements of Section 6.01(c) hereof;

THIRD, moneys in the Revenue Account shall next be deposited into the Reserve Account in the amount necessary to make the amount on deposit in the Reserve Account equal to the Reserve Account Requirement; provided that any deficiency in the Reserve Account due to a withdrawal therefrom shall be cured within twelve (12) months after such withdrawal, as provided in Section 6.05 hereof, and any deficiency in the Reserve Account due to a decrease in the market value of Permitted Investments therein shall be cured within the time period prescribed in Section 6.11(d) hereof. In calculating the amount on deposit in the Reserve Account, the Indenture Trustee shall include the amount covered by any Reserve Account Insurance Policy or Reserve Account Letter of Credit, but only to the extent that there does not then exist a default under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. No deposit into the Reserve Account shall be required in any month in which the amount on deposit in the Reserve Account is equal to or exceeds the Reserve Account Requirement;

FOURTH, moneys in the Revenue Account shall next be deposited into the Coverage Account in the amount necessary to make the amount on deposit in the Coverage Account equal to the Coverage Account Requirement; provided that any deficiency in the Coverage Account due to a withdrawal therefrom shall be cured within twelve (12) months after such withdrawal, as provided in Section 6.06 hereof, and any deficiency in the Coverage Account due to a decrease in the market value of Permitted Investments therein shall be cured within the time periods prescribed in Section 6.11(d) hereof. No deposit into the Coverage Account shall be required in any month in which the amount on deposit in the Coverage Account is equal to or exceeds the Coverage Account Requirement;

FIFTH, moneys in the Revenue Account shall next be deposited into the Program Costs Account, in an amount equal to (a) one-twelfth (1/12th) of the Program Costs (including, without limitation, the amounts payable to the Indenture Trustee for Ordinary Services and Ordinary Expenses) for the current Fiscal Year as set forth in the Annual Budget of Citizens for such Fiscal Year, plus (b) any other amount (including, without limitation, amounts payable to the Indenture Trustee for Extraordinary Services and Extraordinary Expenses) reasonably foreseeable that is required to be paid as a Program Cost within the next thirty (30) days; and

SIXTH, all remaining moneys in the Revenue Account shall be deposited into the General Reserve Account.

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Subaccount representing interest on the Indenture Obligations to be redeemed shall be applied to the payment of accrued interest in connection with such redemption.

To the extent that Citizens pays or causes to be paid to the Indenture Trustee moneys for deposit in a Sinking Fund Sub-subaccount more than thirteen (13) months prior to the stated maturity date of the respective Term Indenture Obligation, Citizens may by a certificate signed by an Authorized Citizens Representative and delivered to the Indenture Trustee, instruct the Indenture Trustee to transfer any portion or all of such amounts in such Sinking Fund Sub-subaccount to the Proceeds Account, in partial or full reimbursement, as the case may be, of the amounts previously disbursed to Citizens as a Draw; provided, however, that no such amount may be transferred from any Sinking Fund Sub-subaccount to the Proceeds Account to the extent that Citizens' Requisition delivered pursuant to Section 6.01(c) hereof in order to obtain a Draw expressly provided that such amount was to be irrevocably deposited into a Sinking Fund Sub-subaccount for the payment of the principal or mandatory sinking fund redemption of the Series of Indenture Obligations in question. Upon receipt of such certificate from Citizens, the Indenture Trustee shall make the requested transfer from the respective Sinking Fund Sub-subaccount to the Proceeds Account and, thereafter, such amounts in the Proceeds Account once again shall be available for disbursement to Citizens in accordance with the provisions of Section 6.01(c) hereof. Notwithstanding anything to the contrary contained in this Indenture, amounts on deposit in any Sinking Fund Sub-subaccount within thirteen (13) months of the stated maturity date or next succeeding mandatory sinking fund redemption date of the respective Term Indenture Obligations shall be applied solely to the payment of the principal of such Term Indenture Obligations on their stated maturity date or such mandatory sinking fund redemption date, as applicable, and no such amounts shall be transferred to the Proceeds Account.

The 1997 Notes are being issued as Term Indenture Obligations, but are not subject to mandatory sinking fund redemption or other redemption prior to their scheduled maturity. To the extent that all or any portion of a future Series of Indenture Obligations is issued as Term Indenture Obligations subject to mandatory sinking fund redemption, the Supplemental Indenture authorizing the issuance of such Series of Indenture Obligations shall provide the necessary provisions relating to such mandatory sinking fund redemption.

Amounts on deposit in any Defeasance Sub-subaccount in respect of any Indenture Obligations shall be applied solely to the payment of the principal of and interest on such Indenture Obligations and may not be transferred to the Proceeds Account.

SECTION 6.05. Reserve Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Reserve Account" (the "Reserve Account") with respect to the Indenture Obligations. The Reserve Account shall be held by the Indenture Trustee for the benefit of all Indenture Obligations issued and Outstanding under this Indenture, including, without limitation, the 1997 Notes. The Reserve Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under this Indenture and from all other moneys of the Indenture Trustee. On the date of issuance and delivery of the 1997 Notes, an amount of the proceeds of the 1997 Notes equal to 100% of the Maximum Annual Interest on the 1997 Notes shall be deposited into the Reserve Account (unless such amount is otherwise deposited in the Reserve Account from other funds available to

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Notwithstanding anything to the contrary contained in this Indenture, so long as (x) no Draw described in clause (a)(i) or (b) of the definition of "Draw" contained herein has been made or, if such a Draw has been made, so long as there is no portion thereof that remains unpaid, and (y) no default exists in the payment of principal of or interest on any Indenture Obligations and no Indenture Obligations have been accelerated pursuant to Section 8.03 hereof, upon the Indenture Trustee's receipt of any Liquidity Shared Revenues, any and all such amounts immediately shall be deposited into the Citizens Account for disbursement to Citizens to the extent provided in Section 6.08 hereof. While all or any portion of a Draw described in clause (a)(i) or (b) of the definition of "Draw" contained herein remains unpaid, the Indenture Trustee shall transfer the Liquidity Shared Revenues identified in the requisition pursuant to which such Draw has been made from the Revenue Account to the Proceeds Account as provided in paragraph SECOND, above. The Indenture Trustee may not transfer to the Citizens Account any of the Liquidity Shared Revenues identified in the requisition pursuant to which a Draw described in clause (a)(i) or (b) of the definition of "Draw" contained herein remains unpaid until such Draw has been fully reimbursed to the Proceeds Account.

SECTION 6.04. Debt Service Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Debt Service Account" (the "Debt Service Account") which shall consist of amounts deposited therein by the Indenture Trustee and any other amounts within or allocable to the Coastal Account as Citizens may pay or cause to be paid to the Indenture Trustee for deposit therein with respect to the payment of debt service on the Indenture Obligations. There shall be established within the Debt Service Account the following subaccounts: a "Citizens Property Insurance Corporation Interest Subaccount" (the "Interest Subaccount"), a "Citizens Property Insurance Corporation Principal Subaccount" (the "Principal Subaccount"), a "Citizens Property Insurance Corporation Sinking Fund Subaccount" (the "Sinking Fund Subaccount"), which will include a sub-subaccount (each, a "Sinking Fund Sub-subaccount") for each Series of Indenture Obligations which are subject to a sinking fund requirement, and a "Citizens Property Insurance Corporation Defeasance Subaccount" (the "Defeasance Subaccount"), which will include a sub-subaccount (each, a "Defeasance Sub-subaccount") for each Series of Indenture Obligations which are subject to defeasance. The Debt Service Account and the Subaccounts and Sub-subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under this Indenture and from all other moneys of the Indenture Trustee.

The Indenture Trustee at all times shall make available to any Paying Agent the moneys in the Principal Subaccount and the Interest Subaccount of the Debt Service Account to pay the principal of the Serial Indenture Obligations as they mature upon surrender thereof and the interest on the Indenture Obligations as it becomes payable, respectively; provided, however, that while a Credit Enhancement Facility is in effect with respect to any of the Indenture Obligations, any payment of principal of or interest on such Indenture Obligations shall be made from sources and in the order of priority specified in the Supplemental Indenture providing for such Credit Enhancement Facility. Moneys in a Sinking Fund Sub-subaccount shall be applied by the Indenture Trustee to pay the principal of the respective Term Indenture Obligations as the same becomes due and payable, whether at maturity or through mandatory sinking fund redemption. When Indenture Obligations are redeemed, the amount, if any, in the Interest

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Citizens). On the date of issuance and delivery of a Series of Additional Indenture Obligations, an amount equal to the increase, if any, in the Reserve Account Requirement as a result of the issuance of such Series of Indenture Obligations, calculated as of the date of issuance and delivery of such Series of Indenture Obligations, shall be deposited in the Reserve Account from the proceeds of such Series of Additional Indenture Obligations or from other funds available to Citizens. As long as there exists no Event of Default under this Indenture and the amount in the Reserve Account is not reduced below the then applicable Reserve Account Requirement, earnings on investments in the Reserve Account shall be transferred to the Revenue Account. Otherwise, earnings on investments in the Reserve Account shall be retained in the Reserve Account until applied as set forth herein. In the event it is determined that the amount in the Reserve Account exceeds the Reserve Account Requirement due to a decrease in the then applicable Reserve Account Requirement or as the result of any valuation required by Section 6.11 hereof, the excess amount shall be transferred on the next succeeding Business Day from the Reserve Account to the Revenue Account.

Whenever for any reason on an Interest Payment Date, the amount in the Debt Service Account (excluding amounts in the Defeasance Subaccount thereof), together with the amounts available in the General Reserve Account, the Program Costs Account and the Coverage Account, is insufficient to pay all amounts due and payable on the Indenture Obligations therefrom on such payments dates, the Indenture Trustee will, without further instructions, transfer the amount of any such deficiency from the Reserve Account into the Debt Service Account, to be applied to pay the Indenture Obligations secured by the Reserve Account. Any deficiencies in the amounts available in the Debt Service Account will be made up first from moneys withdrawn from the General Reserve Account, the Program Costs Account and the Coverage Account, in the stated order of priority and to the extent of available amounts in each such Account, prior to making any withdrawals from the Reserve Account.

Within twelve (12) months after any withdrawal from the Reserve Account, Citizens shall pay or cause to be paid to the Indenture Trustee sufficient moneys (but only from amounts within or allocable to the Coastal Account) for deposit to the Revenue Account, so as to enable the Trustee to replenish the amounts withdrawn from the Reserve Account in accordance with the Withdrawal Deficiency Makeup Requirement. The Indenture Trustee shall replenish any amounts withdrawn from the Reserve Account by transfers from the Revenue Account to the Reserve Account in accordance with the provisions of Section 6.03 hereof to satisfy the Withdrawal Deficiency Makeup Requirement.

Notwithstanding the foregoing, Citizens may at any time cause to be deposited into the Reserve Account a Reserve Account Insurance Policy or a Reserve Account Letter of Credit either in lieu of any cash amount required to be deposited therein or in substitution for the full amounts then on deposit therein or in an amount equal to the difference between the amount required to be deposited and the sum, if any, then on deposit in the Reserve Account. Any such Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable (upon the giving of notice as required thereunder) on any Interest Payment Date on which a deficiency exists that cannot be remedied by moneys in any other Account held pursuant to this Indenture and available for such purposes. If any such Reserve Account Insurance Policy or Reserve Account Letter of Credit is substituted for moneys on deposit in the Reserve Account, the excess moneys in the Reserve Account shall be transferred to and deposited in the Revenue Account. If

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a disbursement is made from a Reserve Account Insurance Policy or a Reserve Account Letter of Credit, Citizens shall be obligated to either reinstate the limits of such Reserve Account Insurance Policy or a Reserve Account Letter of Credit immediately following such disbursement or immediately deposit into the Reserve Account moneys in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. If at any time the issuer of a Reserve Account Insurance Policy or a Reserve Account Letter of Credit shall no longer qualify as such or is in default in its payment obligations under such Reserve Account Insurance Policy or Reserve Account Letter of Credit, Citizens immediately shall obtain a substitute Reserve Account Insurance Policy or Reserve Account Letter of Credit or immediately shall deposit into the Reserve Account moneys equal to the portion of the Reserve Account Requirement represented by the Reserve Account Insurance Policy or Reserve Account Letter of Credit to be replaced. Any and all deposits required to be made by Citizens pursuant to the two immediately preceding sentences shall be made only from moneys within or allocable to the Coastal Account.

In the event that upon the occurrence of any deficiency in the Debt Service Account, the Reserve Account is then funded with a Reserve Account Insurance Policy or a Reserve Account Letter of Credit, the Indenture Trustee shall, on or prior to an Interest Payment Date to which such deficiency relates, cause to be paid under the Reserve Account Insurance Policy or draw upon the Reserve Account Letter of Credit an amount sufficient to remedy such deficiency, in accordance with the terms and provisions of the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as applicable, and any corresponding reimbursement or other agreement governing the Reserve Account Insurance Policy or Reserve Account Letter of Credit; provided, however, that if at the time of such deficiency the Reserve Account is only partially funded with a Reserve Account Insurance Policy or Reserve Account Letter of Credit, the Indenture Trustee shall either apply cash and securities on deposit in the Reserve Account or draw on the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as Citizens shall direct, or, if no such direction is received by the Indenture Trustee, prior to drawing on the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as applicable, the Indenture Trustee shall first apply any cash and securities on deposit in the Reserve Account to remedy the deficiency in accordance with the provisions of this Section 6.05 and, if after such application a deficiency still exists, the Indenture Trustee shall make up the balance of the deficiency by drawing on the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as provided in this sentence. Amounts drawn on the Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be applied as set forth in this Section 6.05. Any amounts drawn under a Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be reimbursed to the issuer thereof in accordance with the terms and provisions of the reimbursement or other agreement governing such Reserve Account Insurance Policy or Reserve Account Letter of Credit, but only from moneys on deposit or required to be deposited in the Reserve Account in accordance with the provisions of Section 6.03 hereof.

SECTION 6.06. Coverage Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coverage Account" (the "Coverage Account") with respect to the Indenture Obligations. The Coverage Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Indenture and from all other moneys of the Indenture Trustee. The Coverage Account shall be

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Obligations which are not secured by or payable from moneys in the Coverage Account, as expressly provided in the Supplemental Indenture authorizing such Series of Indenture Obligations.

SECTION 6.07. Program Costs Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Program Costs Account" (the "Program Costs Account"). The Program Costs Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Indenture and from all other moneys of the Indenture Trustee. Amounts on deposit in the Program Costs Account shall be applied to the payment of Program Costs; provided, however, that amounts in the Program Costs Account shall be disbursed by the Indenture Trustee only upon delivery to the Indenture Trustee of a requisition in the form of Exhibit B hereto, signed by an Authorized Citizens Representative, except that the annual fees of the Indenture Trustee for Ordinary Services shall be paid on such date as agreed to by Citizens and the Indenture Trustee from amounts in the Program Costs Account without requisition. Each such requisition shall state (i) the amount to be paid, (ii) the party to whom payment is to be made, (iii) the nature of the Program Cost to be paid and (iv) that the cost to be paid is a proper Program Cost under this Indenture. The foregoing notwithstanding, whenever for any reason on an Interest Payment Date the amount in the Debt Service Account (excluding amounts in the Defeasance Subaccount thereof), together with amounts available in the General Reserve Account, is insufficient to pay all amounts payable on the Indenture Obligations therefrom on such payment dates, the Indenture Trustee shall, without further instructions, transfer the amount of any such deficiency from the Program Costs Account into the Debt Service Account to be applied to pay the Indenture Obligations. Any deficiencies in the amounts available in the Debt Service Account shall be made up from amounts available in the General Reserve Account and then the Program Costs Account before any amounts are withdrawn from the Coverage Account or the Reserve Account to cure any such deficiencies.

SECTION 6.08. Citizens Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Account" (the "Citizens Account"). The Citizens Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Indenture and from all other moneys of the Indenture Trustee. Liquidity Shared Revenues shall be transferred to the Citizens Account as, and to the extent, provided in Section 6.03 hereof. Any amounts on deposit in the Citizens Account immediately shall be paid to Citizens free and clear of the lien of this Indenture, provided that (i) there does not then exist hereunder an Event of Default described in paragraph (a) or (b) of Section 8.01 hereof or (ii) the Indenture Trustee has not accelerated the Indenture Obligations pursuant to Section 8.03 hereof (unless, if an acceleration has been declared, such acceleration has been rescinded and annulled as provided in Section 8.03 hereof). If, during the pendency of an event described in the foregoing clause (i) or (ii), the amount in the Debt Service Account is insufficient to pay all amounts payable on the Indenture Obligations therefrom on (or, in the event of such acceleration, on or before) the next Interest Payment Date or there is then a deficiency in the Reserve Account or the Coverage Account, the Indenture Trustee shall transfer moneys from the Citizens Account to the Debt Service Account, the Reserve Account or the Coverage Account, as applicable, in order to cure the deficiency therein, prior to any transfer of

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funded in an amount equal to the Coverage Account Requirement from moneys transferred from the Revenue Account within twelve (12) months after the issuance of each Series of Indenture Obligations, but only from and to the extent of moneys derived from the levy and collection of Regular Assessments and/or Emergency Assessments. Following the issuance of a Series of Indenture Obligations, the Indenture Trustee shall transfer moneys from the Revenue Account into the Coverage Account, in accordance with the provisions of Section 6.03 hereof, but only from and to the extent of moneys derived from the levy and collection of Regular Assessments and/or Emergency Assessments, so that within twelve (12) months after the issuance of the Indenture Obligations the amount on deposit in the Coverage Account is at least equal to the Coverage Account Requirement. Prior to the end of each subsequent Fiscal Year, the Indenture Trustee shall transfer moneys from the Revenue Account into the Coverage Account, in accordance with the provisions of Section 6.03 hereof, but only from and to the extent of moneys derived from the levy and collection of Regular Assessments and/or Emergency Assessments, to the extent necessary to make the amount on deposit in the Coverage Account at least equal to the Coverage Account Requirement. As long as there exists no Event of Default under this Indenture and the amount in the Coverage Account is not reduced below the then applicable Coverage Account Requirement, earnings on investments in the Coverage Account shall be transferred to the Revenue Account. Otherwise, earnings on investments in the Coverage Account shall be retained in the Coverage Account until applied as set forth herein. In the event it is determined that the amount in the Coverage Account exceeds the Coverage Account Requirement due to a decrease in the then applicable Coverage Account Requirement or as the result of any valuation required by Section 6.11 hereof, the excess amount shall be transferred on the next succeeding Business Day from the Coverage Account to the Revenue Account.

Whenever for any reason on an Interest Payment Date, the amount in the Debt Service Account (excluding amounts in the Defeasance Subaccount thereof), together with amounts available in the General Reserve Account and the Program Costs Account, shall be insufficient to pay all amounts payable on the Indenture Obligation therefrom on such payment date, the Indenture Trustee shall, without further instructions, transfer the amount of any such deficiency from the Coverage Account into the Debt Service Account, to be applied to pay the Indenture Obligations. Any deficiencies in the amounts available in the Debt Service Account shall be made up first from moneys withdrawn from the General Reserve Account and the Program Costs Account, in the stated order of priority and to the extent of available amounts in each such Account, prior to making any withdrawals from the Coverage Account. All amounts available in the Coverage Account shall be applied to cure any deficiencies in the Debt Service Account prior to the withdrawal of any amounts from the Reserve Account to cure any such deficiencies.

Within twelve (12) months after any withdrawal from the Coverage Account, Citizens shall pay or cause to be paid to the Indenture Trustee sufficient moneys (but only from amounts within or allocable to the Coastal Account) for deposit to the Revenue Account, so as to enable the Trustee to replenish the amounts withdrawn from the Coverage Account in accordance with the Withdrawal Deficiency Makeup Requirement. The Indenture Trustee shall replenish any amounts withdrawn from the Coverage Account by transfers from the Revenue Account to the Coverage Account in accordance with the provisions of Section 6.03 hereof to satisfy the Withdrawal Deficiency Makeup Requirement. Notwithstanding anything to the contrary contained in this Indenture, the Indenture Trustee shall not transfer, or be required to transfer, any amounts from the Reserve Account into the Coverage Account in respect of any Indenture

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moneys into the Debt Service Account, the Reserve Account or the Coverage Account, as applicable, from the other Accounts or Subaccounts established hereunder.

SECTION 6.09. General Reserve Account. The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation General Reserve Account" (the "General Reserve Account"). The General Reserve Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Indenture Trustee separate and apart from all other Accounts and Subaccounts held under the Indenture and from all other moneys of the Indenture Trustee. Whenever for any reason on an Interest Payment Date, the amount in the Debt Service Account (excluding amounts in the Defeasance Subaccount thereof) is insufficient to pay all amounts payable on the Indenture Obligations therefrom on such payment date, the Indenture Trustee shall, without further instructions, transfer the amount of any such deficiency from the General Reserve Account into the Debt Service Account to pay the Indenture Obligations. Any deficiencies in the amounts available in the Debt Service Account shall be made up from amounts available in the General Reserve Account before any amounts are withdrawn from the Program Costs Account, the Coverage Account or the Reserve Account to cure any such deficiencies. After all deficiencies in the Debt Service Account are cured, amounts in the General Reserve Account shall be applied to cure any deficiency, first, in the Reserve Account, second, in the Coverage Account and, third, in the Program Costs Account.

At the written direction of Citizens signed by an Authorized Citizens Representative, the Indenture Trustee shall transfer amounts on deposit in the General Reserve Account to (a) pay debt service on Subordinate Debt or (b) purchase Indenture Obligations at a purchase price not to exceed 100% of the par amount of the Indenture Obligations to be purchased; provided, however, that amounts in the General Reserve Account shall not be applied to pay debt service on Subordinate Debt or to purchase Indenture Obligations if there then exists a deficiency in the Debt Service Account, the Reserve Account, the Coverage Account or the Program Costs Account; provided, further, that prior to applying any Pledged Revenues as described in the foregoing clause (a) or (b), Citizens shall provide to the Indenture Trustee a certificate substantially in the form required by Section 6.01(c) hereof, to the effect that (i) after such application the amounts remaining in the Accounts and Subaccounts established hereunder, together with other Pledged Revenues reasonably expected to be received, will be sufficient to make the payments described in Section 6.01(c) hereof and (ii) there does not then exist under the Indenture an Event of Default or an event which with the giving of notice or the passage of time, or both, would constitute such an Event of Default, or any event of default in respect of any Subordinate Debt. In addition, Citizens may from time to time direct the Indenture Trustee to transfer all or any portion of the moneys in the General Reserve Account into (i) the Sinking Fund Subaccount of the Debt Service Account to be held therein and applied to pay the principal due and payable on Term Indenture Obligations on the immediately succeeding maturity date or mandatory sinking fund redemption date, as applicable, (ii) the Defeasance Subaccount of the Debt Service Account to be applied to pay the principal due and payable on the Indenture Obligations on the immediately succeeding maturity date, or (iii) the Proceeds Account, but only to the extent that there does not then exist a deficiency in the Debt Service Account, the Reserve Account, the Coverage Account or the Program Costs Account. On the last Business Day of each Fiscal Year, amounts on deposit in the General Reserve Account shall be transferred to the Revenue Account, but only to the extent that there does not then exist a deficiency in the Debt

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Service Account, the Reserve Account, the Coverage Account or the Program Costa Account; if such a deficiency does exist, amounts in the General Reserve Account shall first be applied to cure such deficiency and the remaining balance, if any, shall be transferred to the Revenue Account.

SECTION 6.10. Procedure When Funds Are Sufficient to Pay All Indenture Obligations. If at any time the moneys held by the Indenture Trustee in the Accounts and Subaccounts under this Indenture and available therefor are sufficient to pay the principal of, redemption premium, if any, and interest on all Series of Indenture Obligations Outstanding under this Indenture to maturity or prior redemption, together with any amounts due the Indenture Trustee, Paying Agent, Registrar and any Credit Enhancement Facility Issuer, including, without limitation, all Program Costs, the Indenture Trustee, at the direction of Citizens signed by an Authorized Citizens Representative, shall apply the amounts in the Accounts and Subaccounts to the payment of the aforesaid obligations and shall not be required to apply any further Pledged Revenues unless and until it shall appear that there is a deficiency in the Accounts and Subaccounts held by the Indenture Trustee.

SECTION 6.11. Depositories of Moneys; Indenture Obligation for Deposits; and Investment of Funds. (a) All moneys received by the Indenture Trustee under the provisions of this Indenture shall be held in trust, in accordance herewith, shall be applied only in accordance with the provisions of this Indenture and shall not be subject to lien or attachment by any creditor of Citizens.

Except as otherwise provided below, all moneys held by the Indenture Trustee in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured for the benefit of the Holders and the other Persons entitled thereto, either (i) by lodging with a bank or trust company approved by Citizens as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit as collateral security, Government Obligations, or, with the approval of Citizens, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable State of Florida laws or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or, if the furnishing of security as provided in (i) of this Section is not permitted by applicable law, (ii) in such other manner as may then be required or permitted by applicable State or federal laws or regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Indenture Trustee to give security for the deposits of any moneys with it which are invested in Permitted Investments.

All moneys held by the Indenture Trustee shall be credited to the particular Account or Subaccount to which such moneys belong.

(b) Moneys held for the credit of the Accounts and Subaccounts established under this Indenture shall be invested and reinvested only in Permitted Investments. All Permitted Investments to the credit of the Debt Service Account (or any Subaccount thereof) must either (i) mature not later than the respective dates when they will be required for the purposes of such Account and the Subaccounts to which they are allocated or (ii) be subject to a forward sale

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(c) All moneys held as a part of any Account or Subaccount created hereunder shall be invested and reinvested by the Indenture Trustee in Permitted Investments, at the written request and direction of Citizens (signed by an Authorized Citizens Representative), subject to the limitations contained in this Section 6.11. The Indenture Trustee shall be entitled to rely conclusively on the investment instructions provided by Citizens as provided herein and shall not be responsible or liable for the performance of any such investments or, in the absence of written instructions from the Association, for keeping the moneys held under this Indenture fully invested at all times.

If at any time it shall become necessary that some or all of the investments purchased with the moneys in any Account or Subaccount established hereunder be redeemed or sold in order to comply with the provisions of this Indenture, the Indenture Trustee shall effect such redemption or sale employing, in the case of sale, any commercially reasonable method of effecting the same, in its sole discretion; provided, however, that in the absence of an Event of Default hereunder or a declaration of acceleration pursuant to Section 8.03 hereof, in no event may the Indenture Trustee sell any security prior to its maturity or at a loss without the prior written consent of Citizens. The Indenture Trustee shall not be liable or responsible for any loss resulting from any such investment or resulting from the redemption or sale of any such investment as herein authorized.

The Indenture Trustee may rely conclusively upon the instructions of Citizens as to the dates when moneys are needed for payments to be made from the Proceeds Account, and shall not be liable or responsible for determining such dates in the absence of such instruction.

ARTICLE VII

THE INDENTURE TRUSTEE, REGISTRAR, PAYING AGENTS AND AUTHENTICATING AGENTS

SECTION 7.01. Indenture Trustee's Acceptance and Responsibilities. The Indenture Trustee accepts the trusts imposed upon it by this Indenture, and agrees to observe and perform those trusts, but only upon and subject to the terms and conditions set forth in this Article, to all of which the parties hereto and the Holders agree. The Indenture Trustee also agrees to take all actions required of the Indenture Trustee under the Pledge and Security Agreement, subject in all respects to the privileges and immunities granted to the Indenture Trustee hereunder.

(a) Prior to the occurrence of a default or an Event of Default (as defined in Section 8.01 hereof) of which the Indenture Trustee has been notified, as provided in paragraph (f) of Section 7.02 hereof, or of which by that paragraph the Indenture Trustee is deemed to have notice, and after the cure or waiver of all defaults or Events of Default which may have occurred,

(i) the Indenture Trustee undertakes to perform only those duties and obligations which are set forth specifically in this Indenture and in the Pledge and Security Agreement, and no duties or obligations shall be implied to the Indenture Trustee;

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agreement or other similar arrangement (with a counterparty rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) of the Rating Agencies) pursuant to which the moneys invested will be available not later than the respective dates when they will be required for the purposes of such Account and the Subaccounts to which they are allocated.

Permitted Investments purchased as an investment of moneys in any Account or Subaccount shall be deemed at all times to be part of such Account or Subaccount. Subject to the provisions of paragraph (c) below, the interest accruing thereon and any profit realized from such investment shall be credited to such Account or Subaccount. Any loss resulting from such investments shall be charged to such Account or Subaccount.

The Indenture Trustee shall sell or present for payment or redemption any Permitted Investments acquired under this Indenture whenever it shall be necessary in order to provide moneys to meet any payment from an Account or Subaccount.

(c) Investment earnings attributable to amounts in the Reserve Account and the Coverage Account shall be retained therein to the extent necessary to maintain the amounts on deposit in the Reserve Account and the Coverage Account equal to the Reserve Account Requirement and the Coverage Account Requirement, respectively (determined without regard to any extended funding periods permitted under Article VI of this Indenture). If the amounts on deposit in the Reserve Account and the Coverage Account are at least equal to the Reserve Account Requirement and the Coverage Account Requirement, respectively, investment earnings on the Reserve Account and the Coverage Account shall be promptly transferred to and deposited in the Revenue Account.

Investment earnings in the Revenue Account shall be retained therein and applied in accordance with the provisions of Section 6.03 of this Indenture regarding application of moneys in the Revenue Account. Investment earnings in the Debt Service Account shall be retained therein and applied to the payment of principal of and interest on the Indenture Obligations. Investment earnings in the Program Costs Account and the General Reserve Account shall be transferred to and deposited in the Revenue Account. Investment earnings in the Citizens Account shall be retained therein.

Investment earnings in the Proceeds Account shall be retained therein and applied to make Draws, except that investment earnings in the Proceeds Account shall be transferred to and deposited in the Debt Service Account prior to any withdrawal from the Coverage Account or the Reserve Account, if there is then existing any deficiency in the amounts available in the Debt Service Account to pay principal of or interest on the Indenture Obligations. For purposes of this paragraph, investment earnings shall be deemed to be the first moneys drawn from the Proceeds Account upon the funding of any Draw from the Proceeds Account.

(d) The Indenture Trustee shall value the Permitted Investments in each of the Accounts and Subaccounts established under this Indenture at the market value thereof as of the last Business Day of each Fiscal Year. Citizens shall cure any deficiencies in the Reserve Account or the Coverage Account due to valuation shortfalls by March 31 of the following Fiscal Year, but only from moneys within or allocable to the Coastal Account.

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(ii) in the absence of willful misconduct on its part, the Indenture Trustee may rely conclusively, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are required specifically to be furnished to the Indenture Trustee, subject to the provisions of Section 7.02(l) hereof, the Indenture Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(b) In case a default or an Event of Default has occurred and is continuing hereunder (of which the Indenture Trustee has been notified, or is deemed to have noticed as provided in paragraph (f) of Section 7.02 hereof), subject to Section 7.02(j) hereof, the Indenture Trustee shall exercise those rights and powers vested in it by this Indenture and shall use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Indenture Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(i) this Subsection shall not be construed to affect the limitation of the Indenture Trustee's duties and obligations provided in subparagraph (a)(i) of this Section or the Indenture Trustee's right to rely on the truth of statements and the correctness of opinions as provided in subparagraph (a)(ii) of this Section;

(ii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by any one of its officers, employees or agents unless it shall be established that the Indenture Trustee was negligent in ascertaining the pertinent facts;

(iii) the Indenture Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Indenture Obligations then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or exercising any trust or power conferred upon the Indenture Trustee, under this Indenture or with respect to any action reasonably taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it in this Indenture; and

(iv) no provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section 7.01.

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SECTION 7.02. Certain Rights and Obligations of the Indenture Trustee. Except as otherwise provided in Section 7.01 hereof:

(a) The Indenture Trustee (i) may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees (but shall be answerable therefor only in accordance with the standard specified above), (ii) shall be entitled to the advice of counsel concerning all matters of trusts hereof and duties hereunder, and (iii) may pay reasonable compensation in all cases to all of those attorneys, agents, receivers and employees reasonably employed by it in connection with the trusts hereof. The Indenture Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for Citizens) approved by the Indenture Trustee in the exercise of reasonable care. The Indenture Trustee shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in good faith in reliance upon that opinion or advice.

(b) Except for its certificate of authentication on the Indenture Obligations, the Indenture Trustee shall not be responsible for:

- (i) any recital in this Indenture or in the Indenture Obligations,
- (ii) the validity, priority, recording, re-recording, filing or re-filing of this Indenture or any Supplemental Indenture,
- (iii) any instrument or document of further assurance or collateral assignment,
- (iv) any financing statements, amendments thereto or continuation statements,
- (v) the validity of the execution by Citizens of this Indenture, any Supplemental Indenture or instruments or documents of further assurance, or
- (vi) the sufficiency of the Pledged Revenues to pay Debt Service Charges for the Indenture Obligations issued hereunder or any other obligations intended to be secured hereby or payable therefrom.

(c) The Indenture Trustee shall not be accountable for the application by Citizens of the proceeds of any Indenture Obligations authenticated or delivered hereunder.

(d) The Indenture Trustee shall be protected, in the absence of willful misconduct on its part, in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Indenture Trustee pursuant to this Indenture upon the request or authority or consent of any Person who is the Holder of any Indenture Obligations at the time of making the request or giving the authority or consent, shall be conclusive and binding upon all future Holders of the same Indenture Obligation and of Indenture Obligations issued in exchange therefor or in place thereof.

(e) As to the existence or nonexistence of any fact for which Citizens may be responsible or as to the sufficiency or validity of any instrument, document, report, paper or proceeding, the Indenture Trustee, in the absence of willful misconduct on its part, shall be

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misconduct. Citizens agrees to indemnify and hold the Indenture Trustee harmless (but only from and to the extent of the revenues and assets in or allocated to the Coastal Account) against any liabilities which the Indenture Trustee may incur in the exercise and performance of its duties hereunder, under the Pledge and Security Agreement or under any other instrument or document which requires the observance or performance of duties and obligations by the Indenture Trustee as trustee hereunder, except for any liability which is adjudicated to have resulted from its negligence or willful misconduct. The provisions of this paragraph shall survive termination of this Indenture and shall also survive the resignation or removal of the Indenture Trustee.

(k) Unless otherwise provided herein, all moneys received by the Indenture Trustee under this Indenture shall be held in trust until those moneys are used, applied or invested as provided herein; provided, that those moneys need not be segregated from other moneys, except to the extent required by this Indenture or by law.

(l) Any action by the Board, and any opinions, certificates and other instruments and documents for which provision is made in this Indenture, may be accepted by the Indenture Trustee, in the absence of willful misconduct on its part, as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Indenture Trustee for its actions taken hereunder and the Indenture Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such opinion, certificate or other instrument or document.

(m) The permissive right of the Indenture Trustee to do things enumerated in this Indenture shall not be construed as duties until specifically undertaken by the Indenture Trustee.

SECTION 7.03. Fees, Charges and Expenses of Indenture Trustee, Registrar, Paying Agents and Authenticating Agents. The Indenture Trustee, the Registrar and any Paying Agents or Authenticating Agents shall be entitled to payment of reasonable fees for their Ordinary Services rendered hereunder and for all advances, counsel fees and expenses and other Ordinary Expenses reasonably and necessarily paid or incurred by them in connection with the provision of Ordinary Services and Citizens hereby covenants and agrees to pay the same. For purposes hereof, fees for Ordinary Services and costs of Ordinary Expenses provided for by their respective standard fee schedule, or by a separate letter or agreement accepted by Citizens, shall be considered reasonable. In the event that it should become necessary for any of them to perform Extraordinary Services, they shall be entitled to reasonable compensation therefor, and to reimbursement for reasonable and necessary Extraordinary Expenses incurred in connection therewith. Without creating a default or an Event of Default hereunder, however, Citizens may contest in good faith the necessity for any Extraordinary Service and Extraordinary Expense and the reasonableness of any fee, charge or expense therefor.

The Indenture Trustee, the Registrar and any Paying Agents or Authenticating Agents shall not be entitled to compensation or reimbursement for Extraordinary Services or Extraordinary Expenses occasioned by their negligence or willful misconduct. The reasonable fees for their respective Ordinary Services and Ordinary Expenses of the foregoing shall be entitled to payment and reimbursement only from (i) the Program Costs Account or (ii) other moneys made available by Citizens therefor and Citizens hereby covenants and agrees to pay the

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entitled to rely upon a certificate signed on behalf of Citizens by an Authorized Citizens Representative as sufficient evidence of the facts recited therein. Prior to the occurrence of a default or Event of Default hereunder of which the Indenture Trustee has been notified, as provided in paragraph (f) of this Section, or of which by that paragraph the Indenture Trustee is deemed to have notice, the Indenture Trustee may accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient; provided, that the Indenture Trustee in its discretion may require and obtain any further evidence which it deems to be necessary or advisable; and, provided further, that the Indenture Trustee shall not be bound to secure any further evidence.

(f) The Indenture Trustee shall not be required to take notice, and shall not be deemed to have notice, of any default or Event of Default hereunder, except Events of Default described in paragraphs (a) and (b) of Section 8.01 hereof and the failure of Citizens to comply with any of the deposit requirements of this Indenture within the time period prescribed for the making of such deposits, unless the Indenture Trustee shall be notified specifically of the default or Event of Default in a written instrument or document delivered to it by Citizens (signed by an Authorized Citizens Representative), the Collateral Trustee or by the Holders of at least ten percent (10%) of the aggregate principal amount of Indenture Obligations then Outstanding or by any court having jurisdiction of a case or proceeding described in paragraph (i) or (j) of Section 8.01 hereof. In the absence of delivery of a notice satisfying those requirements, the Indenture Trustee may assume conclusively that there is no default or Event of Default, except as noted above.

(g) At any reasonable time, the Indenture Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives (i) may inspect and copy all or any portion of the books, papers and records of Citizens pertaining to the Pledged Revenues and the Indenture Obligations, and (ii) may make any memoranda from and in regard thereto as the Indenture Trustee may desire.

(h) The Indenture Trustee shall not be required to give any bond or surety with respect to the execution of these trusts and powers or otherwise in respect of the premises.

(i) Notwithstanding anything contained elsewhere in this Indenture, the Indenture Trustee may demand any showings, certificates, reports, opinions, appraisals and other information, and any corporate action and evidence thereof, in addition to that required by the terms hereof, as a condition to the authentication of any Indenture Obligations or the taking of any action whatsoever within the purview of this Indenture, if the Indenture Trustee deems it to be desirable for the purpose of establishing the right of Citizens to the authentication of any Indenture Obligations or the right of any Person to the taking of any other action by the Indenture Trustee; provided, that the Indenture Trustee shall not be required to make that demand.

(j) Before taking action hereunder pursuant to Section 7.04 or Article VIII hereof (with the exception of any action required to be taken under Section 8.02 hereof), the Indenture Trustee may require that a satisfactory indemnity bond be furnished to it for the reimbursement of all expenses which it may incur and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful

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same, but only from moneys within or allocable to the Coastal Account. Any amounts payable to the Indenture Trustee, the Registrar and any Paying Agent or Authenticating Agent pursuant to this Section 7.03 shall be payable upon demand. The initial or acceptance fees of the Indenture Trustee and the fees, charges and expenses of the Indenture Trustee, the Registrar or any Paying Agents and Authenticating Agents upon initial issuance of any Series of Indenture Obligations, may be paid by the Indenture Trustee from the Costs of Issuance Subaccount in the Proceeds Account. If the Indenture Trustee incurs expenses or renders services after an Event of Default, the expenses and compensation for the services will be intended to constitute expenses of administration under any applicable bankruptcy law or other similar law.

SECTION 7.04. Intervention by Indenture Trustee. The Indenture Trustee may intervene on behalf of the Holders, and shall intervene if requested to do so in writing by the Holders of at least fifty percent (50%) of the aggregate principal amount of Indenture Obligations then outstanding, in any judicial proceeding to which Citizens is a party. The rights and obligations of the Indenture Trustee under this Section are subject to the approval of that intervention by a court of competent jurisdiction. The Indenture Trustee may require that satisfactory indemnity bond be provided to it in accordance with Sections 7.01 and 7.02 hereof before it takes action hereunder.

SECTION 7.05. Succession to Indenture Trustee. Anything herein to the contrary notwithstanding,

(a) any corporation or association (i) into which the Indenture Trustee may be converted or merged, (ii) with which the Indenture Trustee or any successor to it may be consolidated, or (iii) to which it may sell or transfer its assets or its corporate trust business and assets as a whole, or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer, ipso facto, shall be and become successor Indenture Trustee hereunder and shall be vested with all of the title to the whole property or trust estate hereunder; and

(b) that corporation or association shall be vested further, as was its predecessor, with each and every trust, property, remedy, power, right, duty, obligation, discretion, privilege, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by, vested in or conveyed to the Indenture Trustee, without the execution or filing of any instrument or document or any further act on the part of any of the parties hereto.

Any successor Indenture Trustee, however, (i) shall be a trust company or a bank having the powers of a trust company organized under the laws of the United States or of any state thereof and subject to supervision by federal or state authorities, (ii) shall be in good standing within the State, (iii) shall be duly authorized to exercise trust powers within the State, and (iv) shall have a reported capital and surplus of not less than \$50,000,000.

SECTION 7.06. Appointment of Co-Indenture Trustee. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including, without limitation, the laws of the State) denying or restricting the right of banks or trust companies to transact business as trustees in that jurisdiction. It is recognized that (a) if there is litigation

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under this Indenture or other instruments or documents relating to the Indenture Obligations and, in particular, in case of the enforcement hereof or thereof upon a default or an Event of Default or (b) if the Indenture Trustee should deem that, by reason of any present or future law of any jurisdiction, it may not (i) exercise any of the powers, rights or remedies granted herein to the Indenture Trustee, or (ii) take any action which may be desirable or necessary in connection therewith, it may be necessary that the Indenture Trustee appoint an individual or additional institution as a co-Indenture Trustee. The following provisions of this Section are adapted to these ends.

In the event that the Indenture Trustee appoints an individual or additional institution as a co-Indenture Trustee, each and every trust, property, remedy, power, right, duty, obligation, discretion, privilege, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by, vested in or conveyed to the Indenture Trustee shall be exercisable by, vest in and be conveyed to that co-Indenture Trustee, but only to the extent necessary for it to be so vested and conveyed and to enable that co-Indenture Trustee to exercise it. Every covenant, agreement and obligation necessary to the exercise thereof by that co-Indenture Trustee shall run to and be enforceable by it.

Should any instrument or document in writing from Citizens reasonably be required by the co-Indenture Trustee so appointed by the Indenture Trustee for vesting and conveying more fully and certainly in and to that co-Indenture Trustee those trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens, that instrument or document shall be executed, acknowledged and delivered, but not prepared, by Citizens. In case any co-Indenture Trustee or a successor to it shall die, become incapable of acting, resign or be removed, all of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens of the co-Indenture Trustee shall be exercised by, vest in and be conveyed to the Indenture Trustee, to the extent permitted by law, until the appointment of a successor to the co-Indenture Trustee.

SECTION 7.07. Resignation by the Indenture Trustee. The Indenture Trustee may resign at any time from the trusts created hereby by giving written notice of the resignation to Citizens, the Registrar, any Paying Agents and Authenticating Agents and the Initial Purchaser of each Series of Indenture Obligations then Outstanding and by mailing written notice of the resignation to the Holders as their names and addresses appear on the Register at the close of business fifteen (15) days prior to the mailing. The resignation shall take effect upon the appointment of a successor Indenture Trustee.

SECTION 7.08. Removal of the Indenture Trustee. The Indenture Trustee may be removed at any time by an instrument or document or concurrent instruments or documents in writing delivered to the Indenture Trustee, with copies thereof mailed to Citizens, the Registrar, any Paying Agents and Authenticating Agents, and signed by or on behalf of (a) the Holders of not less than a majority in aggregate principal amount of the Indenture Obligations then Outstanding or (b) if no Event of Default or event which with the giving of notice or the passage of time, or both, would constitute an Event of Default, then exists, Citizens.

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of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens of its predecessor, and shall, within ten (10) days thereafter mail written notice of that acceptance to the Holders as their names and addresses appear on the Register at the close of business on the date of acceptance. Upon the written request of its successor or Citizens, the predecessor Indenture Trustee (i) shall execute and deliver an instrument or document transferring to its successor all of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens of the predecessor Indenture Trustee hereunder, and (ii) shall take any other action necessary to duly assign, transfer and deliver to its successor all property (including, without limitation, all securities and moneys) held by it as Indenture Trustee. Should any instrument or document in writing from Citizens be requested by any successor Indenture Trustee for vesting and conveying more fully and certainly in and to that successor the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens vested or conveyed or intended to be vested or conveyed hereby in or to the predecessor Indenture Trustee, Citizens shall execute, acknowledge and deliver that instrument or document.

In the event of a change in the Indenture Trustee, the predecessor Indenture Trustee shall cease to be custodian of any moneys which it may hold pursuant to this Indenture and shall cease to be Registrar, Authenticating Agent and Paying Agent for any of the Indenture Obligations, to the extent it served in any of those capacities. The successor Indenture Trustee shall become custodian and, if applicable, Registrar, Authenticating Agent and Paying Agent.

SECTION 7.10. Adoption of Authentication. In case any of the Indenture Obligations shall have been authenticated, but shall not have been delivered, any successor Indenture Trustee, Registrar or Authenticating Agent may adopt the certificate of authentication of any predecessor Indenture Trustee, Registrar or Authenticating Agent and may deliver those Indenture Obligations so authenticated as provided herein. In case any Indenture Obligations shall not have been authenticated, any successor Indenture Trustee, Registrar or Authenticating Agent may authenticate those Indenture Obligations either in the name of any predecessor or in its own name. In all cases, the certificate of authentication shall have the same force and effect as provided in the Indenture Obligations or in this Indenture with respect to the certificate of authentication of the predecessor Indenture Trustee, Registrar or Authenticating Agent.

SECTION 7.11. Registrars. (a) Anything herein to the contrary notwithstanding, any corporation or association (i) into which a Registrar may be converted or merged, (ii) with which a Registrar or any successor to it may be consolidated, or (iii) to which it may sell or transfer its assets or its corporate trust business as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer, ipso facto, shall be and become successor Registrar to that Registrar hereunder and shall be vested with each and every power, right, duty, obligation, discretion and privilege expressed or intended by this Indenture to be exercised by or vested in the predecessor Registrar, without the execution or filing of any instrument or document or any further act on the part of any of the parties hereto.

(b) A Registrar may resign at any time by giving written notice of its resignation to Citizens, the Indenture Trustee, the Initial Purchaser of each Series of Indenture Obligations then

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The Indenture Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of this Indenture with respect to the duties and obligations of the Indenture Trustee by any court of competent jurisdiction upon the application of Citizens or the Holders of not less than a majority in aggregate principal amount of the Indenture Obligations then Outstanding under this Indenture.

No removal of the Indenture Trustee shall take effect until the appointment of a successor Indenture Trustee and the payment to the Indenture Trustee of all fees and expenses then due and payable.

SECTION 7.09. Appointment of Successor Indenture Trustee. If (i) the Indenture Trustee shall resign, shall be removed, shall be dissolved, or shall become otherwise incapable of acting hereunder, (ii) the Indenture Trustee shall be taken under the control of any public officer or officers, or (iii) a receiver shall be appointed for the Indenture Trustee by a court, then a successor Indenture Trustee shall be appointed by Citizens (through a written instrument signed by an Authorized Citizens Representative); provided, that if a successor Indenture Trustee is not so appointed within ten (10) days after (a) a notice of resignation or an instrument or document of removal is received by Citizens, as provided in Sections 7.07 and 7.08 hereof, respectively, or (b) the Indenture Trustee is dissolved, taken under control, becomes otherwise incapable of acting or a receiver is appointed, in each case, as provided above, then, so long as Citizens shall not have appointed a successor Indenture Trustee, the Holders of a majority in aggregate principal amount of Indenture Obligations then outstanding may designate a successor Indenture Trustee by an instrument or document or concurrent instruments or documents in writing signed by or on behalf of those Holders. If within thirty (30) days after an event described in clauses (a) or (b) hereof no appointment of a successor Indenture Trustee shall be made pursuant to the foregoing provisions of this Section, the Holder of any Indenture Obligation Outstanding hereunder or any retiring Indenture Trustee may apply to any court of competent jurisdiction to appoint a successor Indenture Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Indenture Trustee.

Every successor Indenture Trustee appointed hereunder shall be a trust company or a bank having the powers of a trust company organized and doing business under the laws of the United States of America, and any state thereof or the District of Columbia, (ii) shall be in good standing within the State, (iii) shall be duly authorized to exercise trust powers within the state, (iv) shall have a reported capital and surplus of not less than \$50,000,000, as set forth in its most recent report of condition so published and shall be subject to supervision by federal or state authority, (v) shall, or shall be a subsidiary of a bank holding company which shall, be rated by Moody's or Standard and Poor's not lower than such rating category as is at the time the lowest investment grade long-term debt rating category, (vi) for so long as the Indenture Obligations are in the form of one or more Global Securities, shall have the necessary and requisite contractual or other arrangements with the Depository in connection with a Global Security, and (vii) shall be willing to accept the trusteeship under the terms and conditions of this Indenture.

Every successor Indenture Trustee appointed hereunder shall execute and acknowledge, and shall deliver to its predecessor and Citizens, an instrument or document in writing accepting the appointment. Thereupon, without any further act, the successor shall become vested with all

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Outstanding for which it is Registrar, and to each Paying Agent and Authenticating Agent for those Series of Indenture Obligations, at least sixty (60) days before the resignation is to take effect. The resignation shall take effect immediately, however, upon the appointment of a successor Registrar, if the successor Registrar is appointed and accepts that appointment before the time stated in the notice.

(c) The Registrar may be removed at any time by an instrument or document or concurrent instruments or documents in writing delivered to the Registrar, with copies thereof mailed to Citizens and the Indenture Trustee, and signed by or on behalf of (i) the Holders of not less than a majority in aggregate principal amount of the Indenture Obligations then outstanding or (ii) if no Event of Default or event which with the giving of notice or the passage of time, or both, would constitute an Event of Default, then exists, Citizens.

(d) If (i) a Registrar shall resign, shall be removed, shall be dissolved, or shall become otherwise completely incapable of acting hereunder, (ii) a Registrar shall be taken under the control of any public officer or officers, (iii) a receiver shall be appointed for a Registrar by a court, or (iv) a Registrar shall have an order for relief entered in any case commenced by or against it under the federal bankruptcy laws or commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for ninety (90) days, then a successor Registrar shall be appointed by an Authorized Citizens Representative with the written consent of the Indenture Trustee; provided, that if a successor Registrar is not so appointed within ten (10) days after (a) a notice of resignation or an instrument or document of removal is received by Citizens, as provided above, or (b) the Registrar is dissolved, taken under control, becomes otherwise incapable of acting or a receiver is appointed or an order for relief is entered under any bankruptcy, insolvency, reorganization or similar law, in each case, as provided above, then, if an Authorized Citizens Representative shall not have appointed a successor Registrar, the Indenture Trustee or the Holders of a majority in aggregate principal amount of Indenture Obligations then outstanding may designate a successor Registrar by an instrument or document or concurrent instruments or documents in writing signed by the Indenture Trustee, or in the case of the Holders, by or on behalf of those Holders.

Every successor Registrar appointed hereunder shall execute and acknowledge, and shall deliver to its predecessor, the Association and the Indenture Trustee, an instrument or document in writing accepting the appointment. Thereupon, without any further act, the successor shall become vested with all of the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests of its predecessor and, within ten (10) days thereafter the Indenture Trustee shall mail written notice of that acceptance to the Holders of the Indenture Obligations of the applicable Series, as their names and addresses appear on the Register at the close of business on the date of acceptance. Upon the written request of its successor or Citizens, a predecessor Registrar (i) shall execute and deliver an instrument or document transferring to its successor all of the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests of it as Registrar hereunder, and (ii) shall take any other action necessary to duly assign, transfer and deliver to its successor all property and records (including, without limitation, the Register and any cancelled Indenture Obligations) held by it as

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Registrar. Should any instrument or document in writing from Citizens be requested by any successor Registrar for vesting and conveying more fully and certainly in and to that successor the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests vested or conveyed or intended to be vested or conveyed hereby in or to a predecessor Registrar, Citizens shall execute, acknowledge and deliver that instrument or document.

SECTION 7.12. Designation and Succession of Paying Agents. The Indenture Trustee shall be a Paying Agent for the Indenture Obligations, and, with the consent of an Authorized Citizens Representative, the Indenture Trustee may appoint a Paying Agent or Agents with power to act on its behalf and subject to its direction in the payment of Debt Service Charges on any Series of Indenture Obligations. It is the responsibility of the Indenture Trustee to establish the duties and responsibilities of any Paying Agent for the purposes of this Indenture, to the extent not specified herein.

Any corporation or association with or into which any Paying Agent may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, consolidation or conversion to which any Paying Agent shall be a party, or any corporation or association succeeding to the corporate trust business of any Paying Agent, shall be the successor of that Paying Agent hereunder, if that successor corporation or association is otherwise eligible hereunder, without the execution or filing of any paper or any further act on the part of the parties hereto or the Paying Agent or that successor corporation or association.

Any Paying Agent may at any time resign by giving written notice of resignation to the Indenture Trustee, Citizens and the Registrar; provided, however, that to the extent the Indenture Trustee is serving as the sole Paying Agent for a Series of Indenture Obligations, the Indenture Trustee may not resign as Paying Agent until such time as a successor Paying Agent has been appointed. The Indenture Trustee may at any time terminate the agency of any Paying Agent by giving written notice of termination to such Paying Agent, the Registrar and Citizens. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Paying Agent shall cease to be eligible under this Section, the Indenture Trustee may appoint a successor Paying Agent. The Indenture Trustee shall give written notice of appointment of a successor Paying Agent to Citizens and the Registrar and shall mail, within ten (10) days after that appointment, notice thereof to all Holders as their names and addresses appear on the Register on the date of that appointment.

The Indenture Trustee shall pay to any Paying Agent from time to time reasonable compensation as authorized in Section 7.03 hereof for its services, and the Indenture Trustee shall be entitled to be reimbursed for such payments, subject to Section 7.03 hereof.

Each Paying Agent shall comply with all applicable withholding, information reporting and backup withholding tax requirements under the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder in respect of any payment on, or in respect of, any Indenture Obligation or under this Indenture.

The provisions of Section 3.05 and subsection 7.02(d) shall be applicable to any Paying Agent.

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The Indenture Trustee covenants that it will take such action, if any, as is necessary to remain in good standing and duly authorized to exercise corporate trust powers in the State, and that it will maintain an unimpaired reported capital and surplus of not less than \$50,000,000.

SECTION 7.16. Duties and Obligations of Indenture Trustee in other Instruments and Documents. The Indenture Trustee accepts and agrees to observe and perform the duties and obligations of the Indenture Trustee to which reference is made in any other instrument or document providing security for any of the Indenture Obligations. In observing and performing such duties and obligations the Indenture Trustee shall be subject to the privileges, immunities, limitations of duties and obligations and indemnification granted to the Indenture Trustee hereunder.

ARTICLE VIII

DEFAULT PROVISIONS AND REMEDIES OF INDENTURE TRUSTEE AND HOLDERS

SECTION 8.01. Defaults, Events of Default. The occurrence of any of the following events is defined as and declared to be and to constitute an Event of Default hereunder:

(a) payment of the principal or the redemption premium, if any, or any mandatory defeasance payment, if any, of any of the Indenture Obligations shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) payment of any installment of interest on any of the Indenture Obligations shall not be made when the same shall become due and payable; or

(c) Citizens shall fail to observe or perform any covenant contained in the Pledge and Security Agreement (including any grace period included therein) and such failure by Citizens (i) adversely affects the Collateral for the Indenture Obligations or (ii) materially adversely affects the rights and remedies of the Indenture Trustee hereunder or of the Collateral Trustee under the Pledge and Security Agreement; or

(d) Citizens shall default in the due and punctual performance of any of the covenants, obligations or agreements (other than those described in paragraph (a) or (b) above) contained in the Indenture Obligations or in this Indenture on the part of Citizens to be performed and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to Citizens by the Indenture Trustee, which may give such notice in its discretion and shall give notice at the written request of the Holders of not less than a majority in aggregate principal amount of the Indenture Obligations then Outstanding; provided, however, that (except for defaults resulting from the failure to observe the covenants set forth in Sections 11.04, 11.06, 11.07, 11.08, 11.11 and 11.12 hereof) if the default specified in this paragraph (d) shall be of a type which can be remedied but not within thirty (30) days, it shall not constitute an Event of Default if Citizens shall begin to remedy such default within such thirty (30) period, Citizens diligently pursues a remedy to such default completion and the default is remedied within sixty (60) days or such longer period of

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SECTION 7.13. Designation and Succession of Authenticating Agents. With the consent of an Authorized Citizens Representative, the Indenture Trustee may appoint an Authenticating Agent or Agents, in addition to the Registrar, with power to act on its behalf and subject to its direction in the authentication and delivery of Indenture Obligations in connection with transfers and exchanges under Section 3.06 hereof. For all purposes of this Indenture, the authentication and delivery of Indenture Obligations by an Authenticating Agent pursuant to this Section shall be deemed to be authentication and delivery of those Indenture Obligations "by the Indenture Trustee".

Any corporation or association with or into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation or association succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of that Authenticating Agent hereunder, if that successor corporation or association is otherwise eligible hereunder, without the execution or filing of any paper or any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Indenture Trustee, the Registrar and Citizens. The Indenture Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent, the Registrar and Citizens. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Indenture Trustee may appoint a successor Authenticating Agent. The Indenture Trustee shall give written notice of appointment of a successor Authenticating Agent to Citizens and the Registrar and shall mail, within ten (10) days after that appointment, notice thereof to all Holders as their names and addresses appear on the Register on the date of that appointment.

The Indenture Trustee shall pay to any Authenticating Agent from time to time reasonable compensation for its services, and the Indenture Trustee shall be entitled to be reimbursed for such payments, subject to Section 7.03 hereof.

The provisions of Section 3.05 and subsections 7.02(b), (c), (d), (h) and (i) shall be applicable to any Authenticating Agent.

SECTION 7.14. Dealing in Indenture Obligations. The Indenture Trustee, a Registrar, a Paying Agent and an Authenticating Agent, their affiliates, and any directors, officers, employees or agents thereof, in good faith, may become the owners of Indenture Obligations secured hereby with the same rights which it or they would have hereunder if the Indenture Trustee, the Registrar, Paying Agents or Authenticating Agents did not serve in those capacities.

SECTION 7.15. Representations, Agreements and Covenants of Indenture Trustee. The Indenture Trustee hereby represents that it is a New York banking corporation, in good standing and duly authorized to exercise corporate trust powers in the State, qualified to act as trustee hereunder as if this Indenture were subject to the requirements of the Trust Indenture Act of 1939, and that it has an unimpaired reported capital and surplus of not less than \$50,000,000.

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time as the Indenture Trustee may consent to in writing if such delay does not impair the security provided hereunder for the Indenture Obligations or adversely affect the rights and remedies of the Indenture Trustee hereunder; or

(e) any representation, warranty, certification or statement made by Citizens in this Indenture or in any certificate, financial statement or other document delivered in writing pursuant to this Indenture shall prove to have been incorrect in any material respect when made and such incorrect representation, warranty, certification or statement adversely affects the Collateral for the Indenture Obligations or materially adversely affects the rights or remedies of the Indenture Trustee hereunder; or

(f) the occurrence of a default or event of default by Citizens under any mortgage, indenture (other than the Indenture) or other instrument under which there is issued or by which there is secured or evidenced any Indebtedness (other than the Indenture Obligations) of Citizens in respect of or allocable to the Coastal Account ("Indebtedness") or the payment of which is guaranteed by Citizens, whether such Indebtedness or guarantee now exists or is created after the Issue Date, which default (i) is caused by a failure to pay when due principal or interest on such Indebtedness (which failure continues beyond any applicable grace period) (a "Payment Default") or (ii) results in the acceleration of such Indebtedness prior to its express maturity and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which a Payment Default then exists or with respect to which the maturity thereof has been so accelerated, aggregates \$10 million or more; or

(g) Citizens shall become subject to any limitation on, or regulation of (whether direct or indirect and whether pursuant to any law (including, without limitation, the Florida Constitution), regulation or action or failure to act by any Person), Citizen's ability to fix, levy, charge and collect the Regular Assessments, the Emergency Assessments and policy premiums to be levied, charged and collected under the Plan of Operation, the Act and other applicable law, whether in the maximum amounts or at the maximum rates authorized by the Plan of Operation, the Act and other applicable law or otherwise, other than the requirements of the Department of Insurance to verify Emergency Assessments under the Plan of Operation and the Act and to approve Citizen's premium rates under the Act and Chapter 627, Florida Statutes; provided, however, that the occurrence of any such event shall not result in an Event of Default hereunder unless such event materially adversely affects Citizen's ability to pay the principal of, redemption premium, if any, and interest on the Indenture Obligations then Outstanding; or

(h) a governmental or quasi-governmental entity or program to provide insurance or otherwise to assume or apportion risks of loss in respect of windstorm damage shall be created or established with the purpose or effect of replacing, superseding, conducting, performing or assuming, in whole or in part, any of the activities authorized to be conducted or performed by Citizens if such creation or establishment could have a material adverse effect on the rights or interests of the Holders (it being understood and agreed that the creation or establishment of any such entity or program which assumes less than all or substantially all of the policies written by Citizens shall not, by reason solely of such assumption, be deemed to have any such material adverse effect); provided, however, that the same shall not constitute an Event of Default hereunder if (x) there has been a Qualifying Bank Waiver of such event or, (y) if there is not a Qualifying Line of Credit then in effect, there has been a waiver of such event by each Credit

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Enhancement Facility Issuer that has issued and then has outstanding a Credit Enhancement Facility with respect to Indenture Obligations then Outstanding (provided that, together, such Credit Enhancement Facilities cover at least a majority in aggregate principal amount of the Indenture Obligations then Outstanding) or, (z) if there is not a Qualifying Line of Credit then in effect and if Credit Enhancement Facilities are not in effect covering a majority in aggregate principal amount of the Indenture Obligations then Outstanding, Citizens obtains written confirmation from the Rating Agencies that such event will not, in and of itself, cause such Rating Agency to withdraw or downgrade its underlying ratings then in effect on the Outstanding Indenture Obligations; or

(i) Citizens shall commence a voluntary case or other proceeding seeking liquidation, rehabilitation, conservatorship, reorganization or other relief with respect to itself on its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, rehabilitator, conservator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action to authorize any of the foregoing; or

(j) an involuntary case or other proceeding shall be commenced against Citizens seeking liquidation, rehabilitation, conservatorship, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, rehabilitator, conservator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days; or an order for relief shall be entered against Citizens under the federal bankruptcy laws as now or hereafter in effect; or

(k) Citizens consolidates or amalgamates with, or merges into, transfers all or substantially all its assets to, or reorganizes, incorporates, reincorporates, or reconstitutes into or as, another entity, or Citizens otherwise reorganizes or effects a recapitalization, or another entity consolidates or amalgamates with, or merges into, transfers all or substantially all of its assets, or reorganizes, incorporates, reincorporates, or reconstitutes into or as, Citizens, and as a result or in contemplation of such event, the initial rating assigned to the Indenture Obligations is downgraded by any Rating Agency below the initial rating assigned to the Indenture Obligations by such Rating Agency on the first Issue Date; provided, however, that if prior to the occurrence of any event described in this paragraph (k), the ratings on the Indenture Obligations shall have been reduced from the initial ratings assigned to the Indenture Obligations on the first Issue Date (unless caused by the contemplation of such event), an event described in this paragraph (k) shall constitute an Event of Default if, and only if, such event (i) adversely affects the Collateral for the Indenture Obligations, (ii) materially adversely affects the rights or remedies of the Indenture Trustee hereunder or (iii) results in a further downgrade by any of the Rating Agencies of its rating on the Securities; or

(l) the Department of Insurance shall fail to observe or perform any material covenant or material agreement contained in the DOI Agreement or shall terminate the DOI

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(q) the Department of Insurance shall declare by final order, or any court of competent jurisdiction shall determine in a final non-appealable decision, that the legal authority of Citizens to fix, levy or collect regular assessments or emergency assessments to the fullest extent authorized under the Act in respect of the Personal Lines Account or the Commercial Lines Account shall be null and void or shall not otherwise be legal, valid or enforceable; provided, however, that the same shall not constitute an Event of Default hereunder if (x) there has been a Qualifying Bank Waiver of such event or, (y) there is not a Qualifying Line of Credit then in effect, there has been a waiver of such event by each Credit Enhancement Facility Issuer that has issued and then has outstanding a Credit Enhancement Facility with respect to Indenture Obligations then Outstanding (provided that, together, such Credit Enhancement Facilities cover at least a majority in aggregate principal amount of the Indenture Obligations then Outstanding) or, (z) there is not a Qualifying Line of Credit then in effect and if Credit Enhancement Facilities are not in effect covering a majority in aggregate principal amount of the Indenture Obligations then Outstanding, Citizens obtains written confirmation from the Rating Agencies that such event will not, in and of itself, cause such Rating Agency to withdraw or downgrade its underlying ratings then in effect on the Outstanding Indenture Obligations; or

(r) any event or condition shall occur which results in the acceleration of the maturity of debt of Citizens incurred under the Amended and Restated Credit Agreement dated as of March 30, 1999, as amended from time to time, among Citizens (previously known as Florida Residential Property and Casualty Joint Underwriting Association), the lending institutions and documentation agents party thereto and JPMorgan Chase Bank (successor by merger to Morgan Guaranty Trust Company of New York), as administrative agent, or the Trust Indenture dated as of May 1, 1997, as amended, modified or supplemented from time to time, between Citizens (previously known as Florida Residential Property and Casualty Joint Underwriting Association) and The Bank of New York, as trustee; provided, however, that the same shall not constitute an Event of Default hereunder if (x) there has been a Qualifying Bank Waiver of such event or, (y) there is not a Qualifying Line of Credit then in effect, there has been a waiver of such event by each Credit Enhancement Facility Issuer that has issued and then has outstanding a Credit Enhancement Facility with respect to Indenture Obligations then Outstanding (provided that, together, such Credit Enhancement Facilities cover at least a majority in aggregate principal amount of the Indenture Obligations then Outstanding) or, (z) there is not a Qualifying Line of Credit then in effect and if Credit Enhancement Facilities are not in effect covering a majority in aggregate principal amount of the Indenture Obligations then Outstanding, Citizens obtains written confirmation from the Rating Agencies that such event will not, in and of itself, cause such Rating Agency to withdraw or downgrade its underlying ratings then in effect on the Outstanding Indenture Obligations.

SECTION 8.02. Notice of Default. If an Event of Default shall occur, the Indenture Trustee shall give written notice of the Event of Default, by registered or certified mail, to Citizens, the Registrar, any Paying Agent and Authenticating Agent, the Collateral Trustee and the Initial Purchaser of each Series of Indenture Obligations, within five (5) days after the Indenture Trustee has knowledge (or is deemed to have knowledge pursuant to Section 7.02 (f) hereof) of the Event of Default. If an Event of Default occurs of which the Indenture Trustee has notice pursuant to this Indenture, the Indenture Trustee shall give written notice thereof, within thirty (30) days after the Indenture Trustee's receipt of notice of its occurrence, to the Holders of all Indenture Obligations then outstanding as shown by the Register at the close of business

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Agreement and such non-observance, non-performance or termination adversely affects the Collateral for the Indenture Obligations or materially adversely affects the rights or remedies of the Indenture Trustee hereunder; provided, however, that the same shall not constitute an Event of Default hereunder if there has been a Qualifying Bank Waiver of such event; or

(m) any representation, warranty, certification or statement made by the Department of Insurance in the DOI Agreement shall prove to have been incorrect in any material respect when made and such incorrect representation, warranty, certification or statement adversely affects the Collateral for the Indenture Obligations or materially adversely affects the rights or remedies of the Indenture Trustee hereunder; provided, however, that the same shall not constitute an Event of Default hereunder if (x) there has been a Qualifying Bank Waiver of such event or, (y) there is not a Qualifying Line of Credit then in effect, there has been a waiver of such event by each Credit Enhancement Facility Issuer that has issued and then has outstanding a Credit Enhancement Facility with respect to Indenture Obligations then Outstanding (provided that, together, such Credit Enhancement Facilities cover at least a majority in aggregate principal amount of the Indenture Obligations then Outstanding) or, (z) there is not a Qualifying Line of Credit then in effect and if Credit Enhancement Facilities are not in effect covering a majority in aggregate principal amount of the Indenture Obligations then Outstanding, Citizens obtains written confirmation from the Rating Agencies that such event will not, in and of itself, cause such Rating Agency to withdraw or downgrade its underlying ratings then in effect on the Outstanding Indenture Obligations; or

(n) an enforceable, non-appealable judgment or order for the payment of money in excess of \$1,000,000 shall be rendered against Citizens payable from the Coastal Account and such judgment or order shall continue unsatisfied and unstayed eighteen (18) months after the end of the Fiscal Year in which such enforceable, non-appealable judgment or order was rendered; or

(o) the liens created pursuant to the Pledge and Security Agreement shall at any time and for any reason not be valid or not have the priority purported to be granted thereby, or Citizens, the Department of Insurance or the State of Florida shall so assert in writing; or

(p) Citizens shall have obtained a Draw in anticipation of FHCF Reimbursements and prior to such Draw having been repaid, the FHCF's reimbursement obligations under the FHCF Agreement shall be terminated or rescinded, or any material provision of such FHCF Agreement relating to such reimbursement obligations shall at any time cease to be legal, valid and binding on Citizens or the State Board of Administration of the State or the FHCF, or shall be declared to be null and void, or the legality, validity or enforceability thereof shall be contested by Citizens, the Department of Insurance, the FHCF or the State, in each case whether arising from litigation, legislation or rulemaking or other events or circumstances, with the result being that Citizens is unable to comply with the requirements of Section 11.03(a) hereof; provided, however, that any such event shall not constitute an Event of Default if within thirty (30) days after the occurrence of such event Citizens shall have provided written evidence to the Indenture Trustee that Citizens has commenced proceedings (including, without limitation, submission of the requisite filings with the Department of Insurance) in order to impose or increase Emergency Assessments in an amount sufficient to fully pay such Draw and such Emergency Assessments are actually imposed or increased within twelve months of the month in which such event occurred.

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fifteen (15) days prior to the mailing of that notice. In addition to the foregoing, upon the occurrence of an Event of Default, the Indenture Trustee agrees to provide to the Collateral Trustee a Notice of Default Distribution as required by the Pledge and Security Agreement (in the manner and form provided in the Pledge and Security Agreement).

SECTION 8.03. Acceleration. Upon the occurrence of an Event of Default described in paragraph (i) or (j) of Section 8.01 hereof, the Indenture Trustee shall declare the principal of all Indenture Obligations then Outstanding (if not then due and payable), and the interest accrued thereon, to be due and payable immediately. Upon the occurrence of any other Event of Default described in Section 8.01 hereof (other than an Event of Default described in paragraph (i) or (j) of that Section 8.01), the Indenture Trustee may declare, and upon the written request of the Holders of not less than twenty-five percent (25%) of the aggregate principal amount of Indenture Obligations then Outstanding the Indenture Trustee shall declare, by a notice in writing delivered to Citizens, the principal of all Indenture Obligations then Outstanding (if not then due and payable), and the interest accrued thereon, to be due and payable immediately. Upon that declaration, that principal and interest shall become and be due and payable immediately. Interest on the Indenture Obligations shall accrue to the date determined by the Indenture Trustee for the tender of payment to the Holders pursuant to that declaration; provided, that interest on any unpaid principal of Indenture Obligations Outstanding shall continue to accrue from the date determined by the Indenture Trustee for the tender of payment to the Holders of those Indenture Obligations.

The provisions of the preceding paragraph are subject, however, to the condition that if, at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement hereunder,

(a) all sums payable hereunder (except the principal of and interest on Indenture Obligations which have not reached their stated maturity dates but which are due and payable solely by reason of that declaration of acceleration), plus interest to the extent permitted by law on any overdue installments of interest at the Default Rate borne by the Indenture Obligations in respect of which the default shall have occurred, shall have been duly paid or provision shall have been duly made therefor by deposit with the Indenture Trustee or Paying Agents and the fees and expenses of the Indenture Trustee, the Registrar and the Paying Agents shall have been paid, and

(b) all existing Events of Default shall have been cured or waived,

the Holders of a majority in aggregate principal amount of the Indenture Obligations may rescind and annul that declaration. No waiver or rescission and annulment shall extend to or affect any subsequent Event of Default or shall impair any rights consequent thereon.

SECTION 8.04. Other Remedies: Rights of Holders. With or without taking action under Section 8.03 hereof, upon the occurrence and continuance of an Event of Default, the Indenture Trustee may pursue any available remedy to enforce the payment of Debt Service Charges or the observance and performance of any other covenant, agreement or obligation under this Indenture. Without limiting the generality of the foregoing, upon the occurrence and continuance of an Event of Default, the Indenture Trustee, in its discretion may, and upon the

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written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Indenture Obligations shall, subject to the provisions of Section 7.02(j) hereof, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders, including, without limitation, the right to require Citizens to carry out any agreements with, or for the benefit of, the Holders and to perform its duties under the Act and this Indenture;

(b) bring suit upon the Indenture Obligations;

(c) by action or suit in equity require Citizens to account as if it were the trustee of an express trust for the Holders;

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Holders; and

(e) by other proceeding in law or equity, exercise all rights and remedies provided for by any other document or instrument securing the Indenture Obligations.

No remedy conferred upon or reserved to the Indenture Trustee (or to the Holders) by this Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or otherwise to the Indenture Trustee or to the Holders now or hereafter existing.

No delay in exercising or omission to exercise any remedy, right or power accruing upon any default or Event of Default shall impair that remedy, right or power or shall be construed to be a waiver of any default or Event of Default or acquiescence therein. Every remedy, right and power may be exercised from time to time and as often as may be deemed to be expedient.

No waiver of any default or Event of Default hereunder, whether by the Indenture Trustee or by the Holders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any remedy, right or power consequent thereon.

In exercising any remedy, right or power hereunder, the Indenture Trustee shall take any action which would best serve the interests of the Holders in the judgment of the Indenture Trustee, applying the standards described in Sections 7.01 and 7.02 hereof.

SECTION 8.05. Right of Holders to Direct Proceedings. Anything to the contrary in this Indenture notwithstanding, the Holders of a majority in aggregate principal amount of Indenture Obligations then outstanding shall have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Indenture Trustee, the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture or any other proceedings hereunder; provided, that (i) any direction shall not be other than in accordance with the provisions of law and of this Indenture, (ii) the Indenture Trustee shall be indemnified as provided in Sections 7.01 and 7.02, and (iii) the Indenture Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction.

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issued and the Supplemental Indenture authorizing the issuance of the Series of Indenture Obligations to which such Credit Enhancement Facility relates.

Whenever moneys are to be applied pursuant to the provisions of this Section, those moneys shall be applied at such times, and from time to time, as the Indenture Trustee shall determine, having due regard to the amount of moneys available for application and the likelihood of additional moneys becoming available for application in the future. Whenever the Indenture Trustee shall direct the application of those moneys, it shall fix the date upon which the application is to be made, and upon that date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor. The Indenture Trustee shall give notice to the Holders of the deposit with it of any moneys and of the fixing of that date, all consistent with the requirements of Section 3.05 hereof for the establishment of, and for giving notice with respect to, a Special Record Date for the payment of overdue interest. The Indenture Trustee shall not be required to make payment of principal of and any premium on an Indenture Obligation to the Holder thereof, until the Indenture Obligation shall be presented to the Indenture Trustee for appropriate endorsement or for cancellation if it is paid fully.

SECTION 8.07. Remedies Vested in Indenture Trustee. All rights of action (including, without limitation, the right to file proof of claims) under this Indenture or under any of the Indenture Obligations may be enforced by the Indenture Trustee without the possession of any of the Indenture Obligations or the production thereof in any trial or other proceeding relating thereto. Any suit or proceeding instituted by the Indenture Trustee shall be brought in its name as Indenture Trustee without the necessity of joining any Holders as plaintiffs or defendants. Any recovery of judgment shall be for the benefit of the Holders of the Outstanding Indenture Obligations, subject to the provisions of this Indenture.

SECTION 8.08. Indenture Trustee's Right to Receiver. The Indenture Trustee shall be entitled as of right to the appointment of a receiver and the Indenture Trustee, the Holders and any receiver so appointed shall have such rights and powers and be subject to such limitations and restrictions as are contained in the applicable laws of the State.

SECTION 8.09. Indenture Trustee and Holders Entitled to all Remedies under State Law. It is the purpose of this Article VIII to provide such remedies to the Indenture Trustee and Holders as may be lawfully granted under the applicable laws of the State; if any remedy herein granted shall be held unlawful, the Indenture Trustee and the Holders shall nevertheless be entitled to every other remedy provided by the applicable laws of the State. It is further intended that, insofar as lawfully possible, the provisions of this Article VIII shall apply to and be binding upon any receiver appointed in accordance with Section 8.08 hereof.

SECTION 8.10. Rights and Remedies of Holders. A Holder shall not have any right to institute any suit, action or proceeding for the enforcement of this Indenture, for the execution of any trust hereof, or for the exercise of any other remedy hereunder (other than to seek the appointment of a successor Indenture Trustee pursuant to Section 7.09 hereof), unless:

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SECTION 8.06. Application of Moneys in Event of Default. Any moneys received by the Indenture Trustee in connection with any proceedings brought under this Article VIII with respect to the Indenture Obligations shall be applied:

(a) To the payment of the unpaid fees and expenses of the Indenture Trustee, including, without limitation, the reasonable fees and expenses of counsel to the Indenture Trustee (except from moneys paid under a Credit Enhancement Facility) incurred in connection with actions taken under this Article VIII with respect to the Indenture Obligations, including any disbursements of the Indenture Trustee.

(b) Unless the principal of all the Indenture Obligations shall have become due and payable:

FIRST: to payment of all installments of interest then due on the Indenture Obligations in the order of maturity of such installments of interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any preference or priority of one installment of interest over any other installment, except as to any difference in the respective rates of interest specified in the Indenture Obligations; and

SECOND: to payment to the persons entitled thereto of the unpaid principal or redemption price of any of the Indenture Obligations which shall have become due in the order of their due dates, with interest on such Indenture Obligations from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full the principal or redemption price coming due on such Indenture Obligations on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any preference or priority of one such Indenture Obligation over another or of any installment of interest over another, except as to any difference in the respective rates of interest specified in the Indenture Obligations.

(c) If the principal of all Indenture Obligations shall have become due and payable, to the payment of principal or redemption price (as the case may be) and interest then owing on the Indenture Obligations and in case such moneys shall be insufficient to pay the same in full, then to the payment of principal or redemption price and interest ratably, without preference or priority of one Indenture Obligation (including the principal and redemption price thereof) over another or of any installment of interest over any other installment of interest. After the payment of all of the principal of and interest on the Indenture Obligations shall have been made, except as provided in clause (a) above, any moneys remaining shall be applied to the payment of Program Costs due hereunder.

For purposes of the application of moneys described above, to the extent payments of principal of and interest on Indenture Obligations shall have been made under a Credit Enhancement Facility, the Credit Enhancement Facility Issuer shall be entitled to moneys in the Accounts held under this Indenture to the extent that the Holders of the Indenture Obligations secured by such Credit Enhancement Facility would have been entitled to receive such moneys (assuming for purposes of this provision that the Credit Enhancement Facility is not in effect) in accordance with the agreement pursuant to which such Credit Enhancement Facility has been

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(a) there has occurred and is continuing an Event of Default of which the Indenture Trustee has been notified, as provided in paragraph (f) of Section 7.02 hereof, or of which it is deemed to have notice under that paragraph,

(b) the Holders of at least twenty-five percent (25%) of the aggregate principal amount of Indenture Obligations then Outstanding shall have made written request to the Indenture Trustee and shall have afforded the Indenture Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted herein or to institute the suit, action or proceeding in its own name, and shall have offered indemnity to the Indenture Trustee as provided in Sections 7.01 and 7.02 hereof, and

(c) the Indenture Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted herein or to institute the suit, action or proceeding in its own name within a reasonable time (which shall not be less than thirty (30) days).

At the option of the Indenture Trustee, notification (or notice), request, opportunity and offer of indemnity are conditions precedent in every case, to the institution of any suit, action or proceeding described above.

No one or more Holders of the Indenture Obligations shall have any right to affect, disturb or prejudice in any manner whatsoever the security or benefit of this Indenture by its or their action, or to enforce, except in the manner provided herein, any remedy, right or power hereunder. Any suit, action or proceedings shall be instituted, had and maintained in the manner provided herein for the benefit of the Holders of all Indenture Obligations then outstanding. Nothing in this Indenture shall affect or impair, however, the right of any Holder to enforce the payment of the Debt Service Charges on any Indenture Obligation owned by that Holder at and after the maturity (or such earlier date set for payment upon a declaration of acceleration) thereof, at the place, from the sources and in the manner expressed in that Indenture Obligation.

SECTION 8.11. Termination of Proceedings. In case the Indenture Trustee shall have proceeded to enforce any remedy, right or power under this Indenture in any suit, action or proceedings, and the suit, action or proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Indenture Trustee, Citizens, the Indenture Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Indenture Trustee shall continue as if no suit, action or proceedings had been taken. Notwithstanding anything to the contrary contained in this Article VIII, no proceeding taken by the Indenture Trustee on account of an Event of Default in respect of which a drawing has been made under a Credit Enhancement Facility shall be discontinued unless the Credit Enhancement Facility then in effect has been reinstated to the required maximum amount thereof.

SECTION 8.12. Waivers of Events of Default. Except as hereinafter provided, at any time, in its discretion, the Indenture Trustee may waive any Event of Default hereunder and its consequences. The Indenture Trustee shall do so upon the written request of the Holders of

(a) at least a majority in aggregate principal amount of all Indenture Obligations then outstanding if an Event of Default in the payment of Debt Service Charges exists, or

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(b) at least twenty-five percent (25%) in aggregate principal amount of all Indenture Obligations then outstanding, if any other Event of Default exists.

There shall not be so waived, however (i) any Event of Default with respect to a covenant or provision of this Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Indenture Obligation, without the consent of the Holders of all Outstanding Indenture Obligations, or (ii) any Event of Default described in paragraph (a) or (b) of Section 8.01 hereof or any declaration of acceleration in connection therewith rescinded or annulled, unless at the time of that waiver or rescission and annulment payment of the amounts provided in Section 8.03 hereof for waiver and rescission and annulment in connection with acceleration of maturity has been made or provision has been made therefor and the Indenture Trustee shall have received the consent of the Holders of at least a majority in aggregate principal amount of the Indenture Obligations then Outstanding. In the case of the waiver or rescission and annulment, or in case any suit, action or proceedings taken by the Indenture Trustee on account of any Event of Default shall have been discontinued, abandoned or determined adversely to it, Citizens, the Indenture Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively. No waiver or rescission shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

SECTION 8.13. Credit Enhancement Facility Issuer's Rights Upon Events of Default. Anything in this Indenture to the contrary notwithstanding, if any Event of Default has occurred and is continuing while a Credit Enhancement Facility securing all or a portion of the Indenture Obligations Outstanding is in effect and not in default, the Credit Enhancement Facility Issuer shall, except as set forth below, have the right, in lieu of the Holders of the Indenture Obligations secured by said Credit Enhancement Facility, by an instrument in writing, executed and delivered to the Indenture Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Indenture Trustee under this Indenture or of exercising any trust or power conferred on the Indenture Trustee by this Indenture. Said direction shall be controlling to the extent the direction of Holders of the Indenture Obligations secured by said Credit Enhancement Facility would have been controlling under this Article VIII. If the Credit Enhancement Facility Issuer shall be in default in the performance of its obligations under the Credit Enhancement Facility, said Credit Enhancement Facility Issuer shall have no rights under this Section.

ARTICLE IX

SUPPLEMENTAL INDENTURES; AMENDMENTS TO PLEDGE AND SECURITY AGREEMENT

SECTION 9.01. Supplemental Indentures Generally. Citizens and the Indenture Trustee may enter into indentures supplemental to this Indenture, as provided in this Article and pursuant to the other provisions thereof in this Indenture. This Indenture may only be amended through a written Supplemental Indenture that complies with the provisions of this Article IX.

SECTION 9.02. Supplemental Indentures Not Requiring Consent of Holders. Without the consent of or notice to any of the Holders, Citizens and the Indenture Trustee may enter into indentures supplemental to this Indenture which shall not, in the opinion of Citizens and the

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terms, provisions and limitations contained in this Section, and not otherwise, with the consent of the Holders of not less than a majority in aggregate principal amount of the Indenture Obligations at the time outstanding, evidenced as provided in this Indenture, Citizens and the Indenture Trustee may execute and deliver Supplemental Indentures adding any provisions to, changing in any manner or eliminating any of the provisions of this Indenture or any Supplemental Indenture or restricting in any manner the rights of the Holders. Nothing in this Section or Section 9.02 hereof shall permit, however, or be construed as permitting:

(a) without the consent of the Holder of each Indenture Obligation so affected, (i) an extension of the maturity of the principal of or the interest on any Indenture Obligation, (ii) a reduction in the principal amount of any Indenture Obligation or the rate of interest or premium thereon, (iii) a reduction in the amount of, or an extension of the time for, payment of any mandatory sinking fund requirements, (iv) the time or price of any applicable redemption, put or purchase rights thereunder affected or (v) any amendment relating to the assumption by another entity of Citizens' covenants and obligations herein and in the Indenture Obligations, except in accordance with Section 11.18, or

(b) without the consent of the Holders of all Indenture Obligations then Outstanding, (i) the creation of a privilege or priority of any Indenture Obligation or Indenture Obligations over any other Indenture Obligation or Indenture Obligations, or (ii) a reduction in the aggregate principal amount of the Indenture Obligations Outstanding required for consent to a Supplemental Indenture.

If Citizens shall request in writing that the Indenture Trustee execute and deliver any Supplemental Indenture for any of the purposes of this Section, upon being satisfactorily indemnified with respect to its expenses in connection therewith, the Indenture Trustee shall cause notice of the proposed execution and delivery of the Supplemental Indenture to be mailed by first-class mail, postage prepaid, to all Holders of Indenture Obligations then outstanding at their addresses as they appear on the Register at the close of business on the fifteenth (15th) day preceding that mailing.

The Indenture Trustee shall not be subject to any liability to any Holder by reason of the Indenture Trustee's failure to mail, or the failure of any Holder to receive, the notice required by this Section. Any failure of that nature shall not affect the validity of the Supplemental Indenture when there has been consent thereto as provided in this Section. The notice shall set forth briefly the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated corporate trust office or the office identified in Section 13.03 hereof as applicable, of the Indenture Trustee for inspection by all Holders.

If the Indenture Trustee shall receive, within a period prescribed by Citizens not exceeding one (1) year following the mailing of the notice, an instrument or document or instruments or documents, in form to which the Indenture Trustee does not reasonably object, purporting to be executed by the Holders of the required percentage in aggregate principal amount of the Indenture Obligations then Outstanding (which instrument or document or instruments or documents shall refer to the proposed Supplemental Indenture in the form described in the notice and specifically shall consent to the Supplemental Indenture in substantially that form), the Indenture Trustee shall, but shall not otherwise, execute and deliver

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Indenture Trustee, be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

(a) to set forth any or all of the matters in connection with the issuance of Additional Indenture Obligations required by Articles II and III hereof, including, without limitation, the issuance of Capital Appreciation Indenture Obligations, Capital Appreciation and Income Indenture Obligations and Variable Rate Indenture Obligations;

(b) to add additional covenants of Citizens or to surrender any right or power conferred herein upon Citizens;

(c) for any purpose not inconsistent with the terms of this Indenture or the Supplemental Indenture in question, as the case may be, or to cure any ambiguity or to cure, correct or supplement any defective provision (whether because of any inconsistency with any other provision hereof or otherwise) of this Indenture or the Supplemental Indenture in question, as the case may be, in such manner as shall not impair the security provided for the Indenture Obligations under this Indenture or adversely affect the rights and remedies of the Holders;

(d) to make any change necessary to procure the issuance, renewal or extension of any Credit Enhancement Facility or rating on the Indenture Obligations, so long as such change does not impair the security provided for the Indenture Obligations under this Indenture or adversely affect the rights and remedies granted to the Holders hereunder;

(e) to permit the Indenture Trustee to comply with any obligations imposed upon it by law;

(f) to specify further the duties and responsibilities of, and to define further the relationship among, the Indenture Trustee, the Registrar and any Authenticating Agents or Paying Agents;

(g) to achieve compliance of this Indenture with any applicable federal or state tax law;

(h) to make amendments to the provisions hereof necessary for or desirable to permit registration of the Indenture Obligations under the Securities Act or to qualify this Indenture under the Trust Indenture Act of 1939 as amended or to achieve compliance with the Exchange Act or any other federal or state securities law; and

(i) to permit any other amendment which, in the judgment of the Indenture Trustee, is not to the prejudice of the Indenture Trustee or the Holders.

The provisions of Subsections 9.02(e), (g) and (h) shall not be deemed to constitute a waiver by the Indenture Trustee, the Registrar, Citizens or any Holder of any right which it may have in the absence of those provisions to contest the application of any change in law to this Indenture or the Indenture Obligations.

SECTION 9.03. Supplemental Indentures Requiring Consent of Holders. Exclusive of Supplemental Indentures to which reference is made in Section 9.02 hereof and subject to the

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the Supplemental Indenture in substantially the form to which reference is made in the notice as being on file with the Indenture Trustee, without liability or responsibility to any Holder, regardless of whether that Holder shall have consented thereto.

Any consent shall be irrevocable and binding upon the Holder of the Indenture Obligation giving the consent and, anything herein to the contrary notwithstanding, upon any subsequent Holder of that Indenture Obligation and of any Indenture Obligation issued in exchange therefor (regardless of whether the subsequent Holder has notice of the consent to the Supplemental Indenture). At any time after the Holders of the required percentage in aggregate principal amount of the Indenture Obligations Outstanding shall have filed their consents to the Supplemental Indenture, the Indenture Trustee shall make and file with Citizens a written statement that the Holders of the required percentage of Indenture Obligations have filed those consents. That written statement shall be conclusive evidence that the consents have been so filed.

If the Holders of the required percentage in aggregate principal amount of Indenture Obligations Outstanding shall have consented to the Supplemental Indenture, as provided in this Section, no Holder shall have any right (a) to object to (i) the execution or delivery of the Supplemental Indenture, (ii) any of the terms and provisions contained therein, or (iii) the operation thereof, (b) to question the propriety of the execution and delivery thereof, or (c) to enjoin or restrain the Indenture Trustee or Citizens from that execution or delivery or from taking any action pursuant to the provisions thereof.

SECTION 9.04. Amendments With Consent of Credit Enhancement Facility Issuer Only. If any Indenture Obligations Outstanding under this Indenture shall have, when issued, been secured by a Credit Enhancement Facility to provide security for the payment of principal and interest when due, and if such Credit Enhancement Facility is still in effect at the time of the proposed Supplemental Indenture amending this Indenture, and if the credit of the Credit Enhancement Facility Issuer is of sufficient quality to entitle debt backed by the Credit Enhancement Facility to be rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) by each of the Rating Agencies, Citizens may treat such Credit Enhancement Facility Issuer as the Holder of the Indenture Obligations secured by such Credit Enhancement Facility Issuer for purposes of obtaining the consent of Holders required by Section 9.03, and the written consent of such Credit Enhancement Facility Issuer (and the acknowledgment by the Credit Enhancement Facility Issuer that the Credit Enhancement Facility will remain in full force and effect) shall constitute the consent of the Holders of such Indenture Obligations; provided, however, that if such changes will, by their terms, not take effect so long as any Indenture Obligations of any specified Series remain Outstanding, then the consent of the related Credit Enhancement Facility Issuer or Holders of such Indenture Obligations shall not be required and those Indenture Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Indenture Obligations under this Article IX. The consent and acknowledgement of the Credit Enhancement Facility Issuer shall be filed with the Indenture Trustee. The foregoing right of amendment, however, does not apply to any amendment that would deprive a Holder of the right to payment of the Indenture Obligations from the Pledged Revenues or to any amendment prohibited by Section 9.03 hereof without the consent of the Holders of all of the Indenture Obligations Outstanding to be affected by such amendment.

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The foregoing notwithstanding, irrespective of whether a Credit Enhancement Facility Issuer insures less than a majority of the aggregate principal amount of Indenture Obligations Outstanding, no amendment shall be made to the Indenture without the written consent of such Credit Enhancement Facility Issuer without regard to the principal amount of Indenture Obligations Outstanding that are insured by such Credit Enhancement Facility Issuer, if the Supplemental Indenture pursuant to which the Indenture Obligations insured by such Credit Enhancement Facility Issuer or any other agreement between Citizens and such Credit Enhancement Facility Issuer relating to the insured Indenture Obligations grants to the Credit Enhancement Facility Issuer the right to consent to amendments of the Indenture.

SECTION 9.05. Authorization to Indenture Trustee: Effect of Supplement. The Indenture Trustee is authorized to join with Citizens in the execution and delivery of any Supplemental Indenture in accordance with this Article and to make the further agreements and stipulations which may be contained therein. Thereafter,

- (a) that Supplemental Indenture shall form a part of this Indenture;
- (b) all terms and conditions contained in that Supplemental Indenture as to any provision authorized to be contained therein shall be deemed to be a part of the terms and conditions of this Indenture for any and all purposes;
- (c) this Indenture shall be deemed to be modified and amended in accordance with the Supplemental Indenture; and
- (d) the respective rights, duties and obligations under this Indenture of Citizens, the Indenture Trustee, the Registrar, the Paying Agents, the Authenticating Agents and all Holders of Indenture Obligations then Outstanding shall be determined, exercised and enforced hereunder in a manner which is subject in all respects to those modifications and amendments made by the Supplemental Indenture.

Express reference to any executed and delivered Supplemental Indenture may be made in the text of any Indenture Obligations issued thereafter, if that reference is deemed necessary or desirable by the Indenture Trustee or Citizens. A copy of any Supplemental Indenture for which provision is made in this Article shall be mailed by the Indenture Trustee to the Registrar, each Authenticating Agent and Paying Agent and the Initial Purchaser of each Series of Indenture Obligations affected thereby.

SECTION 9.06. Opinion of Counsel. The Indenture Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any firm of nationally recognized attorneys, selected by the Indenture Trustee, having a favorable reputation in matters relating to the issuance of obligations similar to the Indenture Obligations, as conclusive evidence that (i) any proposed Supplemental Indenture and/or amendment to the Pledge and Security Agreement complies with the provisions of this Indenture, and (ii) it is proper for the Indenture Trustee to join in the execution of that Supplemental Indenture under the provisions of this Article. That counsel may be counsel for Citizens.

SECTION 9.07. Modification by Unanimous Consent. Notwithstanding anything to the contrary contained elsewhere in this Indenture, the rights and obligations of Citizens and of

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shall be applicable to the Indenture Obligations of such Series. The 1997 Notes are subject to voluntary defeasance pursuant to this Article.

SECTION 10.02. Release of Indenture. Subject to the conditions contained in Section 10.05 hereof, if (i) Citizens shall pay all of the Outstanding Indenture Obligations or any Series of Indenture Obligations or portions thereof, or shall cause them to be paid and discharged or to be deemed to have been paid (as provided in Section 10.03 hereof) and discharged, or if there otherwise shall be paid to the Holders of the Outstanding Indenture Obligations or any Series of Indenture Obligations or portions thereof, all Debt Service Charges due or to become due thereon, and (ii) all Program Costs and all other sums payable hereunder and under any Credit Enhancement Facility Agreement shall have been paid or discharged, then this Indenture shall cease, determine and become null and void as to the Series of Indenture Obligations or any portion thereof so paid or deemed to be paid (except for those provisions surviving by reason of Section 10.04 hereof), and the covenants, agreements and obligations of Citizens hereunder shall be released, discharged and satisfied.

Thereupon, and subject to the provisions of Section 10.04 hereof if applicable,

- (i) the Indenture Trustee shall release this Indenture as to the Series of Indenture Obligations or any portion thereof so paid or deemed to be paid (except for those provisions surviving by reason of Section 10.04 hereof), and shall execute and deliver to Citizens any instruments or documents in writing as shall be requisite to evidence that release and discharge or as reasonably may be requested by Citizens, and
- (ii) the Indenture Trustee and any other Paying Agents shall assign and deliver to Citizens any property subject at the time to the lien of this Indenture which then may be in their possession as to the Series of Indenture Obligations or portion thereof to be defeased, except amounts held for the payments required by this Section 10.02 or 10.03.

SECTION 10.03. Payment and Discharge of Indenture Obligations. All or any part of the Indenture Obligations shall be deemed to have been paid and discharged within the meaning of this Indenture including, without limitation, Section 10.02 hereof, if:

- (a) the Indenture Trustee as paying agent and any Paying Agents shall have received, in trust for and irrevocably committed thereto, sufficient moneys, or
- (b) the Indenture Trustee shall have received, in trust for and irrevocably committed thereto, Government Obligations which are not callable or redeemable at the option of the issuer thereof, which are certified by an independent public accounting firm of national reputation to be of such maturities or redemption dates (which redemption dates have been irrevocably established) and interest payment dates, and to bear such interest as will be sufficient, together with any moneys to which reference is made in subparagraph (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as provided herein), for the payment of all Debt Service Charges on those Indenture Obligations through their maturity or redemption dates, as the case may be; provided, that if any of those Indenture Obligations are subject to redemption and are to be redeemed prior to the maturity thereof, notice

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the Holders, and the terms and provisions of the Indenture Obligations and this Indenture or any Supplemental Indenture, may be modified or altered in any respect with the consent of Citizens, the Holders of all of the Indenture Obligations then Outstanding and each Credit Enhancement Facility Issuer having a Credit Enhancement Facility then Outstanding (so long as such Credit Enhancement Facility is not then in default).

SECTION 9.08. Consent of Indenture Trustee. The Indenture Trustee shall not be required to enter into any Supplemental Indenture which is, in the judgment of the Indenture Trustee, prejudicial to the rights of the Indenture Trustee hereunder.

SECTION 9.09. Amendments to Pledge and Security Agreement. (a) Citizens and the Indenture Trustee may, without the consent of the Holders, consent to any amendment, change or modification of the Pledge and Security Agreement as may be required (i) by the provisions of the Pledge and Security Agreement, (ii) to provide for the issuance of Indenture Obligations pursuant to Section 2.04 hereof, (iii) for the purpose of curing any ambiguity or formal defect or omission in the Pledge and Security Agreement, (iv) to enter into Supplemental Indentures hereto as provided in Section 9.02 hereof, (v) in connection with any other change therein which is not to the prejudice of the Indenture Trustee or the Holders, or (vi) to make any revisions that shall be required in order to obtain or retain a rating on Indenture Obligations Outstanding hereunder.

(b) Except for the amendments, changes or modifications as provided in Section 9.09(a) hereof, neither Citizens nor the Indenture Trustee shall consent to any other amendment, change or modification of the Pledge and Security Agreement without the written consent of the Holders of at least a majority in aggregate principal amount of the Outstanding Indenture Obligations, provided that the consent of the Holders of all Outstanding Indenture Obligations is required for any amendment, change or modification of the Pledge and Security Agreement that would permit the termination or cancellation of the Pledge and Security Agreement or a reduction in or postponement of the payments under the Pledge and Security Agreement or any change in the provisions relating to payment thereunder. If at any time Citizens shall request the consent of the Indenture Trustee to any such proposed amendment, change or modification of the Pledge and Security Agreement, the Indenture Trustee shall cause notice of such proposed amendment, change or modification to be given in the same manner as provided by Section 9.03 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the designated corporate trust office of the Indenture Trustee for inspection by all Holders.

ARTICLE X

RELEASE OF INDENTURE; VOLUNTARY DEFEASANCE

SECTION 10.01. Applicability of Article; Citizens' Option to Effect Defeasance or Covenant Defeasance. If in the Supplemental Indenture providing for the issuance of any Additional Indenture Obligations provision is made for voluntary defeasance of the Indenture Obligations issued pursuant to such Supplemental Indenture, then the provisions of this Article

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of that redemption shall have been duly given or irrevocable provision satisfactory to the Indenture Trustee shall have been duly made for the giving of that notice; and provided, further, that in the event any Indenture Obligations are to be discharged as provided in this Section, the Indenture Trustee shall have received, as a condition precedent to such defeasance, an opinion of counsel to the effect that such defeasance would not cause the holders of any Indenture Obligations to be holders of interests in an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

Any moneys held by the Indenture Trustee in accordance with the provisions of this Section may be invested by the Indenture Trustee only in Government Obligations described in Subparagraph (b) above having maturity dates, or having redemption dates (which redemption dates have been irrevocably established), which shall be not later than the date or dates at which moneys will be required for the purposes described above.

If any Indenture Obligations shall be deemed paid and discharged pursuant to this Section 10.03 and such Indenture Obligations do not mature or by their terms are not redeemable within the next sixty (60) days, then within thirty (30) days after such Indenture Obligations are so deemed paid and discharged the Indenture Trustee shall cause a written notice to be given to each Holder as shown on the Register on the date on which such Indenture Obligations are deemed paid and discharged. Such notice shall state the numbers of the Indenture Obligations deemed paid and discharged or state that all Indenture Obligations of a particular Series are deemed paid and discharged, set forth a description of the Government Obligations held pursuant to subparagraph (b) of the first paragraph of this Section 10.03 and specify any date or dates on which any of the Indenture Obligations are to be called for redemption pursuant to notice of redemption given or irrevocable provisions made for such notice pursuant to the first paragraph of this Section 10.03.

SECTION 10.04. Survival of Certain Provisions. Notwithstanding the foregoing, any provisions of this Indenture which relate to the maturity of Indenture Obligations, interest payments and dates thereof, optional and mandatory redemption provisions, exchange, transfer and registration of Indenture Obligations, replacement of mutilated, destroyed, lost or stolen Indenture Obligations, the safekeeping and cancellation of Indenture Obligations, non-presentment of Indenture Obligations, the holding of moneys in trust, the duties of the Indenture Trustee and the Registrar and the right of the Indenture Trustee to require indemnification and to receive its fees and costs in connection with all of the foregoing, shall remain in effect and be binding upon the Indenture Trustee, the Registrar, the Authenticating Agents, the Paying Agents and the Holders notwithstanding the release and discharge of this Indenture. The provisions of this Article shall survive the release, discharge and satisfaction of this Indenture.

SECTION 10.05. Conditions to Defeasance. Notwithstanding anything to the contrary contained in this Indenture, no Indenture Obligation may be defeased pursuant to the provisions of this Article X unless:

- (a) Citizens has executed an instrument (which may be the escrow or other agreement pursuant to which the deposit required by Section 10.03 hereof is made) with the Indenture Trustee, confirming that the Indenture Obligations to be defeased shall remain direct and general obligations of Citizens attributable to the Coastal Account (as provided in Section 11.01 hereof),

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and the Indenture Trustee, on behalf of the Holders, shall have the same recourse as other unsecured creditors of Citizens against the assets of Citizens in or allocable to the Coastal Account, should the amounts deposited with the Indenture Trustee pursuant to Section 10.03 hereof prove insufficient to pay the full amount of the Debt Service Charges on any defeased Indenture Obligation;

(b) Citizens has delivered to the Indenture Trustee an opinion of Indenture Counsel to the effect that such deposit, defeasance and discharge will not constitute an exchange for Federal income tax purposes, and therefore the Holders of the defeased Indenture Obligations will not recognize income, gain or loss for Federal income tax purposes as a result of such deposit, defeasance and discharge, and will be subject to Federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; provided, however, that in the case of the 1997 Notes, the opinion of Indenture Counsel must be based upon a ruling of the Internal Revenue Service or change in applicable U.S. Federal income tax law; and

(c) if the Indenture Obligations to be defeased are Variable Rate Indenture Obligations, Citizens has obtained written confirmation from S&P that such defeasance will not, in and of itself, cause S&P to withdraw or reduce its ratings then in effect on the Variable Rate Indenture Obligations to be defeased.

SECTION 10.06. Variation of Defeasance Provisions. The provisions of this Article X, insofar as they apply to any Series of Additional Indenture Obligations, may be varied by the Supplemental Indenture providing for that Series of Additional Indenture Obligations.

ARTICLE XI

COVENANTS AND AGREEMENTS OF CITIZENS

SECTION 11.01. Nature of Obligations. Citizens covenants and agrees that its obligations under the Indenture Obligations will at all times constitute direct and general obligations of Citizens attributable to the Coastal Account, payable from the Pledged Revenues and (subject to (a) paragraph (b) 2.a., b., c. and d. of the Act, and (b) the provisions of the Act requiring that a surplus in the Coastal Account in a Plan Year be applied to defray Plan Year Deficits in such account in future years) from all other moneys and other assets of or attributable to the Coastal Account. The Holders of the Indenture Obligations (by their acceptance of the benefits of this Indenture) and the Indenture Trustee agree and acknowledge that they have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account and the Commercial Lines Account in accordance with the Act and the Plan of Operation) in respect of the obligations under this Indenture.

The issuance of the Indenture Obligations shall not directly or indirectly or contingently obligate or require the State or any political subdivision thereof to levy or pledge any tax whatsoever or to make any appropriation for the payment of the Indenture Obligations or any other obligation of Citizens under this Indenture. Further, nothing in this Indenture gives the Holders, and they do not have, the right to require or compel the State or any political

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event causing the Plan Year Deficit occurred, not later than July 1 of the year following the end of the Plan Year in which the event occurred and (B) if the first Draw is made in the year following the Plan Year in which the event causing the Plan Year Deficit occurred, not later than the end of the Plan Year in which the first Draw is made in respect to such Plan Year Deficit and (ii) Citizens shall levy, and shall direct the Assessable Insurers, other Accounts within Citizens and special purpose insurance companies to collect, Emergency Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under this Indenture, (A) if the first Draw is made in the same Plan Year that the event causing the Plan Year Deficit occurred, not later than October 1 of the year following the end of the Plan Year in which the event occurred and (B) if the first Draw is made in the year following the Plan Year in which the event causing the Plan Year Deficit occurred, not later than April 1 of each year following the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit.

SECTION 11.04. No Disposition of Pledged Revenues. Except as permitted or required by this Indenture, Citizens covenants and agrees not to sell, lease, pledge, assign or otherwise encumber or dispose of its interest in the Pledged Revenues or any portion thereof. Citizens shall promptly pay or make its best efforts to cause to be discharged, or make adequate provision in the judgment of the Indenture Trustee to discharge, any lien or charge on any part thereof not permitted by this Indenture.

SECTION 11.05. Information and Notice Requirements. Citizens covenants and agrees to provide to the Indenture Trustee the following information and notices at the same time that such information is provided to the Bank Agent under the Line of Credit:

(a) copies of its Annual Statement no later than one hundred eighty (180) days after the end of its Fiscal Year and, if required by order of the Department of Insurance to be filed, a copy of its Quarterly Statement within ninety (90) days after the end of each of the first three quarters;

(b) copies of any financial information, statements and reports provided to the Bank Agent under the Line of Credit;

(c) notice of the entering into of any reinsurance agreement in respect of the Coastal Account (other than the FHCF Agreement) or the renewal, amendment or modification of any such agreement or policy or contract or of the FHCF Agreement, within thirty (30) days after the same;

(d) prompt notice regarding any default or Event of Default under this Indenture or of any default or event of default under the Pledge and Security Agreement, the DOI Agreement, any Indenture Obligation Hedge Agreement, the Line of Credit or any Line of Credit Hedge Agreement or of any default or event of default under the financing documents relating to the Personal Lines Account and the Commercial Lines Account;

(e) promptly after Citizens obtains knowledge of any legislative or other governmental recommendation, action or proposal that (so far as Citizens can reasonably foresee) is reasonably likely to result in (i) the dissolution, termination or deactivation of Citizens or (ii) the creation or establishment of any Person to provide insurance or otherwise to

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subdivision thereof to levy or appropriate any taxes for the payment of principal of, redemption premium, if any, and interest on the Indenture Obligations or any other payment required under this Indenture. Citizens does not have any taxing power.

The covenants, agreements and obligations of Citizens contained in this Indenture shall not be deemed to be the covenants, agreements and obligations of any member of the Board, or of any officer, agent, trustee, or employee of Citizens in his or her individual capacity or of any Assessable Insurer and no recourse shall be had against and no such member, officer, agent, trustee or employee of Citizens or Assessable Insurer is or shall become personally liable for the performance of any obligation of Citizens under this Indenture.

SECTION 11.02. Payment of Indenture Obligations. Citizens covenants that it will promptly pay the principal of, redemption premium, if any, and interest on every Indenture Obligation issued under this Indenture at the places, on the dates and in the manner specified herein and in said Indenture Obligations according to the true intent and meaning thereof. The Pledged Revenues are specifically pledged by this Indenture to the payment of the principal of, redemption premium, if any, and interest on the Indenture Obligations in the manner and to the extent specified herein.

SECTION 11.03. Covenants as to Revenues. (a) Citizens covenants and agrees to fix, levy, charge and collect sufficient funds, including, without limitation, Regular Assessments and Emergency Assessments, in respect of the Coastal Account, in accordance with and to the extent permitted by the Plan of Operation, the Act and other applicable law, which together with the proceeds of the Indenture Obligations, premiums and surcharges relating to the Coastal Account (including Market Equalization Surcharges), and amounts available under the Line of Credit, will be sufficient to pay its Annual Debt Service and all of its obligations in respect of the Coastal Account when due; provided, however, that if the Act is ever amended to make the imposition of Market Equalization Surcharges discretionary with Citizens, then Citizens shall not be required to impose Market Equalization Surcharges, so long as the other sources of revenue and moneys described in this subsection (a) are sufficient to enable Citizens to pay Annual Debt Service and all of its obligations in respect of the Coastal Account when due.

(b) Citizens will cause all Regular Assessments, Emergency Assessments, Market Equalization Surcharges (to the extent required by subsection (a) above), policy premiums and other surcharges, in respect of the Coastal Account, to be levied as soon as is reasonable (and, (x) in the case of the Emergency Assessments collected by the Assessable Insurers, other Accounts within Citizens or special purpose insurance companies, to be remitted to the Collateral Trustee or to Citizens, as applicable, no less frequently than monthly) and (y) in the case of Regular Assessments and Emergency Assessments collected by the Surplus Lines Agents and/or the Surplus Lines Service Office, to be remitted to the Collateral Trustee or to Citizens, as applicable, at the times provided in the Plan of Operation) and shall impose and enforce obligations for the payment thereof, to the end that the amount of the Regular Assessments, Emergency Assessments, Market Equalization Surcharges (to the extent required by subsection (a) above), policy premiums and other surcharges collected in respect of the Coastal Account shall be sufficient to satisfy the requirements of subsection (a) above; provided that (i) Citizens shall levy Regular Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under this Indenture, (A) if the first Draw is made in the same Plan Year that the

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assume or apportion risks of loss in respect of windstorm damage with the purpose or effect of replacing, superseding, conducting, performing or assuming, in whole or in part, any of the activities authorized to be conducted or performed by Citizens if such creation or establishment could have a material adverse effect on the rights or interests of the Holders and the Indenture Trustee under this Indenture or of the Collateral Trustee under the Pledge and Security Agreement, notice of such recommendation, action or proposal; for purposes of this provision, “knowledge” with respect to Citizens, means the best, actual knowledge of any of the Executive Director, Assistant Executive Director, Chief Financial Officer, General Counsel or Chief Legal Officer of Citizens; and

(f) any information which the Indenture Trustee reasonably requests as necessary to enable the Indenture Trustee to perform its duties and obligations hereunder or under the Pledge and Security Agreement.

The Indenture Trustee shall make available copies of any of the foregoing information and notices to any Holder requesting a copy of the same. The Indenture Trustee may charge the Holder requesting any such information or notice a reasonable charge for the expense of copying the same.

SECTION 11.06. Depopulation Covenants. Citizens covenants and agrees not to initiate, participate in or approve any depopulation program which would exempt any policyholders or class of policyholders from Emergency Assessments imposed by Citizens.

SECTION 11.07. Compliance with Laws. (a) Citizens covenants and agrees to comply (i) with all provisions of the Act and with all provisions of other laws, ordinances, rules, regulations and requirements of governmental authorities applicable to Citizens relating to the Regular Assessments, Emergency Assessments, policy premiums and the transactions contemplated by this Indenture and (ii) in all material respects with all other material provisions of the Act and other laws, ordinances, rules, regulations and requirements of governmental authorities applicable to Citizens.

(b) This Indenture will at all times constitute an “applicable loan agreement, trust indenture or other financing agreement” and a “loan agreement or trust agreement” for purposes of the Plan of Operation.

(c) The Indenture Trustee will at all times constitute an “authorized trustee, escrow agent or other custodian” for purposes of the Plan of Operation.

SECTION 11.08. FHCF. Citizens covenants and agrees to take all actions necessary on its part to be taken to entitle Citizens to receive reimbursement on a timely basis from the FHCF under the FHCF Agreement in respect of losses incurred as a result of a “covered event”, as defined in Section 215.555(2)(b), Florida Statutes, as amended.

SECTION 11.09. Instruments of Further Assurance. Citizens covenants and agrees that the Indenture Trustee may defend Citizens’ rights to the payments and other amounts due under the Act for the benefit of the Holders, against the claims and demands of all persons whomsoever. Citizens covenants and agrees that it will do, execute, acknowledge and deliver, or make its best efforts to cause to be done, executed, acknowledged and delivered, such indentures

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supplemental hereto and such further acts, instruments and transfers as the Indenture Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming to the Indenture Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of, redemption premium, if any, and interest on the Indenture Obligations.

SECTION 11.10. Recording and Filing; Further Instruments. Citizens shall record and/or file, or cause to be recorded and/or filed on its behalf, in the manner and in the places required by law, such instruments and related documents as may be required in order to preserve and protect fully (to the extent permitted by law) the security granted to the Holders hereunder. Citizens shall, upon the reasonable request of the Indenture Trustee, from time to time execute and deliver such further instruments, including, without limitation, the filing of any continuation statements required under the Florida Uniform Commercial Code, and take such further action as may be reasonable and as may be required to effectuate the purposes of this Indenture or any provision hereof.

SECTION 11.11. Future Collateral. Citizens covenants and agrees that, to the extent it grants any additional collateral to the Banks under the Line of Credit or to any other creditor or creditors under one or more debt instruments initially secured on a parity with the Line of Credit and the Indenture Obligations, the Holders will be granted a parity lien on and pledge of such additional collateral and the proceeds of any such additional collateral will be applied by the Collateral Trustee on a pro rata basis as among the Holders, the Banks and any other creditor or creditors secured by a parity lien on such additional collateral; provided, however, that amounts drawn under the Line of Credit and deposited in a “loan proceeds account” or any other similar account by the Collateral Trustee, the Bank Agent or any other Person pending disbursement thereof to Citizens, and all investment earnings thereon, shall not constitute additional collateral for the Indenture Obligations.

SECTION 11.12. Observance and Performance of Covenants, Agreements, Authority and Actions. Citizens covenants and agrees to observe and perform faithfully at all times all covenants, agreements, authority, actions, undertakings, stipulations and provisions to be observed or performed on its part under this Indenture and the Indenture Obligations which are executed, authenticated and delivered under this Indenture, and under all proceedings of its Board pertaining thereto.

Citizens represents and warrants that

(a) It is duly authorized by the laws of the State, including particularly and without limitation the Act, to issue the Notes, to execute and deliver this Indenture and to provide the security for payment of the Debt Service Charges in the manner and to the extent set forth in this Indenture.

(b) All actions required on its part to be performed for the issuance, sale and delivery of the Notes and for the execution and delivery of this Indenture, have been or will be taken duly and effectively prior to issuance of the Notes.

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Obligation Hedge Agreement or Line of Credit Hedge Agreement, or the proposed amendment or supplement thereto, will not, in and of itself, cause Standard & Poor's to withdraw or downgrade its ratings then in effect on the Outstanding Indenture Obligations.

SECTION 11.16. Covenant as to Certain Transaction Documents. Citizens covenants and agrees that it shall not make any modifications to, or execute any amendment or supplement to, this Indenture, the Pledge and Security Agreement or the Line of Credit, or enter into any new Line of Credit, unless Citizens shall have (a) provided written notice to Standard & Poor's at least fifteen (15) days prior to the execution of any such modification, amendment or supplement, or new Line of Credit, and (b) obtained written confirmation from Standard & Poor's that the entering into of such modification, amendment, supplement or new Line of Credit will not, in and of itself, cause Standard & Poor's to withdraw or downgrade its ratings then in effect on the Outstanding Indenture Obligations.

SECTION 11.17. Mandatory Defeasance Deposits. (a) On or before the tenth (10th) day of each month, (i) in the case of the 1997 Notes due 2002, starting with the 13th month following the issuance of the 1997 Notes due 2002, (ii) in the case of the 1997 Notes due 2004, starting with the 25th month following the issuance of the 1997 Notes due 2004, and (iii) in the case of the 1997 Notes due 2007, starting with the 37th month following the issuance of the 1997 Notes due 2007, Citizens shall deposit into the Defeasance Sub-subaccount with respect to such 1997 Notes an amount of cash equivalent on a discounted basis (computed in accordance with the yields on the Permitted Investments in which such cash is to be invested) to 1/48th of the initial principal amount of the 1997 Notes due 2002, or 1/60th of the initial principal amount of the 1997 Notes due 2004, or 1/84th of the initial principal amount of the 1997 Notes due 2007, at maturity, provided that Citizens may accelerate all or a portion of the foregoing schedule of defeasance payments so long as the cumulative deposits to such Defeasance Sub-subaccount at any time are no less than the cumulative amounts which would accrue on the basis of the foregoing schedule.

(b) Citizens shall make deposits in the Defeasance Sub-subaccount in respect of any Series of Additional Indenture Obligations as provided in the Supplemental Indenture providing for that Series of Additional Indenture Obligations.

(c) To the extent directed in writing by Citizens, the Indenture Trustee shall withdraw moneys from the corresponding Subaccount in the Proceeds Account (other than proceeds of the 1997 Notes on deposit to the credit of the Proceeds Account) and shall deposit the amounts so withdrawn in the corresponding Defeasance Sub-subaccount for such Series of Indenture Obligations in order to satisfy the mandatory defeasance requirements of Section 11.17(b) and the Supplemental Indenture pursuant to which such Indenture Obligations were issued.

SECTION 11.18. Consolidation, Merger, Sale of Assets. (a) The Issuer covenants that it will not merge or consolidate with, or sell or convey all or substantially all of the assets of the Coastal Account to any Person unless:

(i) The successor entity shall execute and deliver to the Indenture Trustee an appropriate instrument, satisfactory to the Indenture Trustee, containing the agreement of such successor entity to assume the due and punctual payment of the principal of, premium, if any,

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(c) The Notes will be valid and enforceable direct and general obligations of Citizens attributable to the Coastal Account (subject to paragraph (b)2.a., b., c. and d. of the Act), secured by the Pledged Revenues, in accordance with their terms and the provisions of this Indenture. The Holders of the Indenture Obligations (by their acceptance of the benefits of this Indenture) and the Indenture Trustee agree and acknowledge that they have no claim against, or recourse to, the Personal Lines Account or Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or Commercial Lines Account in accordance with the Act and the Plan of Operation) in respect of the obligations under this Indenture.

SECTION 11.13. Certain Notices to Indenture Trustee. Citizens covenants and agrees to provide prompt written notice to the Indenture Trustee immediately upon Citizens' becoming aware of the existence of an Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default) hereunder. Within ninety (90) days after the end of each Fiscal Year, Citizens shall provide to the Indenture Trustee a certificate to the effect that no Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default) occurred during the recently concluded Fiscal Year and is continuing hereunder or, if any such Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default), occurred and is continuing, containing a description of such Event of Default or other event.

SECTION 11.14. Delivery of Rule 144A Information. Upon the request of a Holder or a beneficial owner of an interest in a Global Security, Citizens shall promptly furnish or cause to be furnished “Rule 144A Information” (as defined below) to such Holder or beneficial owner, or to a prospective purchaser of such Indenture Obligation or beneficial interest in a Global Security designated by such Holder or beneficial owner, in order to permit compliance by such Holder or beneficial owner with Rule 144A under the Securities Act in connection with the resale of such Indenture Obligation by such Holder or beneficial owner; provided, however, that Citizens shall not be required to furnish such information in connection with any request made on or after the date which is two (2) years from the later of the date such Indenture Obligation or Global Security (or any predecessor Indenture Obligation) was acquired from Citizens; and provided further, that Citizens shall not be required to furnish such information at any time to a prospective purchaser located outside the United States who is not a “U.S. person” within the meaning of Regulation S under the Securities Act if such Indenture Obligation or interest, as the case may be, may then be sold to such prospective purchaser in accordance with Rule 904 under the Securities Act (or any successor provision thereto), as the same may be amended from time to time. “Rule 144A Information” shall be such information as is specified pursuant to paragraph (d)(4) of Rule 144A (or any successor provision thereto), as such provisions (or successor provision) may be amended from time to time.

SECTION 11.15. Covenant as to Certain Hedge Agreements. Citizens covenants and agrees that it shall not enter into any Indenture Obligation Hedge Agreement or Line of Credit Hedge Agreement more than forty-five (45) days subsequent to the date of issuance of the 1997 Notes, or execute any amendment or supplement to any such agreement then in effect, unless Citizens shall have (a) provided written notice to Standard & Poor's at least fifteen (15) days prior to the execution of any such agreement or amendment or supplement thereto and (b) obtained written confirmation from Standard & Poor's that the entering into of such Indenture

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and interest on all Outstanding Indenture Obligations issued under this Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of this Indenture;

(ii) There is delivered to the Indenture Trustee a certificate of the Issuer, signed by an Authorized Issuer Representative, stating that immediately after such merger or consolidation, or such sale or conveyance, (x) there shall not exist any Event of Default under this Indenture or any event that but for the giving of notice or the passage of time, or both, would constitute an Event of Default and (y) the successor entity shall be able to comply with the requirements of Section 11.03(a) hereof; and

(iii) If all amounts due or to become due on any Outstanding Indenture Obligations which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the Holders thereof, there shall have been delivered to the Indenture Trustee an opinion of Bond Counsel, in form and substance satisfactory to the Indenture Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Outstanding Indenture Obligations, would not adversely affect the exclusion of interest payable on such Outstanding Indenture Obligations from the gross income of the Holders thereof for purposes of federal income taxation.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor entity, such successor entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named herein as such predecessor. Such successor entity thereupon may cause to be signed, and may issue in its own name Additional Indenture Obligations issuable hereunder; and upon the order of such successor entity and subject to all the terms, conditions and limitations in this Indenture prescribed, the Indenture Trustee shall authenticate and shall deliver the Additional Indenture Obligations that such successor entity shall have caused to be signed and delivered to the Indenture Trustee. All Indenture Obligations so issued by such successor entity hereunder shall in all respects have the same security position and benefit under this Indenture as Outstanding Indenture Obligations theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Indenture Obligations had been issued hereunder without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Additional Indenture Obligations thereafter to be issued under this Indenture as may be appropriate.

(d) The Indenture Trustee may accept an opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Indenture Trustee under the provisions of this Section to join in the execution of any instrument required to be executed and delivered by this Section.

SECTION 11.19. Maintenance of Separate Accounts. (a) Citizens covenants and agrees to prepare and maintain books and records separating all revenues, assets, liabilities, losses and

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expenses of Citizens into the Coastal Account, the Personal Lines Account and the Commercial Lines Account, as required by the Act and the Plan of Operation. In furtherance, and not in limitation, of this requirement, Citizens shall (i) allocate all Regular Assessments, Emergency Assessments, Market Equalization Surcharges, FHCF Reimbursements and the proceeds of any other reinsurance purchased by Citizens in respect of the Coastal Account to such Coastal Account for the corresponding Plan Year Deficit and shall not levy Regular Assessments, Emergency Assessments or Market Equalization Surcharges within the Coastal Account in excess of the maximum assessment or surcharge permitted by the Act for such account, and (ii) allocate all regular assessments, emergency assessments, market equalization surcharges and FHCF reimbursements relating to the Commercial Lines Account or the Personal Lines Account to such Commercial Lines Account or Personal Lines Account, as applicable, and the proceeds of any other reinsurance purchased by Citizens in respect of the Commercial Lines Account or the Personal Lines Account to such Commercial Lines Account or Personal Lines Account, as applicable. All books, records and other documents in the possession of Citizens relating to the Pledged Revenues shall at all reasonable times be open to inspection by such accountants or other agencies as the Indenture Trustee may from time to time designate.

(b) All revenues, assets, liabilities, losses and expenses of Citizens not directly attributable to the lines and types of insurance coverages relating to any of the Coastal Account, the Personal Lines Account or the Commercial Lines Account shall be prorated among each such account as contemplated by the Act and the Plan of Operation.

ARTICLE XII

MEETINGS OF HOLDERS

SECTION 12.01. Purposes of Meetings. A meeting of Holders, or of the Holders of any Series of Indenture Obligations, may be called at any time and from time to time pursuant to the provisions of this Article XII, to the extent relevant to the Holders of all of the Indenture Obligations or of Indenture Obligations of that Series, as the case may be, to take any action (i) authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Indenture Obligations, or of that Series, (ii) under any provision of this Indenture or (iii) authorized or permitted by law.

SECTION 12.02. Call of Meetings. The Indenture Trustee may call at any time a meeting of Holders pursuant to Section 12.01 to be held at any reasonable time and place the Indenture Trustee shall determine. Notice of such meeting, setting forth the time, place and generally the subject thereof, shall be mailed by first-class mail, postage prepaid, not fewer than fifteen (15) nor more than ninety (90) days prior to the date of the meeting to the Holders at their addresses as they appear on the Register on the fifteenth (15th) day preceding such mailing, which fifteenth (15th) day, preceding the mailing shall be the record date for the meeting.

If, at any time, the Board, or the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Indenture Obligations or, if applicable, the affected Series of Indenture Obligations, then Outstanding, shall have requested the Indenture Trustee to call a meeting of Holders, by written request setting forth the purpose of the meeting, and the Indenture Trustee shall not have mailed the notice of the meeting within twenty (20) days after receipt of

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The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at the meeting and their counsel, any representatives of the Indenture Trustee or Registrar and their counsel and any representatives of Citizens and its counsel.

SECTION 12.05. Miscellaneous. Nothing contained in this Article XII shall be deemed or construed to authorize or permit any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Indenture Trustee or to the Holders under any of the provisions of this Indenture or of the Indenture Obligations by reason of any call of a meeting of Holders or any rights conferred expressly or impliedly hereunder to make a call.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. Limitation of Rights. With the exception of rights conferred expressly in this Indenture, nothing expressed or mentioned in or to be implied from this Indenture or the Indenture Obligations is intended or shall be construed to give to any Person other than the parties hereto, the Registrar, the Authenticating Agents and the Holders of the Indenture Obligations any legal or equitable right, remedy, power or claim under or with respect to this Indenture or any covenants, agreements, conditions and provisions contained herein. This Indenture and all of those covenants, agreements, conditions and provisions are intended to be, and are, for the sole and exclusive benefit of the parties hereto and the Holders of the Indenture Obligations, as provided herein.

SECTION 13.02. Severability. In case any section or provision of this Indenture, or any covenant, agreement, stipulation, obligation, act or action, or part thereof, made, assumed, entered into or taken under this Indenture, or any application thereof, is held to be illegal or invalid for any reason, or is inoperable at any time, that illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Indenture or any other covenant, agreement, stipulation, obligation, act or action, or part thereof, made, assumed, entered into or taken under this Indenture, all of which shall be construed and enforced at the time as if the illegal, invalid or inoperable portion were not contained therein.

Any illegality, invalidity or inoperability shall not affect any legal, valid and operable section, provision, covenant, agreement, stipulation, obligation, act, action, part or application, all of which shall be deemed to be effective, operative, made, assumed, entered into or taken in the manner and to the full extent permitted by law from time to time.

SECTION 13.03. Notices. Except as provided in Section 8.02 hereof, it shall be sufficient service or giving of any notice, request, complaint, demand or other instrument or document, if it is forwarded by first-class mail, postage prepaid or by overnight courier service, delivery charges prepaid. Notices to Citizens and the Indenture Trustee shall be addressed as follows:

(a) if to Citizens, at Citizens Property Insurance Corporation, 101 North Monroe Street, Suite 1000, Tallahassee, Florida 32301, Attention: Executive Director;

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the request, then Citizens or the Holders of Indenture Obligations in the amount above specified may determine the time and the place of the meeting and may call the meeting to take any action authorized in Section 12.01, by mailing notice thereof as provided above.

Any meetings of Holders, or the Holders of any Series of Indenture Obligations affected by a particular matter, shall be valid without notice, if the Holders of all Indenture Obligations, or if applicable, the affected Series of Indenture Obligations, then Outstanding are present in person or by proxy, or if notice is waived before or after the meeting by the Holders of all Indenture Obligations, or if applicable, the affected Series of Indenture Obligations, Outstanding who were not so present at the meeting, and if Citizens and the Indenture Trustee are either present by duly authorized representatives or have waived notice, before or after the meeting.

SECTION 12.03. Voting. To be entitled to vote at any meeting of Holders, a Person shall (a) be a Holder of one or more Outstanding Indenture Obligations or, if applicable, of the affected Series of Indenture Obligations, as of the record date for the meeting as determined above, or (b) be a person appointed by an instrument or document in writing as proxy by a Person who is a Holder as of the record date for the meeting, of one or more Outstanding Indenture Obligations or, if applicable, of the affected Series of Indenture Obligations. Each Holder or proxy shall be entitled to one vote for each \$1,000 principal amount of Indenture Obligations held or represented by it.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders of Indenture Obligations or of their representatives by proxy and the identifying number or numbers of the Indenture Obligations held or represented by them.

SECTION 12.04. Meetings. Notwithstanding any other provisions of this Indenture, the Indenture Trustee may make any reasonable regulations which it may deem to be advisable for meetings of Holders, with regard to

- (a) proof of the holding of Indenture Obligations and of the appointment of proxies,
- (b) the appointment and duties of inspectors of votes,
- (c) recordation of the proceedings of those meetings,
- (d) the execution, submission and examination of proxies and other evidence of the right to vote, and
- (e) any other matters concerning the conduct, adjournment or reconvening of meetings which it may think fit.

The Indenture Trustee shall appoint a temporary chair of the meeting by an instrument or document in writing, unless the meeting shall have been called by Citizens or the Holders, as provided in Section 12.02, in which case Citizens or the Holders calling the meeting, as the case may be, shall appoint a temporary chair in like manner. A permanent chair and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in principal amount of the Indenture Obligations represented at the meeting and entitled to vote.

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(b) if to the Indenture Trustee, at Wachovia Bank, National Association, 225 Water Street, 3rd Floor, Jacksonville, Florida 32202, Attention: Corporate Trust Department; and

(c) if to the Collateral Trustee, at Wells Fargo Bank Minnesota, N.A., 7077 Bonneval Road, Suite 400, Jacksonville, Florida 32216, Attention: Corporate Trust Department.

Duplicate copies of each notice, request, complaint, demand or other instrument or document given hereunder by Citizens, the Indenture Trustee or the Holders to one or both of the others also shall be given to the others. The foregoing parties may designate, by notice given hereunder, any further or different addresses to which any subsequent notice, request, complaint, demand or other instrument or document shall be sent. The Indenture Trustee shall designate, by notice to Citizens the addresses to which notices or copies thereof shall be sent to the Registrar, the Authenticating Agents and the Paying Agents.

In connection with any notice forwarded pursuant to the provisions of this Indenture, a certificate of the Indenture Trustee, Citizens, the Registrar, the Authenticating Agents or the Holders of the Indenture Obligations, whichever or whoever forwarded that notice, that the notice was so forwarded shall be conclusive evidence of the proper mailing of the notice.

SECTION 13.04. Suspension of Mail or Courier Services. If because of the suspension of delivery of first-class mail or by courier services, or for any other reason, the Indenture Trustee shall be unable to forward by the required class of mail or by overnight courier service any notice required to be forwarded by the provisions of this Indenture, the Indenture Trustee shall give such notice in such other manner as in the judgment of the Indenture Trustee shall most effectively approximate the forwarding thereof required by this Indenture, and the giving of that notice in that manner for all purposes of this Indenture shall be deemed to be in compliance with the requirement hereunder for the forwarding thereof. Except as otherwise provided herein, the forwarding of any notice shall be deemed complete upon deposit of that notice in the mail or the delivery to the overnight courier service and the giving of any notice by any other means of delivery shall be deemed complete upon receipt of the notice by the means of delivery.

SECTION 13.05. Payments Due on Saturdays, Sundays and Holidays. If any Interest Payment Date, any date of maturity of the principal of any Indenture Obligations, any date fixed for redemption or purchase of any Indenture Obligation is a Saturday, a Sunday or a day on which (i) the Indenture Trustee is required, or authorized or not prohibited, by law (including, without limitation, executive orders) to close and is closed, then payment of interest, principal, purchase price or any redemption premium need not be made by the Indenture Trustee or any Paying Agent on that date, but that payment may be made on the next succeeding business day on which the Indenture Trustee is open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption or purchase, and no interest shall accrue for the period after that date, or (ii) a Paying Agent is required, or authorized or not prohibited, by law (including, without limitation, executive orders) to close and is closed, then payment of interest, principal, purchase price and any redemption premium need not be made by that Paying Agent on that date, but that payment may be made on the next succeeding business day on which that Paying Agent is open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption or purchase and no interest shall accrue for the period after that date;

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provided, that if the Indenture Trustee is open for business on the applicable Interest Payment Date, date of maturity or date fixed for redemption or purchase, it shall make any payment required hereunder with respect to payment of interest on Outstanding Indenture Obligations and payment of principal or purchase price of and premium on Indenture Obligations presented to it for payment or purchase, regardless of whether any Paying Agent shall be open for business or closed on the applicable Interest Payment Date, date of maturity or date fixed for redemption or purchase.

SECTION 13.06. Instruments of Holders. Any writing, including, without limitation, any consent, request, direction, approval, objection or other instrument or document required under this Indenture to be executed by any Holder may be in any number of concurrent writings of similar tenor and may be executed by that Holder in person or by an agent or attorney appointed in writing. Proof of (i) the execution of any writing including, without limitation, any consent, request, direction, approval, objection or other instrument or document, (ii) the execution of any writing appointing any agent or attorney, and (iii) the ownership of Indenture Obligations, shall be sufficient for any of the purposes of this Indenture if made in the following manner and, if so made, shall be conclusive in favor of the Indenture Trustee with regard to any action taken thereunder, namely:

(a) the fact and date of the execution by any person of any writing may be proved by the certificate of any officer in any jurisdiction, who has power by law to take acknowledgments within that jurisdiction, that the person signing the writing acknowledged that execution before that officer, or by affidavit of any witness to that execution; and

(b) the fact of ownership of Indenture Obligations shall be proved by the Register maintained by the Registrar.

Nothing contained herein shall be construed to limit the Indenture Trustee to the foregoing proof, and the Indenture Trustee may accept any other evidence of the matters stated therein which it deems to be sufficient. Any writing, including, without limitation, any consent, request, direction, approval, objection or other instrument or document, of the Holder of any Indenture Obligation shall bind every future Holder of the same Indenture Obligation, with respect to anything done or suffered to be done by Citizens, the Indenture Trustee, the Registrar or any Paying Agent or Authenticating Agent pursuant to that writing.

SECTION 13.07. Priority of this Indenture. This Indenture shall be superior to any liens which may be placed upon the Pledged Revenues or any other funds or accounts created pursuant to this Indenture.

SECTION 13.08. Extent of Covenants; No Personal Liability. All covenants, stipulations, obligations and agreements of Citizens contained in this Indenture are and shall be deemed to be covenants, stipulations, obligations and agreements of Citizens to the full extent authorized by the Act and permitted by the Constitution of the State. No covenant, stipulation, obligation or agreement of Citizens contained in this Indenture shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of Citizens or the Board in other than that person's official capacity. Neither the members of the Board nor any official executing the Indenture Obligations or this Indenture or any amendment

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EXHIBIT A

FORM OF NOTES

[Intentionally Omitted]

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or supplement hereto shall be liable personally on the Indenture Obligations or be subject to any personal liability or accountability by reason of the issuance or execution hereof or thereof.

SECTION 13.09. Subrogation. Citizens hereby acknowledges and agrees that the Holders are subrogated to the claims of Citizens' policyholders to the extent that such claims have been paid from the proceeds of any Indenture Obligations hereunder. Each of the Indenture Trustee and the Holders agrees not to exercise or enforce any right or remedy in respect of any such claim until and unless (a) a Delinquency Proceeding (as defined in Section 3.3 of the DOI Agreement) has been commenced or filed or (b) any of the Liens created pursuant to the Pledge and Indenture Obligation Agreement for any reason (other than payment in full of all Secured Obligations) shall cease to be, or Citizens, the Department of Insurance, the State of Florida or the Federal Government asserts (whether or not in writing) that any such lien is not, a valid and perfected first priority Lien.

SECTION 13.10. Binding Effect. This Indenture shall inure to the benefit of and shall be binding upon Citizens and the Indenture Trustee and their respective successors and assigns, subject however to the limitations contained herein.

SECTION 13.11. Counterparts. This Indenture may be executed in counterpart, and in any number of counterparts, each of which shall be regarded as an original and all of which together shall constitute but one and the same instrument.

SECTION 13.12. Governing Law. This Indenture and the Indenture Obligations shall be deemed to be contracts made under the laws of the State of Florida and for all purposes shall be governed by and construed in accordance with the laws of the State of Florida.

SECTION 13.13. Tax Considerations. It is the intention of Citizens that for U.S. federal, state and local income tax purposes the arrangement created hereby is intended solely to be a security arrangement and not a trust and neither the Indenture Trustee nor the Holders shall file any returns, reports or other documents or take any position inconsistent therewith.

IN WITNESS WHEREOF, Citizens has caused this Indenture to be executed and delivered for it and in its name and on its behalf by its duly authorized officers; and, in token of its acceptance of the trusts created hereunder, the Indenture Trustee has caused this Indenture to be executed and delivered for it and in its name and on its behalf by its duly authorized signatories; all as of the day and year first above written.

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EXHIBIT B

FORM OF DRAW CERTIFICATE (REQUISITION) CITIZENS PROPERTY INSURANCE CORPORATION

as Indenture Trustee

This Draw Certificate (the "Requisition") is submitted by the Citizens Property Insurance Corporation ("Citizens"), by and through its undersigned Authorized Citizens Representatives, pursuant to Section 6.01(c) of that certain Trust Indenture dated as of August 6, 1997 (the "Indenture"), between Citizens and the Indenture Trustee, in order to obtain a Draw from amounts on deposit in the Proceeds Account established under the Indenture in the amounts and for the purpose set forth below. Capitalized terms used herein and in the Exhibit and Schedules referred to herein without definitions have the meanings ascribed thereto in the Indenture.

The Authorized Citizens Representatives hereby certify to the Indenture Trustee as follows:

1. Total Amount of Draw: \$ _____
2. Purpose of Draw: Pay claims or other costs associated with a Plan Year Deficit for the calendar year ____, incurred as a result of [provide brief explanation as to cause of Plan Year Deficit].
3. Type of Collateral against which draw is made (check one or more, as applicable):
 - ___ Premiums, surcharges and Emergency Assessments (complete item 4 below)
Amount of Draw Allocable: \$ _____
 - ___ Regular Assessments
Amount of Draw Allocable: \$ _____
 - ___ FHCF Reimbursements (complete item 5 below)
Amount of Draw Allocable: \$ _____
4. Basis for determination of Emergency Assessments:
 - ___ Aggregate direct written premiums
 - ___ Percentage of Plan Year Deficit. The percentage is ____%.

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5. Certification as to FHCF Agreement:

The undersigned hereby certify that the FHCF Agreement dated _____, _____, between Citizens and the State Board of Administration of the State of Florida, which administers the FHCF, is in full force and effect. (Exhibit A must be completed and executed by an authorized representative of the FHCF; provided, however, if the information required by paragraph 2 of said Exhibit A is not available directly from the FHCF, an Authorized Citizens Representative may provide such information based on information provided to Citizens by the administrator of the FHCF or such other qualified and independent (as to Citizens) party selected by Citizens.)

6. General Certification as to Sufficiency of Moneys: After giving effect to the Draw requested hereby, the moneys remaining in the Proceeds Account and the other accounts established pursuant to the Indenture (other than the Defeasance Subaccount of the Debt Service Account), the Pledge and Security Agreement, the Bank Collateral Agreement, any Indenture Obligation Hedge Agreements and any Line of Credit Hedge Agreements, and all other amounts reasonably expected to be received by or on behalf of Citizens and attributable to the Coastal Account, will be sufficient to pay the Debt Service Charges on all Indenture Obligations Outstanding, the principal and interest on all Loans Outstanding under the Line of Credit, all net amounts due under Indenture Obligation Hedge Agreements (except for any termination payments not then due and payable by Citizens) and all net amounts due under Line of Credit Hedge Agreements (except for any termination payments not then due and payable by Citizens), in each case as such obligations become due and payable, all as set forth (and hereby certified by Citizens as correct) in Schedule 1 hereto.

7. No Event of Default: There does not exist an Event of Default under the Indenture or an event that with the passage of time (excluding with respect to the passage of time only, an event described in Section 8.01(n) of the Indenture) or the giving of notice, or both, would constitute such an Event of Default.

8. Representations and Warranties in Pledge and Security Agreement: Each of Citizens' representations and warranties contained in Section 2 of the Pledge and Security Agreement is true and correct on the date hereof.

IN WITNESS WHEREOF, Citizens has caused this certificate to be executed by its Authorized Citizens Representatives, as of this ____ day of _____, ____.

Dated: _____

Authorized Citizens Representative
Citizens Property Insurance Corporation

Authorized Citizens Representative
Citizens Property Insurance Corporation

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EXHIBIT A TO THIS EXHIBIT A

[Exhibit A to this Exhibit A was deleted by Section 601(r) of the Third Supplemental Indenture.]

SCHEDULE 1

TO

DRAW CERTIFICATE (REQUISITION)

Citizens hereby certifies to the Indenture Trustee pursuant to Section 6.01(c) of the Indenture as follows:

(i) (A) The amount on deposit in the Debt Service Account (other than the Defeasance Subaccount thereof) is _____; and

(B) The amount to remain on deposit in the Proceeds Account immediately following the Draw requested in this Draw Certificate is \$_____.

(ii) The amount on deposit in the accounts established under the Bank Collateral Agreement (as defined in the Pledge and Security Agreement) for the payment of Liquidity Loans and Term Loans is \$_____.

(iii) The amount on deposit in the accounts established under Pledge and Security Agreement or under any other agreement and available for the payment of amounts payable under Indenture Obligation Hedge Agreements (except for any termination payments not then due and payable) now in effect is \$_____.

(iv) The amount on deposit in the accounts established under the Pledge and Security Agreement or under any other agreement and available for the payment of amounts payable under Line of Credit Hedge Agreements (except for any termination payments not then due and payable) now in effect is \$_____.

(v) The amount of Pledged Revenues and other Collateral reasonably expected to be received by the Indenture Trustee, the Collateral Trustee or the Bank Agent from or on behalf of Citizens in each year through the final maturity of the Indenture Obligations now Outstanding is set forth below. The total amount of FHCF Reimbursement set forth below does not exceed the amount set forth in paragraph 2 of Exhibit A to this Draw Certificate (Requisition) and, accordingly, the Emergency Assessments set forth below are based on the recovery solely of such amounts from the FHCF.

Amount and Source of Pledged Revenues and other Collateral

Year	Regular Assessments	FHCF Reimbursement	Emergency Assessments	Premiums and Surcharges	Total
1997					
1998					
1999					
2000					
2001					
2002					
2003					
2004					
2005					
2006					
2007					

(vi) The Annual Debt Service coming due in each year through the final maturity of the Indenture Obligations, calculated in accordance with the requirements of Section 6.01(c) of the Indenture, on the Indenture Obligations Outstanding, the Liquidity Loans Outstanding, the Term Loans Outstanding, in respect of all Indenture Obligation Hedge Agreements now in effect and in respect of all Line of Credit Hedge Agreements now in effect, is set forth under Column (B) in (viii) below.

(vii) The amounts set forth in (i), (ii), (iii), (iv) and (v) above will be sufficient to pay that portion of the Annual Debt Service when due in each year through the final maturity of the Indenture Obligations, on all Indenture Obligations Outstanding, the Liquidity Loans Outstanding, the Term Loans Outstanding, all Indenture Obligation Hedge Agreements now in effect and all Line of Credit Hedge Agreements now in effect, as set forth in (vi) above, assuming the amounts set forth in (i)(A) and (B), (ii) (iii) and (iv) above are applied as a credit against the Annual Debt Service, as shown under Column (C) of (viii) below.

(viii) The results of (i) through (vii) above have been inserted in the table set forth below, in accordance with the instructions in (i) through (vii) above and the footnotes set forth below. Note: If the amount set forth under Column (D) in the table set forth below is a negative number for any year, Citizens has not satisfied the conditions set forth in Section 6.01(c) of the Indenture and may not obtain a Draw from the Proceeds Account pursuant to this Draw Certificate (Requisition).

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Schedule 1-1

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Schedule 1-2

	A	B	C	D ⁽³⁾
Year	Total ⁽¹⁾	Annual Debt Service	Credit ⁽¹⁾	
1997	\$	\$	\$	\$
1998				
1999				
2000				
2001				
2002				
2003				
2004				
2005				
2006				
2007				

- (1) Insert each amount under Total column in (v) above into column (A) in (viii) above.
(2) The total of the amounts entered in column (C) in (viii) above cannot exceed the total of the amounts in (i)(A), (i)(B), (ii), (iii) and (iv).
(3) D=A+C-B.

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Schedule 1-3

EXHIBIT C
[Exhibit C was added by Section 601(s) of the Third Supplemental Indenture.]
**FORM OF REQUISITION CERTIFICATE PURSUANT TO
LAST PARAGRAPH OF SECTION 6.01(c) OF THE ORIGINAL INDENTURE**

CITIZENS PROPERTY INSURANCE CORPORATION

as successor Indenture Trustee

This requisition certificate (the "Requisition") is submitted by Citizens Property Insurance Corporation ("Citizens"), by and through its undersigned Authorized Citizens Representative, pursuant to the last paragraph of Section 6.01(c) of that certain Trust Indenture dated as of August 6, 1997, as amended (the "Indenture"), between Citizens and the Indenture Trustee, in order to withdraw moneys from the Subaccounts in the Proceeds Account (other than proceeds of the 1997 Notes on deposit to the credit of the Proceeds Account) in the amounts and for the purposes set forth below. Capitalized terms used herein without definitions have the meanings ascribed thereto in the Indenture.

The Authorized Citizens Representative hereby certifies to the Indenture Trustee as follows:

1. Total Amount of Money to be \$ _____
Withdrawn:
2. Purpose of Withdrawal:
 - A. To deposit all or a portion of such moneys into the _____ [insert Series designation of applicable Series of Indenture Obligations] Principal Sub-subaccount in the Principal Subaccount of the Debt Service Account in order to pay scheduled principal of the _____ [insert name of applicable Indenture Obligations].
 - B. To deposit all or a portion of such moneys into the _____ [insert Series designation of applicable Series of Indenture Obligations] Interest Sub-subaccount in the Interest Subaccount of the Debt Service Account in order to pay interest on the _____ [insert name of applicable Indenture Obligations].

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ANNEXES A-J
[INTENTIONALLY OMITTED]

- C. To deposit such moneys into the _____ Defeasance Sub-subaccount [insert Series designation of applicable Series of Indenture Obligations] in the Defeasance Subaccount of the Debt Service Account in order to make the mandatory defeasance deposit for the _____ [insert name of applicable Indenture Obligations] required by Section 11.17(b) of the Indenture and the _____ Supplemental Indenture [insert Series designation of applicable Series of Indenture Obligations].
 - D. Any lawful purpose of the Coastal Account.*
3. Certification:
[required only if withdrawal is for purpose stated in Paragraph 1. D above]
- The Authorized Citizens Representative hereby certifies that (i) Indenture Obligations in a principal amount at least equal to the Total Amount of Money to be Withdrawn specified in Paragraph 1. hereof have matured and been paid in full or mandatory defeasance deposits in an amount at least equal to the Total Amount of Money to be Withdrawn specified in Paragraph 1. have been made in accordance with the requirements of Section 11.17(b) and (ii) such principal payments or mandatory defeasance deposits, as applicable, were not made from amounts withdrawn from the Subaccounts in the Proceeds Account.

IN WITNESS WHEREOF, Citizens has caused this certificate to be executed by its Authorized Citizens Representative, as of this ____ day of _____, 200_.

Authorized Citizens Representative
Citizens Property Insurance Corporation

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between
CITIZENS PROPERTY INSURANCE CORPORATION
(successor to Florida Windstorm Underwriting Association)
and
REGIONS BANK
(successor to U.S. Bank National Association,
Wachovia Bank, National Association, and The Bank of New York),
as Indenture Trustee
dated as of
June 1, 2015

supplementing that certain
TRUST INDENTURE

dated as of August 6, 1997, as supplemented and amended by a
Series 1999A Supplemental Indenture dated as of March 31, 1999;
a Second Supplemental Indenture dated as of August 1, 2002;
a Third Supplemental Indenture dated as of May 1, 2004;
a Fourth Supplemental Indenture dated as of June 1, 2006;
a Fifth Supplemental Indenture dated as of February 1, 2007;
a Sixth Supplemental Indenture dated as of June 1, 2008;
a Seventh Supplemental Indenture dated as of May 1, 2009;
an Eighth Supplemental Indenture dated as of April 1, 2010; and
a Ninth Supplemental Indenture dated as of July 1, 2011

\$700,000,000
Citizens Property Insurance Corporation Coastal Account
Senior Secured Bonds, Series 2015A-1
and
\$300,000,000
Citizens Property Insurance Corporation Coastal Account
Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes)

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TENTH SUPPLEMENTAL INDENTURE

This TENTH SUPPLEMENTAL INDENTURE dated as of June 1, 2015 (the "Tenth Supplemental Indenture"), is entered into by and between CITIZENS PROPERTY INSURANCE CORPORATION (successor to Florida Windstorm Underwriting Association), a statutorily created corporation organized under the laws of the State of Florida (the "Issuer" or "Citizens") and REGIONS BANK (successor to U.S. Bank National Association, Wachovia Bank, National Association and The Bank of New York), a banking corporation organized under the laws of the State of Alabama and qualified to exercise trust powers under the laws of the State of Florida, with its designated place of business located in Jacksonville, Florida (the "Indenture Trustee").

WITNESSETH:

WHEREAS, the Florida Windstorm Underwriting Association ("FWUA") was originally established as an unincorporated association under Section 627.351(2), Florida Statutes, as amended, to function as a residual market mechanism to provide residential and commercial windstorm insurance for those who cannot procure such insurance through the voluntary market;

WHEREAS, pursuant to Section 627.351(6), Florida Statutes, as amended (the "Act"), all policies, obligations, rights, assets, and liabilities of FWUA, including bonds, notes and other debt obligations thereof, and the financing documents pertaining to them, were transferred to the High-Risk Account of the Issuer;

WHEREAS, as a result of the aforementioned transfer, the Issuer and the Indenture Trustee are parties to that certain Trust Indenture, dated as of August 6, 1997 (the "Original Indenture"), as supplemented and amended by a Series 1999A Supplemental Indenture dated as of March 31, 1999, a Second Supplemental Indenture dated as of August 1, 2002, a Third Supplemental Indenture dated as of May 1, 2004, a Fourth Supplemental Indenture dated as of June 1, 2006, a Fifth Supplemental Indenture dated as of February 1, 2007, a Sixth Supplemental Indenture dated as of June 1, 2008, as amended, a Seventh Supplemental Indenture dated as of May 1, 2009, an Eighth Supplemental Indenture dated as of April 1, 2010 and a Ninth Supplemental Indenture dated as of July 1, 2011 (collectively, and as the same may be amended or supplemented from time to time, including pursuant to this Tenth Supplemental Indenture, the "Indenture"), for the benefit of the High-Risk Account of the Issuer;

WHEREAS, in its 2011 Regular Session, the Florida Legislature passed S.B. 408 ("S.B. 408") which, among other things, amended the Act to change the name of Citizens' High-Risk Account to the "Coastal Account" and S.B. 408 was subsequently signed into law by the Governor of the State;

WHEREAS, pursuant to the Indenture as amended and supplemented to date, there have heretofore been issued for the Coastal Account of the Issuer, Senior Secured Bonds, Series 2009A-1, in the aggregate principal amount of \$1,021,000,000, of which \$746,585,000 is currently outstanding (the "Series 2009A-1 Bonds"), Senior Secured Bonds, Series 2010A-1 in the aggregate principal amount of \$1,550,000,000, of which \$1,240,000,000 is currently outstanding (the "Series 2010A-1 Bonds") and Senior Secured Bonds, Series 2011A-1, in the

aggregate principal amount of \$645,000,000, all of which are currently outstanding (the “Series 2011A-1 Bonds,” and, together with the Series 2009A-1 Bonds and the Series 2010A-1 Bonds, the “Prior Parity Bonds”);

WHEREAS, Section 2.04 of the Original Indenture provides, among other things, that the Issuer and the Indenture Trustee may enter into an indenture supplemental to the Original Indenture for the purpose of authorizing one or more series of Additional Indenture Obligations and to specify the terms of such series of Additional Indenture Obligations;

WHEREAS, on April 7, 2015, the Board of Governors of the Issuer duly adopted a resolution (the “Bond Resolution”) authorizing the issuance from time to time by the Issuer of its Coastal Account Senior Secured Bonds, Series 2015A, in one or more series, in the aggregate principal amount of not exceeding \$1,000,000,000, for the purposes set forth in Section 201(a) hereof;

WHEREAS, the Issuer has determined that it is in its best interests to issue the Series 2015A Bonds in a single series consisting of two subseries, as follows: Coastal Account Senior Secured Bonds, Series 2015A-1, in the aggregate principal amount of \$700,000,000 (the “Series 2015A-1 Bonds”) and Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes), in the aggregate principal amount of \$300,000,000 (the “Series 2015A-2 Bonds” and, together with the Series 2015A-1 Bonds, the “Series 2015A Bonds”);

WHEREAS, the Issuer and the Indenture Trustee are executing and delivering this Tenth Supplemental Indenture in order to provide for the issuance of the Series 2015A Bonds as Additional Indenture Obligations under and in accordance with the Indenture and the terms and conditions set forth herein;

WHEREAS, in connection with the issuance of the Series 2015A Bonds, the Issuer desires to amend and restate in its entirety the Original Indenture as previously amended to date, as more specifically set forth in Article VI hereof and as reflected in the Master Trust Indenture set forth in Exhibit B hereto, with such amendments and the Master Trust Indenture to be effective not earlier than the Conversion Date (as defined herein), as set forth in Section 601 hereof;

WHEREAS, by virtue of their purchase of the Series 2015A Bonds, the purchasers thereof will have consented to and approved (i) the amendment and restatement of the Indenture in its entirety, (ii) the execution and delivery of the Master Trust Indenture, (iii) the termination of the Pledge and Security Agreement upon the execution and delivery of the Master Trust Indenture and (iv) the conversion of the Series 2015A Bonds that mature after the Conversion Date from obligations issued and secured under the provisions of the Indenture to obligations issued and secured under the provisions of the Master Trust Indenture;

WHEREAS, this Tenth Supplemental Indenture shall, upon execution and delivery hereof, become an effective, valid, binding and legal instrument, in accordance with its terms and for the purposes herein expressed; and

WHEREAS, all acts and proceedings required by law to make this Tenth Supplemental Indenture in the form hereof a valid, binding and legal instrument, in accordance with its terms

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ARTICLE I

DEFINITIONS

Section 101. Definitions.

Capitalized terms used in this Tenth Supplemental Indenture that are defined in the recitals hereto shall have the meanings ascribed thereto in such recitals, unless the context or use clearly indicates another meaning or intent. Capitalized terms used herein without definitions shall have the meanings ascribed thereto in the Original Indenture as amended to date, unless the context or use clearly indicates another meaning or intent. In addition to the words and terms defined in the recitals to this Tenth Supplemental Indenture or by reference to the Original Indenture, the following words and terms shall have the meanings set forth below, unless the context or use clearly indicates another meaning or intent:

“Adjusted SIFMA Rate” means the sum of the SIFMA Rate plus, (i) in the case of the Series 2015A-2 Bonds maturing on June 1, 2018, 0.85% (85 basis points); and (ii) in the case of the Series 2015A-2 Bonds maturing June 1, 2020, 0.95% (95 basis points).

“Adjustment Date” means, with respect to the Series 2015A-2 Bonds, Wednesday of each week or if such day is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

“Authorized Citizens Representative” and “Authorized Issuer Representative” means the Person or Persons designated at the time, pursuant to a certificate of the Issuer delivered to the Indenture Trustee and which certificate has not been revoked or superseded, to act on behalf of the Issuer under the Indenture.

“Authorized Denominations” means \$5,000 or any integral multiple thereof.

“Bank of America Merrill Lynch” means Merrill Lynch, Pierce, Fenner & Smith Incorporated.

“Beneficial Owner” means any Person which (i) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (ii) is treated as the owner of any Bond for federal income tax purposes.

“Bond Counsel” means any firm of attorneys selected by the Issuer of nationally recognized standing in matters pertaining to the validity of and the tax status of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America. For purposes of this Tenth Supplemental Indenture, the term “Bond Counsel” and “Indenture Counsel” (as defined in the Original Indenture) may be used interchangeably.

“Bondholder” or “Holder” means, as of any time, the registered owner of any Series 2015A Bond, as shown in the register kept by the Indenture Trustee as bond registrar.

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and for the purposes herein expressed, have been done and performed, and the execution and delivery hereof have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Issuer represents, covenants and agrees with the Indenture Trustee and its successors-in-trust under the Indenture, for the equal and proportionate benefit of the Registered Owners of the Series 2015A Bonds, as follows:

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“Business Day” means, unless otherwise provided in this Tenth Supplemental Indenture, any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Jacksonville, Florida, the City of New York, New York, or any other city in which the principal offices of any successor Indenture Trustee are located.

“Calculation Agent” means the Indenture Trustee, or any successor thereto duly appointed by the Issuer, in its capacity as calculation agent to perform the duties thereof required by Section 201(d) of this Tenth Supplemental Indenture in connection with the Series 2015A-2 Bonds.

“Citi” means Citigroup Global Markets Inc.

“Closing Date” means the date of delivery of the Series 2015A Bonds to the Underwriters thereof against payment therefor.

“Code” means the Internal Revenue Code of 1986, as from time to time amended, and any regulations promulgated thereunder which are applicable to the Series 2015A Bonds, or any portion thereof, including, without limitation, any Treasury Regulations or Temporary or Proposed Regulations, as the same shall from time to time be amended including (until modified, amended or superseded) Treasury Regulations or Temporary or Proposed Regulations under the Internal Revenue Code of 1954, as amended, as applicable to the Series 2015A Bonds.

“Conversion Date” means the earlier to occur of (a) the Scheduled Conversion Date or (b) the date on which none of the Prior Parity Bonds are Outstanding under the Indenture as a result of the Issuer’s legal defeasance of the Prior Parity Bonds prior to their stated maturity dates; provided, however, that notwithstanding anything to the contrary contained in this Tenth Supplemental Indenture or in any future Supplemental Indenture, the Conversion Date shall not occur or be deemed to have occurred for so long as there are any Prior Parity Bonds that remain Outstanding under the Indenture.

“Convertible Outstanding Parity Bonds” means (i) the Series 2015A Bonds and (ii) any other Series of Indenture Obligations issued by Citizens under the Indenture prior to the Conversion Date and which are intended to convert from obligations issued and secured under the provisions of the Indenture to obligations issued and secured under the provisions of the Master Trust Indenture.

“Fitch” means Fitch Ratings, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Indenture Trustee.

“Interest Payment Date” means, (a) with respect to the Series 2015A-1 Bonds, each June 1 and December 1, commencing December 1, 2015, and (b) with respect to the Series 2015A-2 Bonds, the first day of each calendar month, commencing August 1, 2015.

“Issuer” means Citizens Property Insurance Corporation and its successors and assigns.

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“Issuer Representative” has the same meaning as the term “Authorized Association Representative,” as defined in the Original Indenture.

“J.P. Morgan” means J.P. Morgan Securities LLC.

“Jefferies” means Jefferies & Company, Inc.

“Master Trust Indenture” means that certain Master Trust Indenture to be entered into (and become effective) not earlier than the Conversion Date by and between the Issuer and a Master Trustee to be named therein, substantially in the form of the Master Trust Indenture set forth in **Exhibit B** hereto.

“Master Trustee” means the entity appointed by the Issuer to serve in the capacity of Master Trustee under the Master Trust Indenture.

“Maturity Date” means, for any Series 2015A Bond, the date for the scheduled payment of principal of such Series 2015A Bond as set forth in Section 201 hereof.

“Maximum Rate” means an interest rate per annum equal to the lesser of the maximum rate permitted by law and 10%; provided that, the Calculation Agent may assume that the maximum rate permitted by law exceeds 8% unless and until it receives written notice from the Issuer to the contrary.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Indenture Trustee.

“Morgan Stanley” means Morgan Stanley & Co. LLC.

“Non-AMT Tax-Exempt Bonds” means (a) any municipal obligation meeting both of the following requirements: (i) the interest on such obligation is excluded from gross income for federal income tax purposes under Section 103 of the Code, and (ii) such obligation is not a “specified private activity bond” under Section 57(a)(5)(c) of the Code for purposes of the federal alternative minimum tax; (b) an interest in a “regulated investment company,” as defined in Section 851 of the Code, if at least 95 percent of the assets of the regulated investment company are, at all times that proceeds of the Series 2015A Bonds are invested in shares of the regulated investment company, invested in, and 95 percent of the income to the holder is derived from, municipal obligations meeting the requirements set forth in clause (a); and (c) any other specified investment property the inclusion of which in this definition will not, in the opinion of Bond Counsel, adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2015A Bonds.

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among other things, the issuance of the Series 2015A Bonds and the execution and delivery of the Tenth Supplemental Indenture.

“RBC” means RBC Capital Markets, LLC.

“Ramirez & Co.” means Samuel A. Ramirez & Co., Inc.

“Rating Agency” means, as of any date, each of: Moody’s, if the Series 2015A Bonds or any portion thereof are then rated by Moody’s at the request of the Issuer; S&P, if the Series 2015A Bonds or any portion thereof are then rated by S&P at the request of the Issuer; and Fitch, if the Series 2015A Bonds or any portion thereof are then rated by Fitch at the request of the Issuer.

“Record Date” means the fifteenth day immediately preceding the relevant Interest Payment Date.

“S&P” means Standard & Poor’s, a business of Standard & Poor’s Financial Services LLC, a limited liability company organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer by notice to the Indenture Trustee.

“Scheduled Conversion Date” means June 2, 2020, which is the day after the last Prior Parity Bonds are scheduled to mature in accordance with their stated maturity dates.

“Securities Depository” means DTC or, if applicable, any successor securities depository appointed pursuant to the last paragraph of Section 205 of this Tenth Supplemental Indenture.

“Serial Bonds” means Series 2015A Bonds which shall be stated to mature in sequential years and any other Series 2015A Bonds that are designated as Serial Bonds by the Issuer.

“Series 2015A Bonds Proceeds Subaccount” means the subaccount established in the Proceeds Account pursuant to Section 401(a) of this Tenth Supplemental Indenture.

“Series 2015A Bonds” means, collectively, the Series 2015A-1 Bonds and the Series 2015A-2 Bonds.

“Series 2015A Bonds Interest Sub-subaccount” means the sub-subaccount established in the Interest Subaccount of the Debt Service Account pursuant to Section 402(a)(i) of this Tenth Supplemental Indenture.

“Series 2015A Bonds Principal Sub-subaccount” means the sub-subaccount established in the Principal Subaccount of the Debt Service Account pursuant to Section 402(a)(ii) of this Tenth Supplemental Indenture.

“Series 2015A-1 Bonds” means any or all of the Issuer’s Coastal Account Senior Secured Bonds, Series 2015A-1 issued hereunder in the initial aggregate principal amount of

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“Notice Address” means:

(a) As to the Issuer: Citizens Property Insurance Corporation
2312 Killbuck Center Blvd.
Tallahassee, Florida 32309
Attention: Executive Director

(b) As to the Indenture Trustee: Regions Bank
10245 Centurion Parkway, 2nd Floor
Jacksonville, Florida 32256
Attention: Corporate Trust Services

“Outstanding Bonds” or “Bonds outstanding” has the same meaning as the word “Outstanding” in the Original Indenture.

“Participant” means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

“Payment Date” means each Interest Payment Date or any other date on which any principal of, premium, if any, or interest on any Series 2015A Bond is due and payable for any reason.

“Person” means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

“Pledged Revenues” means (a) with respect to the Series 2015A Bonds with a stated maturity date prior to the Conversion Date, the “Pledged Revenues” as defined in Section 1.01 of the Indenture, and (b) with respect to the Series 2015A Bonds with a stated maturity date after the Conversion Date, (i) for the period of time from their date of issuance to the date of execution and delivery of the Master Trust Indenture, the “Pledged Revenues” as defined in Section 1.01 of the Indenture and (ii) on and after the date of execution and delivery of the Master Trust Indenture, the “Pledged Revenues” as defined in the Master Trust Indenture.

“Principal Office” means, with respect to the Indenture Trustee, the address of such Person identified as its Notice Address in or pursuant to this Tenth Supplemental Indenture or otherwise notified in writing by such Person to the Issuer.

“Prior Parity Bonds” means the following Indenture Obligations issued under the Indenture, which obligations must be paid in full or legally defeased in accordance with the applicable provisions of the Indenture before Citizens can execute and deliver the Master Trust Indenture: (i) Senior Secured Bonds, Series 2009A-1, issued in the original aggregate principal amount of \$1,021,000,000, (ii) Senior Secured Bonds, Series 2010A-1, issued in the original aggregate principal amount of \$1,550,000,000 and (iii) Senior Secured Bonds, Series 2011A-1, issued in the aggregate principal amount of \$645,000,000. Convertible Outstanding Parity Bonds shall not constitute or be deemed to be Prior Parity Bonds. The term “Prior Parity Bonds” is synonymous with, and replaces in the Tenth Supplemental Indenture, the term “Outstanding Parity Bonds,” as used in the resolution adopted by Citizen’s Board on April 7, 2015 authorizing,

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\$700,000,000; provided, however, that on and as of the date of execution and delivery of the Master Trust Indenture, the Series 2015A-1 Bonds with a stated maturity date after the Conversion Date shall be deemed to be issued and secured under the Master Trust Indenture.

“Series 2015A-2 Bonds” means any or all of the Issuer’s Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes) issued hereunder in the initial aggregate principal amount of \$300,000,000; provided, however, that on and as of the date of execution and delivery of the Master Trust Indenture, the Series 2015A-2 Bonds with a stated maturity date after the Conversion Date shall be deemed to be issued and secured under the Master Trust Indenture.

“SIFMA Rate” means for any day the level of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meets specific criteria established from time to time by the Securities Industry and Financial Markets Association (SIFMA) and is issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day. If such index is no longer published or otherwise not available, the “SIFMA Rate” for any day will mean the level of the “S&P Municipal Bond 7 Day High Grade Index” maintained by Standard & Poor’s Securities Evaluations Inc. for a 7-day maturity as published on the Adjustment Date or most recently published prior to the Adjustment Date. If both such indices are no longer available, the “SIFMA Rate” will be the prevailing rate of such index as determined by the Calculation Agent, in consultation with the Issuer, for tax-exempt state and local government bonds meeting the then-current Securities Industry and Financial Markets Association criteria.

“Special Record Date” means a special date fixed to determine the names and addresses of Holders of Series 2015A Bonds for purposes of paying interest on a special interest payment date for the payment of defaulted interest.

“State” means the State of Florida.

“Stifel” means Stifel, Nicolaus & Company, Incorporated.

“Tax-Exempt Bonds” means obligations the interest on which is excludable from the gross income of the Holders thereof for federal income tax purposes.

“Underwriters” means, collectively, Bank of America Merrill Lynch, Citi, J.P. Morgan, Jefferies, Morgan Stanley, RBC, Ramirez & Co., Stifel and Wells Fargo.

“U.S. Government Securities Business Day” means any day other than (a) a Saturday, a Sunday, or (b) a day on which the Securities Industry and Financial Markets Association (SIFMA) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities, or (c) a day on which the Calculation Agent is required or permitted by law to close.

“Wells Fargo” means Wells Fargo Bank, National Association.

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Section 102. Timing of Actions; Required Consents; Article and Section References.

Whenever in the Indenture there is specified a time of day at or by which a certain action must be taken, such time shall be local time in Tallahassee, Florida, except as otherwise specifically provided in the Indenture. If the date for making any payment or the last day for the performance of any act or the exercise of any right provided in the Indenture shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in the Indenture, except as otherwise specifically provided herein.

Notwithstanding anything to the contrary contained in the Indenture, whenever in the Indenture there is required the consent of another party (other than the Bondholders) to the taking or omission of any action, the party from whom the consent is required shall be under the obligation to act reasonably and in good faith in determining whether or not to grant such consent and such consent shall not be unreasonably withheld.

Any reference to an article or section of the Original Indenture shall mean the referenced article or section of the Original Indenture as amended from time to time, except as otherwise specifically provided herein.

[END OF ARTICLE I]

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(d) The Series 2015A-2 Bonds shall mature on June 1, 2018, and June 1, 2020 in the following principal amounts and shall bear interest while Outstanding at the Adjusted SIFMA Rate, payable monthly in arrears on each Interest Payment Date (commencing on August 1, 2015) and computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be:

Maturity Date (June 1)	Principal Amount	Interest Rate	CUSIP
2018	\$150,000,000	Adjusted SIFMA Rate	176553HD0
2020	150,000,000	Adjusted SIFMA Rate	176553HE8

Except for the initial Adjusted SIFMA Rate applicable to the Series 2015A-2 Bonds upon their issuance, which shall be determined by J.P. Morgan, as representative of the Underwriters on or prior to the date of issuance of the Series 2015A-2 Bonds, the Adjusted SIFMA Rate will be determined by the Calculation Agent; provided however, the Adjusted SIFMA Rate shall not exceed the Maximum Rate. The Adjusted SIFMA Rate shall be adjusted on each Adjustment Date, based upon the SIFMA Rate published for such week, with the effective date for each adjustment of the Adjusted SIFMA Rate to be each Thursday. Upon determining the Adjusted SIFMA Rate for a given week, the Calculation Agent shall notify the Issuer of such rate by electronic mail (e-mail) or by telephone or in such other manner as may be appropriate on the date of such determination, which notice, if provided by telephone, shall be promptly confirmed in writing. Such notice shall be provided by not later than 11:00 A.M. New York City time on the Business Day immediately following the Adjustment Date. Upon the request of the Holder of any Series 2015A-2 Bond, the Calculation Agent will provide the applicable Adjusted SIFMA Rate then in effect.

The determination of the Adjusted SIFMA Rate (absent manifest error) shall be conclusive and binding upon the Issuer and the Owners of the Series 2015A-2 Bonds. If for any reason the Adjusted SIFMA Rate shall not be established, the Series 2015A-2 Bonds shall bear interest at the Adjusted SIFMA Rate last in effect until such time as a new Adjusted SIFMA Rate shall be established pursuant to the terms of this Tenth Supplemental Indenture.

Interest on the Series 2015A-2 Bonds shall be payable monthly in arrears on August 1, 2015 and on each Interest Payment Date thereafter to the persons in whose names the Series 2015A-2 Bonds are registered at the close of business on the Regular Record Date. Interest on the maturity date of the Series 2015A-2 Bonds shall be payable to the persons to whom principal is payable. Interest payments on the Series 2015A-2 Bonds shall be the amount of interest accrued from and including the date of issuance or the most recent Interest Payment Date on which interest has been paid to but excluding the Interest Payment Date.

If any Interest Payment Date, other than the maturity date, falls on a day that is not a Business Day, the Interest Payment Date shall be postponed to the next succeeding Business Day. If the maturity date falls on a day that is not a Business Day, the payment of interest and principal due on the maturity date shall be made on the next succeeding Business Day with the

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ARTICLE II

THE SERIES 2015A BONDS

Section 201. Issuance of Series 2015A Bonds; Purpose; Form; Terms.

(a) The Issuer hereby authorizes the issuance of the Series 2015A Bonds hereunder in an aggregate principal amount of \$1,000,000,000 for the purpose of providing funds to (i) make a deposit to the Series 2015A Bonds Proceeds Subaccount in the Proceeds Account to provide funds to pay policy claims and other liabilities and expenses related to such claims resulting in one or more Plan Year Deficits (calculated in accordance with the provisions of the Plan of Operation applicable to the making of Draws from the Proceeds Account) within the Coastal Account, as the same may occur from time to time; provided, however, that amounts on deposit to the credit of the Series 2015A Bonds Proceeds Subaccount may, at the election of Citizens, be applied to pay principal of and/or interest on the Series 2015A Bonds, or withdrawn and applied to any lawful purpose of the Coastal Account in accordance with the provisions of the Indenture, and (ii) pay the costs of issuance of the Series 2015A Bonds.

(b) The Series 2015A Bonds shall be issued in two separate subseries as follows: the Series 2015A-1 Bonds shall be designated as "Citizens Property Insurance Corporation Coastal Account Senior Secured Bonds, Series 2015A-1," with the additional designations, if any, permitted by the Indenture and shall be issued in the initial aggregate principal amount of \$700,000,000; and the Series 2015A-2 Bonds shall be designated "Citizens Property Insurance Corporation Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes)," with the additional designations, if any, permitted by the Indenture and shall be issued in the aggregate principal amount of \$300,000,000. All Series 2015A Bonds shall be in substantially the form thereof attached hereto as Exhibit A.

(c) The Series 2015A Bonds shall be issued in fully registered form, without coupons, in Authorized Denominations. The Series 2015A Bonds will be issued as Tax-Exempt Bonds and will be dated their date of initial delivery. Unless the Issuer shall otherwise direct, the Series 2015A-1 Bonds shall be numbered from RA1-1 upwards and the Series 2015A-2 Bonds shall be numbered from RA2-1 upwards. The Series 2015A-1 Bonds shall mature on June 1 of the years set forth below, in the following principal amounts and shall bear interest while Outstanding at the following fixed rates per annum, payable on each Interest Payment Date (commencing on December 1, 2015) and computed on the basis of a 360-day year consisting of twelve 30-day months:

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP
2018	\$ 5,000,000	3.00%	1.51%	176553GY5
2018	45,000,000	5.00	1.51	176553HC2
2020	5,000,000	4.00	2.10	176553GW9
2020	145,000,000	5.00	2.10	176553GZ2
2022	5,000,000	4.00	2.66	176553GX7
2022	220,000,000	5.00	2.66	176553HA6
2025	275,000,000	5.00	3.20	176553HB4

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same force and effect as if made on the day such payment was due, and no interest shall accrue for the period from and after such maturity date for such Series 2015A-2 Bonds.

(e) The Series 2015A Bonds shall not be secured by or payable from moneys in the Coverage Account. The Indenture Trustee shall not transfer, or be required to transfer, any amounts from the Revenue Account into the Coverage Account in respect of the Series 2015A Bonds. The Coverage Account Requirement shall be calculated without regard to the Series 2015A Bonds.

Section 202. Authentication and Delivery.

Upon execution and delivery of this Tenth Supplemental Indenture and satisfaction of the conditions set forth below for delivery of the Series 2015A Bonds, the Issuer shall execute the Series 2015A Bonds and deliver such Series 2015A Bonds to the Indenture Trustee. Thereupon, the Indenture Trustee shall authenticate the Series 2015A Bonds and deliver them to the Underwriters, as directed by the Issuer in accordance with this Section 202.

Before the Indenture Trustee shall authenticate and deliver the Series 2015A Bonds, the Indenture Trustee shall receive the following items:

(a) Original executed counterparts of this Tenth Supplemental Indenture, including, without limitation, the unexecuted form of the Master Trust Indenture to become effective as of its execution and delivery not earlier than the Conversion Date.

(b) A copy of the Authorizing Resolution, certified by an Authorized Issuer Representative.

(c) A request and authorization to the Indenture Trustee on behalf of the Issuer, signed by an Authorized Issuer Representative, to authenticate and deliver the Series 2015A Bonds to the Underwriters upon payment to the Indenture Trustee of the amount specified therein, which amount shall be deposited upon receipt by the Indenture Trustee to the credit of the Series 2015A Bonds Proceeds Subaccount and the Costs of Issuance Subaccount, as provided in Section 206 hereof.

(d) The written opinion of Indenture Counsel, to the effect that: (i) the documents submitted to the Indenture Trustee in connection with the authentication and delivery request then being made comply with the requirements of the Original Indenture and this Tenth Supplemental Indenture; (ii) the issuance of the Series 2015A Bonds has been duly authorized; (iii) all filings and/or recordings required to be made under Section 11.10 of the Original Indenture have been made; and (iv) all conditions precedent to the delivery of the Series 2015A Bonds have been fulfilled.

(e) A written opinion of Indenture Counsel, to the effect that when executed for and in the name and on behalf of the Issuer and when authenticated and delivered by the Indenture Trustee, the Series 2015A Bonds will be valid and legal obligations of the Issuer, enforceable in accordance with their terms and will be secured under the Indenture equally and on a parity with all other Indenture Obligations at the time outstanding under the Indenture as to the pledge of and lien on the Pledged Revenues.

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(f) A certificate of the Issuer, signed by an Authorized Issuer Representative, which shall state that (i) there does not then exist an Event of Default (or an event that with the giving of notice or passage of time, or both, would result in such Event of Default) and (ii) the Pledge and Security Agreement and the DOI Agreement have not been supplemented or amended (except as permitted by the respective terms thereof) and each such agreement remains in full force and effect.

When (i) the documents listed above have been received by the Indenture Trustee, and (ii) the Series 2015A Bonds have been executed and authenticated, the Indenture Trustee shall deliver the Series 2015A Bonds to the Underwriters, but only upon payment from the Underwriters to the Indenture Trustee of the specified amount set forth in the request and authorization to which reference is made in paragraph (c) above, which amount shall be deposited as provided in Section 206 hereof.

The proceeds of the Series 2015A Bonds shall be applied as set forth in Section 206 hereof.

Section 203. Execution; Authentication.

The Series 2015A Bonds shall be executed in the form and manner set forth in Section 3.03 of the Original Indenture and shall be deposited with the Indenture Trustee for authentication. Prior to the authentication and delivery of the Series 2015A Bonds by the Indenture Trustee, there shall be filed with the Indenture Trustee the documents, certifications, opinions and other items required under Section 202 of this Tenth Supplemental Indenture and Section 2.04 of the Original Indenture. No Series 2015A Bonds shall be valid until the certification of authentication shall have been duly executed by the Indenture Trustee in the manner provided by the Indenture, and such authentication shall be proof that the holder is entitled to the benefit of the trust created by the Indenture.

Section 204. Nature of Obligation; Security for Series 2015A Bonds.

(a) The Series 2015A Bonds and all other obligations arising under this Tenth Supplemental Indenture shall be direct and general obligations of the Issuer attributable to the Coastal Account (subject to paragraph (b) 2.a., b., c. and d. of the Act), secured solely by the Pledged Revenues as provided in the Indenture (and subject to the proviso expressed in subsection (b) below); provided, however, that on and after the date of execution and delivery of the Master Trust Indenture, the Series 2015A Bonds with a stated maturity date after the Conversion Date will be secured solely by the Pledged Revenues as shall be provided in the Master Trust Indenture. No Person, including, without limitation, the holders of the Series 2015A Bonds and the Indenture Trustee shall have a claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or the Commercial Lines Account) in respect of the Series 2015A Bonds or any other obligation arising under, directly or indirectly, this Tenth Supplemental Indenture or the Indenture. Notwithstanding anything to the contrary in the Series 2015A Bonds or the Indenture, the Series 2015A Bonds, do not and shall not represent or constitute a debt or pledge of the faith and credit or the taxing power of the State

or of any political subdivision, municipality or other local agency thereof or of any Assessable Insurer or Assessable Insured.

(b) The Series 2015A Bonds shall be secured and payable from the Pledged Revenues, as provided in the Indenture, on a parity with the Prior Parity Bonds and any Additional Indenture Obligations that may be issued from time to time under the Indenture; provided, however, that the Series 2015A Bonds shall not be secured by or payable from (i) any moneys or investments in the Coverage Account or (ii) moneys or investments in the Defeasance Subaccount (or any sub-subaccount therein) of the Debt Service Account deposited therein in respect of a Series of Indenture Obligations other than the Series 2015A Bonds.

Section 205. Exchange and Transfer; Book Entry System.

The provisions of Sections 3.06 and 3.10 of the Original Indenture shall not apply to the Series 2015A Bonds. The registration of the Series 2015A Bonds, the registration of transfer thereof and the exchange of Series 2015A Bonds shall be subject to and governed by the provisions of this Section 205.

Upon surrender of a Series 2015A Bond at the Principal Office of the Indenture Trustee, as bond registrar, together with an assignment duly executed by the Bondholder or his attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Indenture Trustee, such Series 2015A Bond may be exchanged for fully registered Series 2015A Bonds of the same subseries and maturity, aggregating in amount the then unpaid principal amount of the Series 2015A Bond or Bonds surrendered, of Authorized Denominations.

As to any Series 2015A Bonds the Bondholder shall be deemed and regarded as the absolute owner thereof for all purposes and neither of the Issuer or the Indenture Trustee shall be affected by any notice, actual or constructive, to the contrary.

Any Series 2015A Bonds may be registered as transferred upon the books kept for the registration and transfer of Series 2015A Bonds only upon surrender thereof to the Indenture Trustee, as bond registrar, together with an assignment duly executed by the Bondholder or his attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Indenture Trustee; provided, however, that the Indenture Trustee shall not be obligated to make any exchange or registration of transfer during the period between a Record Date and the corresponding Interest Payment Date. Upon the registration of transfer of any such Series 2015A Bonds and on request of the Indenture Trustee, the Issuer shall execute, and the Indenture Trustee shall authenticate and deliver, a new Series 2015A Bond or Bonds registered in the name of the transferee or transferees, of the same subseries and maturity, aggregating in amount the then unpaid principal amount of the Series 2015A Bond or Bonds surrendered, of Authorized Denominations.

In all cases in which Series 2015A Bonds shall be issued in exchange for or in replacement of other Series 2015A Bonds, the Series 2015A Bonds to be issued shall be signed and sealed on behalf of the Issuer and authenticated by the Indenture Trustee, all as provided in Section 3.03 of the Original Indenture. The obligation of the Issuer and the rights of the Bondholders with respect to such Series 2015A Bonds shall be the same as with respect to the

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Series 2015A Bonds being exchanged or replaced. Such registrations of transfers or exchanges shall be without charge to the Bondholders, except that any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Bondholder requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Indenture Trustee for any such registration of transfer or exchange shall be paid by the Issuer.

Whenever any Outstanding Bond shall be delivered to the Indenture Trustee for cancellation pursuant to this Tenth Supplemental Indenture, or for exchange or registration of transfer pursuant to this Section 205, such Bonds shall be promptly canceled and destroyed by the Indenture Trustee (subject to applicable record retention requirements) and counterparts of a certificate of destruction evidencing such destruction shall be retained by the Indenture Trustee and, if requested by the Issuer, shall be furnished by the Indenture Trustee to the Issuer.

The foregoing provisions of this Section 205 to the contrary notwithstanding, the Series 2015A Bonds will be issued initially as one fully registered bond for each maturity of each subseries of the Series 2015A Bonds (subject to any DTC restrictions on the maximum principal amount of a bond certificate in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and deposited in the custody of DTC. The Beneficial Owners will not receive physical delivery of the Series 2015A Bonds. Individual purchases of the Series 2015A Bonds may be made in book-entry form only in principal amounts equal to Authorized Denominations thereof. Payments of principal of and premium, if any, and interest on the Series 2015A Bonds will be made to DTC or its nominee as Bondholder.

DTC shall pay interest to the Beneficial Owners of record through its Participants as of the close of business on the Record Date. DTC shall pay the redemption price of the Series 2015A Bonds called for redemption to the Beneficial Owners of record through its Participants in accordance with its customary procedures.

Transfer of ownership interests in the Series 2015A Bonds shall be made by DTC and its Participants, acting as nominees of the Beneficial Owners, in accordance with rules specified by DTC and its Participants.

Series 2015A Bond certificates will be issued directly to owners of such Series 2015A Bonds other than DTC, or its nominee, upon the occurrence of the following events (subject, however, to operation of the two sentences following clause (c) below):

(a) DTC determines not to continue to act as securities depository for the Series 2015A Bonds; or

(b) the Issuer has advised DTC of its determination that DTC is incapable of discharging its duties; or

(c) the Issuer has determined that it is in the best interest of the Bondholders not to continue the book-entry system of transfer or that interests of the Beneficial Owners of the Series 2015A Bonds might be adversely affected if the book-entry system of transfer is continued.

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Upon occurrence of an event described in (a) or (b) above, the Issuer shall attempt to locate another qualified Securities Depository. If the Issuer fails to locate another qualified Securities Depository to replace DTC, the Indenture Trustee shall authenticate and deliver Series 2015A Bonds in certificated form. In the event the Issuer makes the determination noted in (b) or (c) above (as to which the Issuer undertakes no obligation to make any investigation to determine the occurrence of any events that would permit the Issuer to make any such determination), and has made provisions to notify the Beneficial Owners of the Series 2015A Bonds of the availability of Series 2015A Bonds certificates by mailing an appropriate notice to DTC, the Issuer shall cause the Indenture Trustee to authenticate and deliver Series 2015A Bonds in certificated form pursuant to Exhibit A hereof, to DTC's Participants (as requested by DTC) in appropriate amounts. Principal of and interest on the Series 2015A Bonds shall be payable as otherwise provided in the Indenture.

Section 206. Disposition of Proceeds.

Simultaneously with the delivery of the Series 2015A Bonds, the Indenture Trustee shall apply the net proceeds of the Series 2015A Bonds as follows:

(i) \$1,681,500.00 shall be deposited in the Costs of Issuance Subaccount of the Proceeds Account, for the payment of the costs of issuance of the Series 2015A Bonds; and

(ii) \$1,088,275,150.77, constituting the balance of the net proceeds of the Series 2015A Bonds, shall be deposited in the Series 2015A Bonds Proceeds Subaccount within the Proceeds Account, for disbursement to the Issuer in accordance with the provisions of Section 6.01 of the Original Indenture, as amended and supplemented.

Section 207. Method and Place of Payment.

The principal of and interest on the Series 2015A Bonds shall be payable in lawful money of the United States of America. Except when held by a Securities Depository as described in Section 205 hereof, such amounts shall be paid by the Indenture Trustee on the applicable Payment Dates by check mailed by the Indenture Trustee to the respective Holders thereof on the applicable Record Date at their addresses as they appear as of the close of business on the applicable Record Date in the books kept by the Indenture Trustee, as bond registrar, except that in the case of a Holder of \$1,000,000 or more in aggregate principal amount of Series 2015A Bonds, upon the written request of such Holder to the Indenture Trustee, specifying the account or accounts to which such payment shall be made, such payments shall be made by wire transfer of immediately available funds on the applicable Payment Date following such Record Date; provided, however, that so long as the Series 2015A Bonds are held in a book-entry only system, payments thereon shall be made in the manner required by such system (initially DTC). Any request referred to in the preceding sentence shall remain in effect until revoked or revised by such Holder by an instrument in writing delivered to the Indenture Trustee.

[END OF ARTICLE II]

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ARTICLE III

REDEMPTION OF SERIES 2015A BONDS

Section 301. Redemption of Series 2015A Bonds Before Maturity.

(a) Series 2015A-1 Bonds. Each separate maturity of the Series 2015A-1 Bonds is subject to optional redemption in whole or in part, prior to the scheduled maturity date, at a redemption price equal to 100% of the principal amount of the Series 2015A-1 Bonds of such separate maturity to be redeemed, plus accrued interest to the Redemption Date, on or after December 1 of the calendar year immediately preceding the maturity date of the particular Series 2015A-1 Bonds to be redeemed. If a portion of a maturity of the Series 2015A-1 Bonds is to be redeemed, the amount to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-1 Bonds of such maturity to be redeemed by lot.

(b) Series 2015A-2 Bonds. The Series 2015A-2 Bonds are subject to optional redemption prior to their scheduled maturity date, in whole or in part, on any date on or after December 1, 2017, at a redemption price equal to 100% of the principal amount of the Series 2015A-2 Bonds to be redeemed, plus accrued interest to the Redemption Date. If less than all of the Series 2015A-2 Bonds shall be called for redemption, the particular maturity or maturities of Series 2015A-2 Bonds or portions thereof to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-2 Bonds of like maturity to be redeemed by lot.

Section 302. Notice of Redemption.

Notice of redemption of any Series 2015A Bonds shall be given as provided in Section 4.04 of the Original Indenture, as amended and supplemented.

[END OF ARTICLE III]

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(b) The sub-subaccounts created in subsection (a) above shall constitute irrevocable trust funds to be applied solely as set forth in this Tenth Supplemental Indenture and the Original Indenture and shall be held by the Indenture Trustee separate and apart from all other subaccounts and sub-subaccounts in the other Accounts established under the Indenture and from all other moneys of the Indenture Trustee. The money on deposit to the credit of the sub-subaccounts created in subsection (a) above shall at all times be invested only in Permitted Investments.

(c) Notwithstanding anything to the contrary contained in this Tenth Supplemental Indenture or elsewhere in the Indenture, including, without limitation, Section 402(a) of this Tenth Supplemental Indenture and Section 6.03 of the Original Indenture, the Issuer shall not be required to deposit monthly amounts into the Series 2015A Bonds Principal Sub-subaccount in respect of the principal of any Series 2015A-1 Bonds consisting of Serial Bonds prior to May 25 immediately preceding the Maturity Date of such Series 2015A-1 Bonds. On each May 25, immediately preceding the Maturity Date for Series 2015A-1 Bonds, the Issuer shall deposit the entire amount of the principal of the Series 2015A-1 Bonds maturing on the next succeeding Maturity Date in the Series 2015A Bonds Principal Sub-subaccount and such moneys shall be applied to pay the principal of such Series 2015A-1 Bonds on their Maturity Date. The Issuer shall make monthly deposits into the Series 2015A Bonds Interest Sub-subaccount in respect of the interest on the Series 2015A-1 Bonds in accordance with the provisions of Section 402(a) of this Tenth Supplemental Indenture and Section 6.03 of the Original Indenture. Notwithstanding anything to the contrary contained in this Tenth Supplemental Indenture or elsewhere in the Indenture, under no circumstances, including, without limitation, during the pendency of an Event of Default, shall the Series 2015A-1 Bonds have recourse to, or otherwise benefit from, any amounts deposited in any principal sub-subaccount within the Debt Service Account in respect of the maturing principal amount of another Series (or subseries) of Indenture Obligations.

(d) Notwithstanding anything to the contrary contained in this Tenth Supplemental Indenture or elsewhere in the Indenture, including, without limitation, Section 402(a) of this Tenth Supplemental Indenture and Section 6.03 of the Original Indenture: (i) the Issuer shall not be required to deposit monthly amounts into the Series 2015A Bonds Principal Sub-subaccount in respect of the principal of the Series 2015A-2 Bonds maturing June 1, 2018 prior to May 25, 2018; and on May 25, 2018, the Issuer shall deposit the entire amount of the principal of the Series 2015A-2 Bonds maturing June 1, 2018 in the Series 2015A Bonds Principal Sub-subaccount, which moneys shall be applied to pay the principal of such Series 2015A-2 Bonds on June 1, 2018; (ii) the Issuer shall not be required to deposit monthly amounts into the Series 2015A Bonds Principal Sub-subaccount in respect of the principal of the Series 2015A-2 Bonds maturing June 1, 2020 prior to May 25, 2020; and on May 25, 2020, the Issuer shall deposit the entire amount of the principal of the Series 2015A-2 Bonds maturing on June 1, 2020 in the Series 2015A Bonds Principal Sub-subaccount, which moneys shall be applied to pay the principal of such Series 2015A-2 Bonds on June 1, 2020; and (iii) on the last Business Day of each month, the Issuer shall deposit into the Series 2015A Bonds Interest Sub-subaccount an amount equal to the interest due and payable on the Series 2015A-2 Bonds on the immediately succeeding Interest Payment Date. Notwithstanding anything to the contrary contained in this Tenth Supplemental Indenture or elsewhere in the Indenture, under no circumstances, including, without limitation, during the pendency of an Event of Default, shall the Series 2015A-2 Bonds

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ARTICLE IV

FUNDS AND ACCOUNTS

Section 401. Series 2015A Bonds Proceeds Subaccount; Investments.

(a) The Indenture Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coastal Account Series 2015A Bonds Proceeds Subaccount" (the "Series 2015A Bonds Proceeds Subaccount") within the Proceeds Account established under Section 6.01(a) of the Original Indenture. The net proceeds of each subseries of Series 2015A Bonds shall be deposited in the Series 2015A Bonds Proceeds Subaccount.

The Series 2015A Bonds Proceeds Subaccount shall constitute an irrevocable trust fund to be applied solely as set forth in this Tenth Supplemental Indenture (as to the Series 2015A Bonds) and the Original Indenture, and shall be held by the Indenture Trustee separate and apart from all other Accounts (including any other subaccounts and sub-subaccounts established within the Proceeds Account) held under the Indenture and from all other moneys of the Indenture Trustee. The amounts deposited in the Series 2015A Bonds Proceeds Subaccount shall be applied for the purposes described in Section 201(a)(i) hereof in accordance with the provisions of Section 6.01 of the Original Indenture.

(b) The moneys on deposit to the credit of the Series 2015A Bonds Proceeds Subaccount for the Series 2015A Bonds shall at all times be invested only in Non-AMT Tax-Exempt Bonds that constitute Permitted Investments. Notwithstanding anything to the contrary in the Indenture, investment earnings in the Series 2015A Bonds Proceeds Subaccount shall be retained therein and shall be applied solely to the purposes described in Section 201(a)(i) hereof.

Section 402. Creation of Series 2015A Bonds Sub-subaccounts in Subaccounts of Debt Service Account; Application of Moneys.

(a) For ease of accounting and administration, the Issuer hereby directs the Indenture Trustee to establish and maintain the following with respect to the Series 2015A Bonds:

(i) within the Interest Subaccount in the Debt Service Account, the Series 2015A Bonds Interest Sub-subaccount, to which shall be deposited and from which shall be disbursed the amounts required to be deposited to and disbursed from the Interest Subaccount under Sections 6.03 and 6.04, respectively, of the Original Indenture in respect of the payment of interest on the Series 2015A Bonds; and

(ii) within the Principal Subaccount in the Debt Service Account, the Series 2015A Bonds Principal Sub-subaccount, to which shall be deposited and from which shall be disbursed the amounts required to be deposited to and disbursed from the Principal Subaccount under Sections 6.03 and 6.04, respectively, of the Original Indenture in respect of the payment of principal of the Series 2015A Bonds.

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have recourse to, or otherwise benefit from, any amounts deposited in any principal sub-subaccount within the Debt Service Account in respect of the maturing principal amount of another Series (or subseries) of Indenture Obligations.

Section 403. No Reserve Account.

The Series 2015A Bonds shall not be secured by the Reserve Account nor shall any subaccount be established within the Reserve Account for the benefit of the Series 2015A Bonds. The Series 2015A Bonds shall not be secured by or payable from any moneys or investments in the Reserve Account or any subaccount therein established for any other series of Indenture Obligations.

Section 404. Tax Covenants.

The Issuer covenants and agrees that so long as any Series 2015A Bonds remain outstanding for federal income tax purposes, it shall comply with all requirements of the Code necessary to maintain the exclusion from gross income for federal income tax purposes of interest on such Series 2015A Bonds, including any arbitrage rebate requirements, except to the extent that to not so comply would not, in the Opinion of Bond Counsel, result in the interest payable on the Series 2015A Bonds, being included in gross income for federal income tax purposes under the Code.

Section 405. Investment of Moneys in Funds and Accounts Under Tenth Supplemental Indenture.

(a) Notwithstanding anything to the contrary contained in the Indenture, for purposes of the investment of proceeds of the Series 2015A Bonds and any other moneys on deposit in the Funds, Accounts, subaccounts and sub-subaccounts established under this Tenth Supplemental Indenture, the term "Permitted Investments" shall include investments rated by Moody's, S&P and/or Fitch, as applicable.

(b) Pending the application thereof to the payment of the costs of issuance of the Series 2015A Bonds, proceeds of the Series 2015A Bonds deposited into the Costs of Issuance Subaccount of the Proceeds Account for the payment of the costs of issuance of the Series 2015A Bonds shall be invested only in Non-AMT Tax Exempt Bonds that constitute Permitted Investments.

Section 406. Disposition of Moneys upon Effectiveness of Master Trust Indenture.

(a) Notwithstanding anything to the contrary contained in this Article IV or in the Indenture, any moneys remaining in the Funds, Accounts, Subaccounts and Sub-subaccounts established under this Tenth Supplemental Indenture on the date of execution and delivery of the Master Trust Indenture shall be withdrawn on such date by the Indenture Trustee and transferred to the Master Trustee under the Master Trust Indenture for deposit into the corresponding funds, accounts, subaccounts and sub-subaccounts established pursuant to the Master Trust Indenture as follows: (i) amounts transferred from the Series 2015A Bonds Proceeds Subaccount shall be deposited into a Subaccount of the same name established in the Proceeds Account under the Master Trust Indenture; (ii) amounts transferred from the Series 2015A Bonds Interest Sub-

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subaccount shall be deposited into a Sub-subaccount of the same name established within the Interest Subaccount in the Debt Service Account under the Master Trust Indenture; (iii) amounts transferred from the Series 2015A Bonds Principal Sub-subaccount shall be deposited into a Sub-subaccount of the same name established within the Principal Subaccount in the Debt Service Account under the Master Trust Indenture; and (iv) any amounts transferred from one or more other funds, accounts, subaccounts or sub-subaccounts established under the Indenture shall be deposited into the corresponding Fund, Account, Subaccount or Sub-subaccount established under the Master Trust Indenture as more specifically set forth in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee on or before the Conversion Date.

(b) Any amounts so transferred as described in subsection (a) of this Section 406 shall be free and clear of the lien of the Indenture and thereafter shall be subject to the lien of, and held and applied solely pursuant to, the provisions of the Master Trust Indenture.

(c) All amounts transferred from a Fund, Account, Subaccount or Sub-subaccount established under the Indenture to the corresponding Fund, Account, Subaccount or Sub-subaccount established under the Master Trust Indenture shall be applied to the use and purpose of such Fund, Account, Subaccount or Sub-subaccount under the Master Trust Indenture, but only for the benefit of the corresponding Series of Convertible Outstanding Parity Bonds for which the Fund, Account, Subaccount or Sub-subaccount had been established under the Indenture.

[END OF ARTICLE IV]

ARTICLE V

RESERVED

[END OF ARTICLE V]

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ARTICLE VI

AMENDMENT OF INDENTURE

Section 601. Amendment and Restatement of Indenture in its Entirety.

The Indenture shall be amended and restated in its entirety as set forth in the Master Trust Indenture, with such amendments and the Master Trust Indenture to become effective not earlier than the Conversion Date. By their purchase of the Series 2015A Bonds, the purchasers of the Series 2015A Bonds will have consented to and approved (i) the amendment and restatement of the Indenture in its entirety, (ii) the execution and delivery of the Master Trust Indenture in substantially the form thereof attached hereto as Exhibit B, (iii) the termination of the Pledge and Security Agreement upon the execution and delivery of the Master Trust Indenture and (iv) the conversion of the Series 2015A Bonds that mature after the Conversion Date from obligations issued and secured under the provisions of the Indenture to obligations issued and secured under the provisions of the Master Trust Indenture. The Master Trust Indenture shall be executed and delivered by the Issuer and the Master Trustee on or after the Conversion Date and not before such date. Upon execution and delivery of the Master Trust Indenture, the Series 2015A Bonds then Outstanding shall automatically become and be deemed to be "Bonds" and "Senior Secured Obligations" issued and outstanding under the provisions of the Master Trust Indenture for any and all purposes, and the Indenture shall be cancelled and terminated and exist no more, except as the same is amended and restated in its entirety by the Master Trust Indenture, and except for the provisions of this Tenth Supplemental Indenture and any future Supplemental Indenture pursuant to which Additional Indenture Obligations are issued that mature after the Conversion Date, to the extent of any provisions of this Tenth Supplemental Indenture or such future Supplemental Indenture that are expressly stated to survive the amendment and restatement of the Indenture and execution and delivery of the Master Trust Indenture and are expressly stated to constitute a "supplemental indenture" for purposes of the Master Trust Indenture.

Section 602. Issuance of Additional Indenture Obligations prior to the Conversion Date.

The Issuer covenants and agrees that it will not issue any future Additional Indenture Obligations after the date hereof unless the purchasers of such Additional Indenture Obligations consent to and approve (i) the amendment and restatement of the Indenture in its entirety, (ii) the execution and delivery of the Master Trust Indenture in substantially the form thereof attached hereto as Exhibit B, (iii) the termination of the Pledge and Security Agreement upon the execution and delivery of the Master Trust Indenture and (iv) the conversion of such Additional Indenture Obligations that mature after the Conversion Date from obligations issued and secured under the provisions of the Indenture to obligations issued and secured under the provisions of the Master Trust Indenture. Any such Additional Indenture Obligations may only be issued on the further condition that the Supplemental Indenture pursuant to which such Additional Indenture Obligations are issued provides that as of the date of execution and delivery of the Master Trust Indenture such Additional Indenture Obligations that mature after the Conversion Date shall automatically become and be deemed to be "Bonds" and "Senior Secured Obligations" issued and outstanding under the provisions of the Master Trust Indenture for any and all purposes.

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Section 603. Surviving Provisions of Tenth Supplemental Indenture; Constitute "Supplemental Indenture" for Purposes of Master Trust Indenture.

The following provisions of the Tenth Supplemental Indenture shall survive the amendment and restatement of the Indenture and the execution and delivery of the Master Trust Indenture and shall be deemed to constitute a "Supplemental Indenture" for all purposes of the Master Trust Indenture with respect to the Series 2015A Bonds that mature after the Conversion Date: Sections 101, 201, 205, 207, 301 and all of Article IV.

[END OF ARTICLE VI]

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ARTICLE VII
MISCELLANEOUS

Section 701. Ratification and Confirmation of Original Indenture.

The Original Indenture as amended and supplemented to date, and as amended and supplemented by this Tenth Supplemental Indenture, is in all respects ratified and confirmed, and the Original Indenture as amended and supplemented to date, and as so amended and supplemented by this Tenth Supplemental Indenture, shall be read, taken and construed as one and the same instrument. All of the rights, remedies, terms, conditions, covenants and agreements of the Original Indenture as amended and supplemented to date, as amended and supplemented by this Tenth Supplemental Indenture, shall apply and remain in full force and effect with respect to all Indenture Obligations issued under the Indenture.

Section 702. Counterparts.

This Tenth Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

Section 703. Governing Law.

This Tenth Supplemental Indenture shall be deemed to be a contract made under the laws of the State of Florida and for all purposes shall be governed by and construed in accordance with the laws of the State of Florida.

Section 704. Defeasance of Series 2015A Bonds.

The Series 2015A Bonds are subject to the voluntary defeasance provisions of the Indenture, provided that, in connection with any such defeasance: (a) the report required by Section 10.03(b) of the Original Indenture may be provided by any firm that has a favorable national reputation for the preparation of such reports, notwithstanding that such firm is not a public accounting firm, and (b) the provisions of Section 10.05 of the Original Indenture shall not apply to any defeasance of the Series 2015A Bonds.

Section 705. Treatment of Citizens Policyholder Surcharges.

Until such time as the Indenture and the Pledge and Security Agreement are amended (based on the effective date of any such amendment) to allow or require a different treatment thereof, proceeds of Citizens Policyholder Surcharges shall constitute and be treated as Premium and Surcharge Revenues (as defined in the Pledge and Security Agreement, as amended by that certain Third Amendment to Pledge, Security and Trust Agreement dated as of May 1, 2004). For purposes of this Section, "Citizens Policyholder Surcharges" means the surcharge authorized to be levied against all Citizens policyholders pursuant to Section 627.351(6)(b)3.i. (or any successor provision) of the Act in connection with a Plan Year Deficit in the Coastal Account.

[END OF ARTICLE VII]

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STATE OF FLORIDA)
) SS:
COUNTY OF _____)

On this ____ day of June, 2015, before me, a notary public in and for the State and County aforesaid, personally appeared Christopher Gardner and Barry J. Gilway, Chairman and Executive Director, respectively, of Citizens Property Insurance Corporation (the "Issuer"), who acknowledged that they did sign the foregoing instrument as such officers, respectively, for and on behalf of the Issuer; and that the same is their free act and deed as such officers, respectively, and the free act and deed of the Issuer.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

Notary Public, State of Florida

My Commission expires _____

[NOTARIAL SEAL]

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IN WITNESS WHEREOF, the parties have caused this Tenth Supplemental Indenture to be duly executed, as of the date and year first above written.

(SEAL)

CITIZENS PROPERTY INSURANCE
CORPORATION

By: _____
Chairman

ATTEST

By: _____
Executive Director

REGIONS BANK, as Indenture Trustee

By: _____
Vice President and Trust Officer

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STATE OF FLORIDA)
) SS:
COUNTY OF _____)

On this ____ day of June, 2015, before me, a notary public in and for the State and County aforesaid, personally appeared Vladimir Muñoz, Vice President and Trust Officer of Regions Bank, as Indenture Trustee, who acknowledged that he did sign said instrument as such officer for and on behalf of said bank; and that the same is his free act and deed as such officer and the free act and deed of said bank.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

Notary Public, State of Florida

My Commission expires _____

[NOTARIAL SEAL]

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EXHIBIT A

FORM OF SERIES 2015A[-1][-2] BONDS

No. [RA1-1][RA2-1] \$ _____

CITIZENS PROPERTY INSURANCE CORPORATION
COASTAL ACCOUNT SENIOR SECURED BONDS, SERIES 2015A[-1][-2]
[(SIFMA FLOATING RATE NOTES)]

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Dated Date</u>	<u>CUSIP No.</u>
%	_____	_____, 2015	

Registered Owner: Cede & Co.
Principal Amount: _____ Dollars

THIS SERIES 2015A[-1][-2] BOND AND INTEREST HEREON ARE DIRECT AND GENERAL OBLIGATIONS OF THE ISSUER'S COASTAL ACCOUNT, PAYABLE AND SECURED FROM THE PLEDGED REVENUES (AS AND TO THE EXTENT PROVIDED IN THE INDENTURE); PROVIDED, HOWEVER, THAT THIS SERIES 2015A[-1][-2] BOND IS NOT PAYABLE OR SECURED FROM ANY MONEYS OR INVESTMENTS IN THE COVERAGE ACCOUNT. THE ISSUANCE OF THIS SERIES 2015A[-1][-2] BOND SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE OR REQUIRE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY TAX WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT OF THIS SERIES 2015A[-1][-2] BOND OR ANY OTHER OBLIGATION OF THE ISSUER UNDER THE INDENTURE. FURTHER, NOTHING IN THE INDENTURE GIVES THE REGISTERED OWNER, AND IT DOES NOT HAVE, THE RIGHT TO REQUIRE OR COMPEL THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR APPROPRIATE ANY TAXES FOR THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THIS SERIES 2015A[-1][-2] BOND OR ANY OTHER PAYMENT REQUIRED UNDER THE INDENTURE. THE ISSUER DOES NOT HAVE ANY TAXING POWER.

EXCEPT AS OTHERWISE PROVIDED HEREIN AND UNLESS THE CONTEXT CLEARLY INDICATES OTHERWISE, CAPITALIZED TERMS USED HEREIN WITHOUT DEFINITIONS SHALL HAVE THE SAME MEANINGS AS ASSIGNED TO SUCH TERMS IN THE INDENTURE DESCRIBED HEREINBELOW.

Citizens Property Insurance Corporation (the "Issuer"), for value received, promises to pay from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns or legal representatives (but only from the limited sources and in the manner herein described), the Principal Amount on the Maturity Date, and interest on the unpaid Principal Amount of this Series 2015A[-1][-2] Bond outstanding at the [Interest Rate specified above] [Adjusted SIFMA Rate as described in the Indenture] [semi-annually on June 1 and December 1 of each year, commencing [December 1, 2015] [in arrears, on the first day of each month] [commencing on August 1, 2015], until the Principal Amount is paid or duly provided for. This Series 2015A[-1][-2] Bond will bear interest from the most recent date to which

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to as the "Indenture". The proceeds of the Series 2015A[-1][-2] Bonds are to be applied to (i) make a deposit to the Series 2015A Bonds Proceeds Subaccount within the Proceeds Account to provide funds to pay policy claims and other liabilities and expenses within the Coastal Account, as the same may occur from time to time, provided, however, that amounts on deposit to the credit of the Series 2015A Bonds Proceeds Subaccount within the Proceeds Account may, at the election of Citizens, be applied to pay principal of and/or interest on Series 2015A Bonds or withdrawn and applied to any lawful purpose of the Coastal Account in accordance with the provisions of the Indenture, and (ii) pay the costs of issuance of the Series 2015A[-1][-2] Bonds.

The Indenture has been entered into and the Series 2015A[-1][-2] Bonds of which this Series 2015A[-1][-2] Bond is a part, are being issued pursuant to the authority provided by the Constitution and laws of the State of Florida, particularly Section 627.351(6), Florida Statutes, as amended (the "Act") and a resolution duly adopted on April 7, 2015 by the Board of Governors of the Issuer. This Series 2015A[-1][-2] Bond, together with all other Series 2015A[-1][-2] Bonds, all Indenture Obligations previously issued and outstanding and any Additional Indenture Obligations which may be issued from time to time on a parity therewith under the Indenture (collectively, the "Indenture Obligations"), are direct and general obligations of the Issuer's Coastal Account, payable and secured from the Pledged Revenues (as and to the extent provided in the Indenture); provided, however, that this Series 2015A[-1][-2] Bond is not secured or payable from any moneys or investments in the Coverage Account. [The Series 2015A[-1][-2] Bonds shall not be secured by or payable from any moneys or investments in the Reserve Account or any subaccount therein.

THE ISSUER PROPOSES TO AMEND AND RESTATE THE INDENTURE IN ITS ENTIRETY THROUGH THE EXECUTION AND DELIVERY OF A MASTER TRUST INDENTURE ON A DATE NOT EARLIER THAN THE CONVERSION DATE. THE CONVERSION DATE CANNOT OCCUR WHILE ANY PRIOR PARITY BONDS ARE STILL OUTSTANDING. BY VIRTUE OF ITS PURCHASE OF A SERIES 2015A[-1][-2] BOND, EACH PURCHASER THEREOF WILL HAVE CONSENTED TO AND APPROVED (i) THE AMENDMENT AND RESTATEMENT OF THE INDENTURE IN ITS ENTIRETY, (ii) THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE NOT EARLIER THAN THE CONVERSION DATE, (iii) THE TERMINATION OF THE PLEDGE AND SECURITY AGREEMENT UPON THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE AND (iv) THE CONVERSION OF THE SERIES 2015A[-1][-2] BONDS THAT MATURE AFTER THE CONVERSION DATE FROM OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE INDENTURE TO OBLIGATIONS ISSUED AND SECURED UNDER THE PROVISIONS OF THE MASTER TRUST INDENTURE.

ON AND AFTER THE CONVERSION DATE AND THE EXECUTION AND DELIVERY OF THE MASTER TRUST INDENTURE, ANY AND ALL REFERENCES IN THIS SERIES 2015A[-1][-2] BOND TO THE INDENTURE SHALL BE DEEMED TO REFER TO THE MASTER TRUST INDENTURE; AND THIS SERIES 2015A[-1][-2] BOND SHALL BE SECURED AND PAYABLE SOLELY FROM THE PLEDGED REVENUES DESCRIBED IN THE MASTER TRUST INDENTURE, ALL AS SHALL BE FURTHER PROVIDED FOR IN THE MASTER TRUST INDENTURE; ANY AND ALL REFERENCES TO "ADDITIONAL INDENTURE OBLIGATIONS" SHALL BE

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interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from its date. Interest on this Series 2015A[-1][-2] Bond shall be computed on the basis of [a 360-day year composed of twelve 30-day months] [the actual number of days elapsed over a year of 365 or 366 days, as the case may be]. Except when held by a securities depository as described below, interest on this Series 2015A[-1][-2] Bond is payable on each Interest Payment Date by check or draft mailed by first-class mail, postage prepaid, to the Person in whose name this Series 2015A[-1][-2] Bond is registered (the relevant "Holder") as of the close of business on the fifteenth (15th) day (whether or not a Business Day) immediately preceding the relevant Interest Payment Date (the relevant "Regular Record Date") on the Register maintained by the Indenture Trustee, as Registrar, at the address appearing therein; provided, however, that so long as the Series 2015A[-1][-2] Bonds are held in a book-entry system, interest on this Series 2015A[-1][-2] Bond shall be payable in the manner required by such system (initially DTC). Any interest which is not timely paid or duly provided for shall cease to be payable to the Holder hereof as of the Regular Record Date, and shall be payable to the Holder hereof at the close of business on a Special Record Date to be fixed by the Indenture Trustee for the payment of that overdue interest, subject to the provision of the immediately preceding sentence. Notice of the Special Record Date shall be mailed to Holders not fewer than ten (10) days prior thereto. The principal of and interest on this Series 2015A[-1][-2] Bond are payable in lawful money of the United States of America, without deduction for the services of any paying agent. Anything herein to the contrary notwithstanding, all payments of interest on this Series 2015A[-1][-2] Bond will be made by wire transfer in same-day funds to a bank account designated by the Holder to the Indenture Trustee in writing not less than fifteen (15) days before the date of any such payment, if such Holder is the Registered Owner of Series 2015A[-1][-2] Bond in an aggregate principal amount of at least one million dollars (\$1,000,000).

The final payment of principal and interest with respect to this Series 2015A[-1][-2] Bond shall be payable in immediately available funds at the Principal Office of the Indenture Trustee upon surrender of this Series 2015A[-1][-2] Bond, and other payments shall be payable in immediately available funds by the Indenture Trustee to the Registered Owner by wire transfer to an account specified by the Registered Owner on the applicable Record Date. The foregoing notwithstanding, while the Series 2015A[-1][-2] Bonds are held by a securities depository through a book-entry only system, all payments of principal of and interest on the Series 2015A[-1][-2] Bonds shall be made in accordance with the procedures of such securities depository.

This Series 2015A[-1][-2] Bond is one of an issue of [\$700,000,000 aggregate principal amount of Citizens Property Insurance Corporation Coastal Account Senior Secured Bonds, Series 2015A-1 (the "Series 2015A-1 Bonds")] [\$300,000,000 aggregate principal amount of Citizens Property Insurance Corporation Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes) (the "Series 2015A-2 Bonds")], being issued under the terms of a Trust Indenture dated as of August 6, 1997 (the "Original Indenture"), by and between the Issuer (as successor to Florida Windstorm Underwriting Association) and Regions Bank (successor to U.S. Bank Trust National Association, Wachovia Bank, National Association and The Bank of New York), as indenture trustee (the "Indenture Trustee"), as such Original Indenture has been supplemented and amended, particularly as supplemented and amended by that certain Tenth Supplemental Indenture dated as of June 1, 2015 (the "Tenth Supplemental Indenture"), by and between the Issuer and the Indenture Trustee. The Original Indenture, as supplemented and amended, and the Tenth Supplemental Indenture are hereinafter sometimes collectively referred

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DEEMED TO REFER TO "SENIOR SECURED OBLIGATIONS"; AND ANY AND ALL REFERENCES TO THE INDENTURE TRUSTEE SHALL BE DEEMED TO REFER TO THE TRUSTEE UNDER THE MASTER TRUST INDENTURE.

[Simultaneously with the issuance of the Series 2015A-1 Bonds, the Issuer is issuing its \$300,000,000 aggregate principal amount of Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes).] [Simultaneously with the issuance of the Series 2015A-2 Bonds, the Issuer is issuing its \$700,000,000 aggregate principal amount of Coastal Account Senior Secured Bonds, Series 2015A-1.]

[Each separate maturity of the Series 2015A-1 Bonds is subject to optional redemption in whole or in part, prior to the scheduled maturity date, at a redemption price equal to 100% of the principal amount of the Series 2015A-1 Bonds of such separate maturity to be redeemed, plus accrued interest to the Redemption Date, on or after December 1 of the calendar year immediately preceding the maturity date of the particular Series 2015A-1 Bonds to be redeemed. If a portion of a maturity of the Series 2015A-1 Bonds is to be redeemed, the amount to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-1 Bonds of such maturity to be redeemed by lot.]

[The Series 2015A-2 Bonds are subject to optional redemption prior to their scheduled maturity date, in whole or in part, on any date on or after December 1, 2017, at a redemption price equal to 100% of the principal amount of the Series 2015A-2 Bonds to be redeemed, plus accrued interest to the Redemption Date. If less than all of the Series 2015A-2 Bonds shall be called for redemption, the particular maturity or maturities of Series 2015A-2 Bonds or portions thereof to be redeemed shall be as determined by the Issuer, and the Indenture Trustee shall select the Series 2015A-2 Bonds of like maturity to be redeemed by lot.]

Notice of redemption of a Series 2015A[-1][-2] Bond shall be given not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, to each Holder of Series 2015A[-1][-2] Bonds to be redeemed. All redemption notices shall state: (i) the Redemption Date; (ii) the Redemption Price; (iii) if less than all the outstanding Series 2015A[-1][-2] Bonds of the specific maturity are to be redeemed, the identification (and, in the case of partial redemption of any Series 2015A[-1][-2] Bonds the principal amounts) of the particular Series 2015A[-1][-2] Bonds to be redeemed; (iv) that on the Redemption Date the Redemption Price will become due and payable upon each such Series 2015A[-1][-2] Bonds to be redeemed and, if applicable, that, unless the Issuer defaults in making such redemption payment, interest thereon, if any, shall cease to accrue on and after such date; (v) the place or places where such Series 2015A[-1][-2] Bonds are to be surrendered for payment of the Redemption Price; and (vi) that the redemption is for a mandatory sinking fund requirement, if such is the case. Notice of redemption of Series 2015A[-1][-2] Bonds to be redeemed at the election of the Issuer shall be given by the Issuer or, at the Issuer's request, by the Indenture Trustee in the name and at the expense of the Issuer.

Copies of the Indenture are on file in the Principal Office of the Indenture Trustee. Reference is hereby made to the Indenture for a description of the Pledged Revenues, the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the Issuer, the Indenture Trustee and the Registered Owners of the

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Series 2015A[-1][-2] Bonds, the terms upon which the Series 2015A[-1][-2] Bonds are issued and secured and the terms upon which the Indenture may be amended or supplemented. The Registered Owner of this Series 2015A[-1][-2] Bond assents, by its acceptance hereof, to all of the provisions of the Indenture.

Upon surrender of this Series 2015A[-1][-2] Bond at the Principal Office of the Indenture Trustee, as bond registrar, together with an assignment duly executed by the Registered Owner or its attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Indenture Trustee, this Series 2015A[-1][-2] Bond may be exchanged for fully registered Series 2015A[-1][-2] Bonds aggregating in amount the then unpaid principal amount of the Series 2015A[-1][-2] Bond so surrendered, in Authorized Denominations.

This Series 2015A[-1][-2] Bond may be registered as transferred upon the books kept for the registration and transfer of Series 2015A[-1][-2] Bonds upon its surrender to the Indenture Trustee, as bond registrar, together with an assignment duly executed by the Registered Owner or its attorney or legal representative in such form and with such guaranty of signature as shall be satisfactory to the Indenture Trustee; provided, that the Indenture Trustee shall not be obligated to make any exchange or registration of transfer of a Series 2015A[-1][-2] Bond during the period between a Record Date and the corresponding Interest Payment Date.

The foregoing provisions to the contrary notwithstanding, one fully registered bond for each maturity (or split maturity) of the Series 2015A[-1][-2] Bonds (subject to any DTC restrictions on the maximum principal amount of a bond certificate) of each maturity (or split maturity) initially will be issued in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as Registered Owner of the Series 2015A[-1][-2] Bonds, and deposited in the custody of DTC. Beneficial Owners of the Series 2015A[-1][-2] Bonds will not receive physical delivery of the Series 2015A[-1][-2] Bonds. Individual purchases of the Series 2015A[-1][-2] Bonds may be made in book-entry form only in Authorized Denominations. Payments of principal of and interest on the Series 2015A[-1][-2] Bonds will be made to DTC or its nominee as Registered Owner of the Series 2015A[-1][-2] Bonds.

DTC shall pay through its Participants interest to the beneficial owners of record of the Series 2015A[-1][-2] Bonds as of the close of business on the Record Date.

Transfer of ownership interests in the Series 2015A[-1][-2] Bonds shall be made by DTC and its Participants, acting as nominees of the Beneficial Owners of the Series 2015A[-1][-2] Bonds, in accordance with rules specified by DTC and its Participants. There can be no assurance that DTC, its Participants or other nominees of the Beneficial Owners of the Series 2015A[-1][-2] Bonds will act in accordance with such rules or on a timely basis.

Unless this certificate is presented by an authorized representative of DTC, to the Issuer or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER

USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Bond certificates will be issued directly to owners of the Series 2015A[-1][-2] Bonds other than DTC, or its nominee, upon the occurrence of certain events specified in Section 205 of the Tenth Supplemental Indenture.

Modifications or alterations of the Indenture, or of any supplements thereto, may be made only as provided by the Indenture.

Reference is hereby made to the Indenture, which is on file and may be inspected during regular business hours at the Principal Office of the Indenture Trustee, for a description of the security for the Series 2015A[-1][-2] Bonds and for the provisions thereof with respect to the rights, limitations of rights, duties, obligations and immunities of the Issuer, the Indenture Trustee and the Registered Owner hereof.

This Series 2015A[-1][-2] Bond shall not constitute the personal obligation, either jointly or severally, of any Assessable Insurer, Assessable Insured, or any member or officer of the Board of Governors of the Issuer or of any other official or employee of the Issuer. Neither the members of the Board of Governors nor any official executing this Series 2015A[-1][-2] Bond or the Indenture or any amendment or supplement thereto shall be liable personally on this Series 2015A[-1][-2] Bond or be subject to any personal liability or accountability by reason of the issuance or execution hereof or thereof.

The Registered Owner of this Series 2015A[-1][-2] Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, unless certain circumstances described in the Indenture shall have occurred. In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all the Series 2015A[-1][-2] Bonds issued under the Indenture and then Outstanding may become or may be declared due and payable before the stated maturity thereof, together with interest accrued thereon.

It is hereby certified, recited and declared that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Indenture and the issuance of this Series 2015A[-1][-2] Bond do exist, have happened and have been performed in due time, form and manner as required by law; that the issuance of this Series 2015A[-1][-2] Bond and the issue of which it forms a part, together with all other obligations of the Issuer, does not exceed or violate any constitutional or statutory limitation; and that the amounts payable under the Indenture and pledged to the payment of the principal of and interest on this Series 2015A[-1][-2] Bond and the issue of which it forms a part, as the same become due, will be sufficient in amount for that purpose.

This Series 2015A[-1][-2] Bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Indenture until the certificate of authentication hereon shall have been signed by the Indenture Trustee, as authenticating agent.

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IN WITNESS WHEREOF, Citizens Property Insurance Corporation has caused this Series 2015A[-1][-2] Bond to be executed in its name by the manual or facsimile signature of its [Chairman], and its corporate seal to be impressed or printed hereon and attested by the manual or facsimile signature of its [Executive Director].

CITIZENS PROPERTY INSURANCE CORPORATION

By: _____
[Chairman]

(SEAL)

Attest

By: _____
[Executive Director]

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CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This Series 2015A[-1][-2] Bond is one of the Series 2015A[-1][-2] Bonds of the issue described in the within-mentioned Indenture.

REGIONS BANK
as Indenture Trustee

By: _____
Authorized Signatory

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(FORM FOR TRANSFER)

FOR VALUE RECEIVED, the undersigned, hereby sells, assigns and transfers unto _____ (Please Print or Type Name, Tax Identification or Social Security No. and Address of Transferee) the within Bond, and all rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____ Signature: _____

Signature Guarantee: _____

(Authorized Officer)

Signature must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

EXHIBIT B

FORM OF MASTER TRUST INDENTURE

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APPENDIX B

**COMPOSITE FORM OF THE
PLEDGE AND SECURITY AGREEMENT**

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APPENDIX B

COMPOSITE FORM OF THE PLEDGE, SECURITY AND TRUST AGREEMENT DATED
AUGUST 6, 1997, AS AMENDED AND SUPPLEMENTED

The following is a composite of the Pledge, Security and Trust Agreement dated as of August 6, 1997, as supplemented and amended to date. All amendments to the Pledge, Security and Trust Agreement have been incorporated into the Composite Form of Pledge, Security and Trust Agreement set forth below without additional explanation.

COMPOSITE PLEDGE, SECURITY AND TRUST AGREEMENT

between

CITIZENS PROPERTY INSURANCE CORPORATION
(successor to Florida Windstorm Underwriting Association)

and

WELLS FARGO BANK, N.A.
(successor to SunTrust Bank, Central Florida, National Association),
as Collateral Trustee

securing

Securities

of

CITIZENS PROPERTY INSURANCE CORPORATION
(successor to Florida Windstorm Underwriting Association)

(COASTAL ACCOUNT)

Dated

as of

August 6, 1997, as supplemented and amended by a
First Amendment dated as of March 31, 1999,
a Second Amendment dated as of August 1, 2002,
a Third Amendment dated as of May 1, 2004 and
a Fourth Amendment dated as of July 1, 2011

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PLEDGE, SECURITY AND TRUST AGREEMENT

PLEDGE, SECURITY AND TRUST AGREEMENT dated as of August 6, 1997 among CITIZENS PROPERTY INSURANCE CORPORATION (successor to FLORIDA WINDSTORM UNDERWRITING ASSOCIATION) (with its permitted successors, the "Citizens"), WELLS FARGO BANK, N.A., not in its individual capacity but solely as Successor Collateral Trustee hereunder (with its successors, including any co-trustee or successor trustee appointed pursuant to the provisions hereof, the "Collateral Trustee") and WELLS FARGO BANK, N.A., in its individual capacity as Custodian (with its successors, including any additional custodian appointed pursuant to the provisions hereof, the "Custodian"). Unless otherwise defined herein, all capitalized terms used herein and defined in Section 14 are used herein as so defined.

WITNESSETH:

WHEREAS, Citizens has entered into a Credit Agreement dated as of August 6, 1997 (as the same may be amended, modified or restated from time to time, the "Initial Credit Agreement") with the lending institutions from time to time party thereto (the "Initial Banks"), Dresdner Bank AG, First Union National Bank, The Fuji Bank, Limited, and Swiss Re Financial Products, as managing agents and The Chase Manhattan Bank, as administrative agent (with its successors, the "Initial Bank Agent");

WHEREAS, Citizens desires to issue and sell securities from time to time pursuant to a Trust Indenture dated as of August 6, 1997 (as the same may be amended and supplemented from time to time, the "Trust Indenture") between Citizens and Wachovia Bank, National Association (successor to The Bank of New York), as trustee (with its successors, the "Indenture Trustee");

WHEREAS, in order to induce the Initial Banks and the Initial Bank Agent to enter into the Initial Credit Agreement and to induce prospective purchasers to purchase the Indenture Obligations, Citizens desires to pledge and to grant a continuing, first-priority lien upon and security interest in and to the Collateral, in favor of the Collateral Trustee (for the benefit of the Secured Parties holding Senior Secured Obligations, ratably, as and to the extent provided herein), as security for the payment of such Senior Secured Obligations and performance of Citizens' obligations in respect thereof hereunder, under the Initial Credit Agreement, and under the Trust Indenture and the Indenture Obligations; and

WHEREAS, from time to time after the date hereof, Citizens may desire to secure additional indebtedness or other obligations, including its obligations under certain Interest Rate Agreements and any Subsequent Credit Agreement, on a parity with its other Senior Secured Obligations or as Junior Secured Obligations, as the case may be;

NOW, THEREFORE, in order to secure the payment of the Secured Obligations and in consideration of the premises and the mutual agreements set forth herein, the Collateral Trustee declares that it holds the Trust Estate as trustee in trust under this Agreement;

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TO HAVE AND TO HOLD the Trust Estate unto the Collateral Trustee and its successors in trust under this Agreement and its assigns and their assigns forever;

IN TRUST NEVERTHELESS under and subject to the conditions set forth herein and for the benefit of the holders of the Secured Obligations, and in the order of priority described herein, and for the enforcement of the payment of the Secured Obligations, and as security for the performance of and compliance with the covenants and conditions of this Agreement, in each case as and to the extent provided herein;

PROVIDED, HOWEVER, that if Citizens, its successors or its assigns shall satisfy the conditions set forth in the first sentence of Section 19, then this Agreement, and the estates and rights hereby granted, shall cease, determine and be void; otherwise they shall remain and be in full force and effect; and

IT IS HEREBY FURTHER COVENANTED AND DECLARED that the Trust Estate is to be held and applied by the Collateral Trustee, subject to the further covenants, conditions and trusts hereinafter set forth.

SECTION 1. Security Interests.

1.01 Pledge and Grant of Security Interests. (a) In order to secure the full and punctual payment of the Senior Secured Obligations when due (whether at the stated maturity, by acceleration or otherwise) and to secure the performance of all of the obligations of Citizens under this Agreement and under each related Secured Instrument in respect thereof, Citizens hereby (x) assigns and pledges and grants a continuing, first-priority lien and security interest to the Collateral Trustee (for the benefit of the holders of the Senior Secured Obligations, ratably, as provided herein) and (y) pledges and assigns to the Collateral Trustee for the benefit of such holders, a continuing possessory lien and security interest, in each case, upon, in and to all of the right, title and interest Citizens in, to and under the rights, revenues and properties listed in the following clauses (1) through (14), inclusive (including, without limitation, any of the foregoing that constitutes general intangibles as defined in the UCC), whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as the "Collateral"), and Citizens transfers and assigns to the Collateral Trustee (for the benefit of such holders, ratably, as provided herein):

- (1) All Liquidity Shared Revenues;
- (2) All Term Shared Revenues;
- (3) All Net Premium and Surcharge Revenues;
- (4) Reserved;
- (5) The Suspense Account, all cash deposited therein from time to time and the Investments held therein;
- (6) The Liquidity Shared Revenues Account (including all subaccounts therein), all cash deposited therein from time to time and the Investments held therein;

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(7) The Term Shared Revenues Account, all cash deposited therein from time to time and the investments held therein;

(8) The Premium and Surcharge Revenues Account, all cash deposited therein from time to time and the Investments held therein;

(9) Reserved;

(10) The Citizens Account, all cash deposited therein from time to time and the Investments held therein;

(11) All earnings upon the items described in clauses (1) through (10) hereof (including any account established with the Collateral Trustee to hold such earnings pursuant to Section 9);

(12) All Security Entitlements of Citizens in all or any of the Collateral described in clauses (1) through (11) above;

(13) All books and records (including, without limitation, lists, files, printouts and other records, and computer programs and computer materials) of Citizens pertaining to any of the items described in clauses (1) through (12) above; and

(14) All Proceeds of all or any of the Collateral described in clauses (1) through (13) above and all Security Entitlements of Citizens in all or any of such Proceeds.

(b) In order to secure the full and punctual payment of the Junior Secured Obligations and to secure the performance of all of the obligations of Citizens hereunder and under each related Secured Instrument in respect thereof, Citizens hereby (x) assigns pledges and grants a continuing, second-priority lien upon and security interest to the Collateral Trustee (for the benefit of the holders of such Junior Secured Obligations, ratably, as provided herein) and (y) pledges and assigns to the Collateral Trustee, for the junior benefit of such holders a continuing possessory lien and security interest, in each case, upon, in and to all of the Collateral, and Citizens agrees that its transfer and assignment to the Collateral Trustee pursuant to Section 1.01(b) is for the ratable benefit, on a second priority basis, of the holders of Junior Secured Obligations.

(c) The Security Interests described in clause (a) above are first priority security interests and shall, as provided in Section 627.351(6)(m)(4) of the Act, be effective, valid, binding and enforceable against Citizens and valid and binding against and superior to any competing claims or obligations owed to any other Person, including policyholders in the State of Florida. The Security Interests described in clause (b) above are hereby subordinated to the Security Interests described in clause (a) above, and are second in priority only to the security interests described in clause (a) above and shall, as provided in Section 627.351(6)(m)(4) of the Act, be effective, valid, binding and enforceable against Citizens and valid and binding against and, except as provided herein, superior to any competing claims or obligations owed to any other Person, including policyholders in the State of Florida. The Security Interests are granted as security only and shall not subject any Secured Party to, or in any way affect or modify, any

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obligation or liability of Citizens or any other Person with respect to any of the Secured Instruments or any Collateral or any transaction in connection therewith.

SECTION 2. Representations and Warranties. Citizens represents and warrants on and as of the date hereof and on and as of each date on which (i) Indenture Obligations are issued and sold, (ii) any Draw is made, (iii) a Credit Agreement becomes effective, (iv) any Liquidity Loan or Term Loan is borrowed, (v) any Secured Interest Rate Agreement and, if such Secured Interest Rate Agreement is a "master" agreement, any transaction to be consummated thereunder, is executed or becomes effective or (vi) any Junior Secured Obligations are issued or incurred, and each such event shall be deemed to be a representation and warranty by Citizens on the date of such event, as follows:

2.01 No Liens. Citizens has, or will at the time of delivery of Collateral to the Collateral Trustee have, good and marketable title to all of the Collateral, free and clear of any Lien, security interest, encumbrance or other right, title or interest of any Person (except as permitted by each Credit Agreement, the Trust Indenture and each Secured Interest Rate Agreement), and full power and authority to undertake and perform the obligations of Citizens and to grant the Security Interests hereunder.

2.02 Enforcement Filings. Citizens has not performed any acts which might prevent the Collateral Trustee from enforcing any of the terms of this Agreement or which would limit the Collateral Trustee in any such enforcement. Other than this Agreement and financing statements in favor of the Collateral Trustee with respect to the Security Interests, the Indenture Trustee (for the benefit of the holders of Outstanding Indenture Obligations), each Bank Agent (for the benefit of the related Banks) and any other Secured Party Representative, no financing statement, pledge, mortgage, security agreement or similar or equivalent document or instrument covering all or any part of the Collateral has been authorized, approved or executed by Citizens (other than any such financing statement, pledge, mortgage, security agreement or similar or equivalent document or instrument that has been, or will be, terminated or released on or before the closing date for the Initial Credit Agreement and the issuance and sale of the initial series of Indenture Obligations), and no such action, document or instrument is on file or of record in any jurisdiction or with any Person (including Citizens), whether or not such filing or recording would be effective to establish or perfect (or achieve priority of) a Lien on the Collateral. No Collateral is in the possession of any Person asserting any claim thereto or security interest therein, except that the Collateral Trustee and, with respect to Net Premium and Surcharge Revenues, to the extent set forth in Section 5.02 below, Citizens may have possession of Collateral as contemplated by this Agreement.

2.03 Chief Executive Office: Records. Except as changed in accordance with the provisions of Section 12.03 below, the chief executive office of Citizens and chief place of business of Citizens and the location where Citizens maintains all records relating to the Collateral is 101 North Monroe Street, Suite 1000, Tallahassee, Florida 32301.

2.04 Perfection. The Security Interests constitute valid pledges of and liens upon and security interests in the Collateral in favor of the Collateral Trustee (for the benefit of the holders of the Secured Obligations, as provided herein) prior to the rights of all other Persons therein and subject to no other Liens under the laws of the State of Florida securing the Secured

the Assessable Insureds of the pledge of the Regular Assessments pursuant to this Agreement and (y) direct all surplus lines agents for the Assessable Insureds to collect and make all payments in respect of Regular Assessments directly to the Florida Surplus Lines Service Office for further payment to the Collateral Trustee, and to accompany such payment with written notice to the Florida Surplus Lines Service Office that such payments are Regular Assessments and the Plan Year Deficit to which such payments relate. Citizens shall instruct the Florida Surplus Lines Service Office to provide the Collateral Trustee with a copy of such written notice promptly after it is received from the surplus lines agent, together with payment to the Collateral Trustee on such Regular Assessments. Citizens shall also instruct the Florida Surplus Lines Service Office to deliver to the Collateral Trustee a list setting forth the name and address of each surplus lines agent who has been directed by the Florida Surplus Lines Service Office to collect Regular Assessments from Assessable Insureds. Citizens hereby appoints the Collateral Trustee as Citizens' agent to receive Regular Assessments and FHCF Reimbursements.

(b) Citizens agrees that, if any Regular Assessments shall be received by it, Citizens shall deposit such Regular Assessments, together with all earnings thereon, with the Collateral Trustee, within ten days following the receipt thereof and shall certify in writing to the Collateral Trustee the appropriate amount of such Liquidity Shared Revenues so that the Collateral Trustee may allocate such deposit to the proper account and subaccount. Citizens further agrees that when any Liquidity Shared Revenues consisting of FHCF Reimbursements shall be received by it, Citizens shall deposit such Liquidity Shared Revenues with the Collateral Trustee not later than two Business Days after Citizens receives such Liquidity Shared Revenues, and shall certify in writing to the Collateral Trustee the appropriate amount of such Liquidity Shared Revenues so that the Collateral Trustee may allocate such deposit to the proper account and subaccount. Until so deposited with the Collateral Trustee, all Liquidity Shared Revenues shall be held in trust by Citizens for and as the property of the Collateral Trustee and the Secured Parties and shall not be commingled with any funds or property of Citizens not constituting Collateral.

3.03 Distribution. The balance from time to time on deposit in the two subaccounts of the Liquidity Shared Revenues Account shall, except during the effectiveness of a Notice of Default Distribution, be distributed in accordance with Section 11.01. Within one Business Day following the receipt and during the effectiveness of a Notice of Default Distribution, the Collateral Trustee shall apply or cause to be applied (subject to collection) any or all of the balance from time to time on deposit in the two subaccounts of the Liquidity Shared Revenues Account in the manner specified in Section 11.06.

3.04 Reports: Records. (a) The Collateral Trustee shall furnish to Citizens on the last Business Day of each week, a report setting forth (x) each deposit constituting Regular Assessments received in such week and maker of such deposit of Regular Assessments and (y) each deposit constituting FHCF Reimbursements received in such week.

(b) Citizens or any Secured Party may upon reasonable prior notice and during normal business hours review the Collateral Trustee's records with respect to the Liquidity Shared Revenues.

Obligations as and to the extent provided herein. The Collateral Trustee is entitled to all the rights, priorities and benefits afforded by relevant law of the State of Florida to perfected security interests. The Security Interests constitute perfected security interests in the Collateral; with the priorities purported to be granted hereby.

SECTION 3. Liquidity Shared Revenues Account. Citizens and the Collateral Trustee agree that the following provisions of this Section 3 are intended only to facilitate the identification of Liquidity Shared Revenues delivered to and received by the Collateral Trustee and that the distribution and application of the Liquidity Shared Revenues shall be made in accordance with Section 11.01 or 11.06, as the case may be:

3.01 Establishment of Liquidity Shared Revenues Account. There is hereby established with the Collateral Trustee an account designated the "Liquidity Shared Revenues Account" consisting of two separate subaccounts in the name and under the control of the Collateral Trustee into which there shall be deposited from time to time Liquidity Shared Revenues required to be delivered to the Collateral Trustee pursuant to Section 3.02 or any other provision of this Agreement and all Investments acquired therewith. The two subaccounts are designated the "Regular Assessments Subaccount" and the "FHCF Reimbursements Subaccount," respectively. The Collateral Trustee shall deposit (x) all Liquidity Shared Revenues consisting of Regular Assessments in the Regular Assessments Subaccount and (y) all Liquidity Shared Revenues consisting of FHCF Reimbursements in the FHCF Reimbursements Subaccount. Subject to the provisions of this Agreement, the Liquidity Shared Revenues Account shall be under the sole dominion and control of the Collateral Trustee and the Collateral Trustee shall have the sole right to make withdrawals from the Liquidity Shared Revenues Account from time to time (such withdrawals to be made in accordance with the terms of this Agreement). All amounts deposited in such account and subaccounts shall be held by the Collateral Trustee in trust pursuant to the terms of this Agreement. The deposit of amounts in the Liquidity Shared Revenues Account together with any Investments acquired therewith shall not constitute payment of the Secured Obligations until applied thereto as hereinafter provided.

3.02 Deposits. (a) Citizens shall instruct (x) all Assessable Insurers and, in the case of Regular Assessments levied on Assessable Insureds, the Florida Surplus Lines Service Office, to make all payments in respect of Regular Assessments and (y) the FHCF to make all payments in respect of the FHCF Reimbursements, in each case, directly to the Collateral Trustee (by check or by wire transfer to two deposit accounts to be designated by the Collateral Trustee) and to notify the Collateral Trustee in writing whether such payments are Regular Assessments or FHCF Reimbursements, respectively, so that the Collateral Trustee may allocate such payments to the proper account and subaccount. Concurrently with each notification by Citizens to Assessable Insurers of its levy of Regular Assessments for any year, Citizens shall deliver to the Collateral Trustee a list setting forth the name and address of each Assessable Insurer to which such notice has been delivered and the amount of the Regular Assessments for each year levied on such Assessable Insurer pursuant to such notice. Citizens shall promptly deliver to the Collateral Trustee a copy of any instructions or notices delivered to the FHCF in respect of any FHCF Reimbursements. Citizens hereby authorizes the Collateral Trustee to act as Citizens' attorney-in-fact to endorse the name of Citizens on any instruments which may come into the Collateral Trustee's possession with respect to the Liquidity Shared Revenues. Citizens shall instruct the Florida Surplus Lines Service Office to (x) notify the surplus lines agents for

SECTION 4. Term Shared Revenues Account. Citizens and the Collateral Trustee agree that the following provisions of this Section 4 are intended only to facilitate the identification of Term Shared Revenues delivered to and received by the Collateral Trustee and that the distribution and application of the Term Shared Revenues shall be made in accordance with Sections 11.02 and 11.03 or Section 11.06, as the case may be:

4.01 Establishment of Term Shared Revenues Account. There is hereby established with the Collateral Trustee an account designated the "Term Shared Revenues Account" in the name and under the control of the Collateral Trustee into which there shall be deposited from time to time Term Shared Revenues required to be delivered to the Collateral Trustee pursuant to Section 4.02 or any other provision of this Agreement and all Investments acquired therewith. Subject to the provisions of this Agreement, the Term Shared Revenues Account shall be under the sole dominion and control of the Collateral Trustee and the Collateral Trustee shall have the sole right to make withdrawals from the Term Shared Revenues Account from time to time (such withdrawals to be made in accordance with the terms of this Agreement). All amounts deposited in such account shall be held by the Collateral Trustee in trust pursuant to the terms of this Agreement. The deposit of amounts in the Term Shared Revenues Account together with any Investments acquired therewith shall not constitute payment of the Secured Obligations until applied thereto as hereinafter provided.

4.02 Deposits. (a) Citizens shall instruct all Assessable Insurers and, in the case of Emergency Assessments levied on Assessable Insureds, the Florida Surplus Lines Service Office to make all payments in respect of collections of Emergency Assessments directly to the Collateral Trustee (by check or by wire transfer to an account to be designated by the Collateral Trustee) and to notify the Collateral Trustee in writing that such funds constitute Emergency Assessments so that the Collateral Trustee may allocate such payments to the proper account. Concurrently with each notification by Citizens to Assessable Insurers of its levy of Emergency Assessments, Citizens shall deliver to the Collateral Trustee a list setting forth the name and address of each such entity to which such notice has been delivered. Citizens hereby authorizes the Collateral Trustee to act as Citizens' attorney-in-fact to endorse the name of Citizens on any instruments which may come into the Collateral Trustee's possession with respect to the Term Shared Revenues. Citizens shall instruct the Florida Surplus Lines Service Office to (x) notify the surplus lines agents for the Assessable Insureds of the pledge of the [Regular Assessments] pursuant to this agreement and (y) direct all surplus lines agents for the Assessable Insureds to make all payments in respect of Emergency Assessments directly to the Florida Surplus Lines Service Office for further payment to the Collateral Trustee, and to accompany such payment with written notice to the Florida Surplus Lines Service Office that such payments are Emergency Assessments and the Plan Year Deficit to which payments relate. Citizens shall instruct the Florida Surplus Lines Service Office to provide the Collateral Trustee with a copy of such written notice promptly after it is received from the surplus lines agent, together with payment to the Collateral Trustee of such Emergency Assessments. Citizens shall also instruct the Florida Surplus Lines Service Office to deliver to the Collateral Trustee a list setting forth the name and address of each surplus lines agent who has been directed by the Florida Surplus Lines Service Office to collect Emergency Assessments from Assessable Insureds. Citizens hereby appoints the Collateral Trustee as Citizens' agent to receive Emergency Assessments.

(b) Citizens agrees that, if any Emergency Assessments shall be received by it, Citizens shall deposit such Emergency Assessments, together with all earnings thereon, with the Collateral Trustee, within ten days following the receipt thereof and shall certify to the Collateral Trustee the amount of such Term Shared Revenues so that the Collateral Trustee may allocate such deposit to the proper account. Until so deposited with the Collateral Trustee, all Term Shared Revenues shall be held in trust by Citizens for and as the property of the Collateral Trustee and the Secured Parties and shall not be commingled with any funds or property of Citizens not constituting Collateral.

4.03 Distribution. The balance from time to time on deposit in the Term Shared Revenues Account shall, except during the effectiveness of a Notice of Default Distribution, be distributed in accordance with Sections 11.02 and 11.03. Within one Business Day following the receipt and during the effectiveness of a Notice of Default Distribution, the Collateral Trustee shall apply or cause to be applied (subject to collection) any or all of the balance from time to time on deposit in the Term Shared Revenues Account in the manner specified in Section 11.06.

4.04 Reports; Records. (a) The Collateral Trustee shall furnish to Citizens on each Monthly Distribution Date, a report setting forth each deposit of Emergency Assessments in the preceding month and the maker of such deposit.

(b) Citizens or any Secured Party may upon reasonable prior notice and during normal business hours review the Collateral Trustee's records with respect to the Term Shared Revenues.

SECTION 5. Net Premium and Surcharge Revenues Account. Citizens and the Collateral Trustee agree that the following provisions of this Section 5 are intended only to facilitate the identification of Net Premium and Surcharge Revenues delivered to and received by the Collateral Trustee and that the distribution and application of the Net Premium and Surcharge Revenues shall be made in accordance with Section 11.04 or 11.06, as the case may be.

5.01 Establishment of Net Premium and Surcharge Revenues Account. There is hereby established with the Collateral Trustee an account designated the "Net Premium and Surcharge Revenues Account" in the name and under the control of the Collateral Trustee into which there shall be deposited from time to time Net Premium and Surcharge Revenues required to be delivered to the Collateral Trustee pursuant to Section 5.02 or any other provision of this Agreement and all Investments acquired therewith. Subject to the provisions of this Agreement, the Net Premium and Surcharge Revenues Account shall be under the sole dominion and control of the Collateral Trustee and the Collateral Trustee shall have the sole right to make withdrawals from the Net Premium and Surcharge Revenues Account from time to time (such withdrawals to be made in accordance with the terms of this Agreement). All amounts deposited in such account shall be held by the Collateral Trustee in trust pursuant to the terms of this Agreement. The deposit of amounts in the Net Premium and Surcharge Revenue Account together with any Investments acquired therewith shall not constitute payment of the Secured Obligations until applied thereto as hereinafter provided.

SECTION 8. Suspense Account. There is hereby established with the Collateral Trustee an account designated the "Suspense Account" in the name and under the control of the Collateral Trustee. Subject to the provisions of this Agreement, the Suspense Account shall be under the sole dominion and control of the Collateral Trustee and the Collateral Trustee shall have the sole right to make withdrawals from the Suspense Account from time to time (such withdrawals to be made in accordance with the terms of this Agreement). If the Collateral Trustee is not notified as required hereby and therefore cannot determine how to dispose of or apply amounts it receives in respect of this Agreement, the Collateral Trustee shall deposit such amounts in the Suspense Account and shall hold such amounts in trust pursuant to this Agreement. The Collateral Trustee shall give written notice to each Secured Party Representative and Citizens of amounts deposited in the Suspense Account, and Citizens shall cooperate with the Collateral Trustee and the Secured Party Representatives in determining the appropriate application of such amounts. The Collateral Trustee shall transfer amounts deposited in the Suspense Account (including earnings thereon) to the other accounts and subaccounts provided herein in accordance with joint written instructions from Citizens, the Indenture Trustee and each Bank Agent, or if a Notice of Default Distribution has been received and is effective, in accordance with joint written instructions from the Indenture Trustee and each Bank Agent. Amounts on deposit in the Suspense Account shall not be applied in satisfaction of Secured Obligations until transferred by the Collateral Trustee in accordance with the provisions of this Section. Amounts on deposit in the Suspense Account that are determined through the joint written instructions described above not to be any of Liquidity Shared Revenues, Term Shared Revenues or Net Premium and Surcharge Revenues shall, unless a Notice of Default Distribution is effective, be deposited into the Citizens Account. All amounts on deposit in the Suspense Account shall, during the effectiveness of a Notice of Default Distribution, be distributed in the manner specified in Section 11.06.

SECTION 9. Investment of Certain Funds. Amounts held in the accounts and subaccounts created pursuant to this Agreement shall be invested and reinvested by the Collateral Trustee in Authorized Investments as directed in writing (i) by Citizens or (ii) if a Notice of Default Distribution is effective, jointly by all Bank Agents or, if no Credit Agreement is in effect, by the Indenture Trustee. If, at any time, the Collateral Trustee does not receive such directions, then the Collateral Trustee shall invest and reinvest all such amounts in securities of the type described in clause (iv) of the definition of "Authorized Investments"; provided that such securities represent an interest or interests in money market funds that invest solely in direct obligations of, or obligations the timely payment of the principal and interest on which are unconditionally guaranteed by, the United States of America. Earnings from any Collateral Account (other than the Suspense Account) shall be either retained in such Collateral Account or, at the option of Citizens (or, if a Notice of Default Distribution is effective, pursuant to the joint instructions of all Bank Agents or, if no Credit Agreement is in effect, the Indenture Trustee), transferred to one or more other Collateral Accounts (including any separate account established for such purpose with the Collateral Trustee for the benefit of the Secured Parties) and, in either case, applied in accordance with Section 11. Earnings from the Suspense Account shall be retained in the Suspense Account and shall be credited to the appropriate earnings account, if any, or other Collateral Account or remitted to Citizens, as the case may be, upon a determination pursuant to Section 8 of the appropriate application of the underlying amounts in the Suspense Account that gave rise to such earnings. In directing the Collateral Trustee to make investments hereunder, Citizens shall select investments such that such investments shall mature

5.02 Deposits. Citizens agrees that it shall, with respect to all Net Premium and Surcharge Revenues received by it, either (x) deposit such Net Premium and Surcharge Revenues, together with any earnings thereon, with the Collateral Trustee or (y) in the event Citizens shall not be entitled to such payments, return such payment to the sender, in each case, within five Business Days of receipt thereof. Any such deposit with the Collateral Trustee shall be accompanied by a certificate of Citizens as to the amount of such Net Premium and Surcharge Revenues so that the Collateral Trustee may allocate such deposit to the proper account. Until so deposited with the Collateral Trustee, all Net Premium and Surcharge Revenues shall be held in trust by Citizens for and as property of the Collateral Trustee and the Secured Parties and shall not be commingled with any funds or property of Citizens not constituting Collateral. Citizens will provide the Collateral Trustee with a monthly report no later than the tenth day of each month, setting forth the Net Premium and Surcharge Revenues for the immediately preceding month. Concurrently with each notification by Citizens to its policyholders of its levy of a market equalization surcharge pursuant to Section 627.351(6)(c)(10) of the Act Citizens shall deliver to the Collateral Trustee a notice describing the levy of such surcharge and setting forth the percentage of such surcharge. Citizens hereby authorizes the Collateral Trustee to act as Citizens' attorney-in-fact to endorse the name of Citizens on any instruments which may come into the Collateral Trustee's possession with respect to the Net Premium and Surcharge Revenues.

5.03 Distribution. The balance from time to time on deposit in the Net Premium and Surcharge Revenues Account shall, except during the effectiveness of a Notice of Default Distribution, be distributed in accordance with Section 11.04. Within one Business Day following the receipt and during the effectiveness of a Notice of Default Distribution, the Collateral Trustee shall apply or cause to be applied (subject to collection) any or all of the balance from time to time on deposit in the Net Premium and Surcharge Revenues Account in the manner specified in Section 11.06.

5.04 Records. Citizens or any Secured Party may upon reasonable prior notice and during normal business hours review the Collateral Trustee's records with respect to the Premium and Surcharge Revenues Account.

SECTION 6. Reserved

SECTION 7. Citizens Account. There is hereby established with the Collateral Trustee an account designated the "Citizens Account" in the name and under the control of the Collateral Trustee. The Collateral Trustee shall deposit amounts in the Citizens Account as provided under this Agreement. Except during the effectiveness of a Notice of Default Distribution, the Collateral Trustee shall transfer amounts deposited in the Citizens Account (including earnings thereon) in accordance with the instructions of Citizens. Subject to the provisions of this Agreement, the Citizens Account shall be under the sole dominion and control of the Collateral Trustee and the Collateral Trustee shall have the sole right to make withdrawals from the Citizens Account from time to time (such withdrawals to be made in accordance with the terms of this Agreement). All amounts on deposit in the Citizens Account, shall, during the effectiveness of a Notice of Default Distribution, be distributed in the manner specified in Section 11.06.

on such dates as are necessary to make distributions hereunder as and when required hereby; it being understood and agreed that, at any time of a distribution hereunder, the Collateral Trustee may liquidate investments prior to maturity to the extent necessary do make such distribution and the Collateral Trustee shall not be responsible for any losses incurred as a result of any such liquidation.

SECTION 10. Additional Secured Obligations. If at any time after the date hereof Citizens desires to (x) enter into a loan or credit agreement or an Interest Rate Agreement, in each case, which would be secured hereby and designated as a Subsequent Credit Agreement or Secured Interest Rate Agreement, respectively, or (y) incur or issue any proposed indebtedness or other obligations which would be secured hereby and designated as a Junior Secured Obligation, Citizens shall deliver to the Collateral Trustee (and concurrently to each Secured Party Representative) a certificate signed by the Executive Director of Citizens, which shall (i) identify, and describe in reasonable detail the terms of, such proposed Subsequent Credit Agreement, Secured Interest Rate Agreement or Junior Secured Obligation, (ii) certify that the designation thereof as a Subsequent Credit Agreement, Secured Interest Rate Agreement or Junior Secured Obligation, as the case may be, is not prohibited by any provision of any Secured Instrument then in effect and (iii) specify the name and the address for notices to the proposed holder or holders of each such proposed additional Secured Obligation so designated (or, in the case of any Subsequent Credit Agreement, the proposed Bank Agent thereunder, and, in the case of Junior Secured Obligations in respect of which a trustee or agent will be appointed to act for the benefit or on behalf of the holders thereof, such proposed trustee or agent). Unless the Collateral Trustee, by no later than the fifteenth Business Day following the receipt of such certificate by the Collateral Trustee, notifies Citizens that the Collateral Trustee has received notice from any Secured Party Representative stating that such proposed designation is prohibited by the relevant Secured Instrument (which notice the Collateral Trustee shall promptly distribute to Citizens and each Secured Party Representative), such proposed loan or credit agreement or Interest Rate Agreement or other indebtedness or other obligation shall be, from and after the later of (a) the sixteenth Business Day after the receipt of such certificate by the Collateral Trustee and (b) the date of execution of such agreement, a Subsequent Credit Agreement, Secured Interest Rate Agreement or Junior Secured Obligation, as so proposed to be designated, for purposes of this Agreement. In addition, such Subsequent Credit Agreement, such Secured Interest Rate Agreement and each agreement or instrument evidencing such Junior Secured Obligation shall be, from and after such date until the termination thereof and the payment of all amounts payable thereunder, a Secured Instrument (and shall be listed in Schedule I hereto) for purposes of this Agreement. Citizens shall also cause the Secured Party Representative in respect of such additional Secured Obligations to sign a counterpart of this Agreement (including a revised Schedule I) agreeing to and acknowledging the provisions of this Agreement and shall promptly provide a copy thereof to the Collateral Trustee.

SECTION 11. Distributions

11.01 Liquidity Shared Revenues Distribution. Unless a Notice of Default Distribution is then effective, the Collateral Trustee will distribute the Liquidity Shared Revenues held in the Liquidity Shared Revenues Account prior to 10:00 A.M., New York time, on the twenty-fifth day of each calendar month, or the next succeeding Business Day if such date

is not a Business Day, (each such date, a “Monthly Distribution Date”), immediately prior to any distribution of Term Shared Revenues pursuant to Sections 11.02 and 11.03, as follows:

(a) first.

(i) if a Bank Agent and Citizens have notified the Collateral Trustee that an Outstanding Liquidity Loan or Loans (or an Outstanding Term Loan or Loans refinancing such Outstanding Liquidity Loan or Loans) have been borrowed in respect of any Type of Liquidity Shared Revenues then on deposit in the Liquidity Shared Revenues Account, the Collateral Trustee shall distribute to such Bank Agent from the Regular Assessment Subaccount or the FHCF Reimbursement Subaccount, as the case may be, an amount equal to the unpaid principal of such Outstanding Liquidity Loan or Loans (or such Outstanding Term Loan or Loans), and

(ii) if the Indenture Trustee and Citizens have notified the Collateral Trustee that an outstanding Draw or Draws have been made in respect of any Type of Liquidity Shared Revenues then on deposit in the Liquidity Shared Revenues Account (including an outstanding Draw or Draws refinancing a previously Outstanding Liquidity Loan or Loans borrowed in respect of such Liquidity Shared Revenues), the Collateral Trustee shall distribute to the Indenture Trustee from the Regular Assessment Subaccount or the FHCF Reimbursement Subaccount, as the case may be, amount equal to the unpaid amount of such outstanding Draw or Draws,

provided that, if such Liquidity Shared Revenues are payable to more than one Secured Party Representative and the amount thereof shall be insufficient to pay the foregoing amounts in full, then the Collateral Trustee shall distribute such Liquidity Shared Revenues to such Secured Party Representatives ratably in proportion to the foregoing amounts;

(b) second, to each Bank Agent, an amount equal to the accrued and unpaid interest attributable to the principal amounts referred to in clause (a)(i) above, provided that, if such Liquidity Shared Revenues are insufficient to pay the foregoing amounts in full, then the Collateral Trustee shall distribute such Liquidity Shared Revenues to such Secured Party Representatives ratably in proportion to the foregoing amounts; and

(c) third, to the extent of any remaining excess, the Collateral Trustee shall deposit the amount of such excess into the Citizens Account.

11.02 Term Shared Revenues Distribution. Unless a Notice of Default Distribution is then effective, the Collateral Trustee will distribute the Term Shared Revenues held in the Term Shared Revenues Account prior to 10:00 A.M., New York time, on each Monthly Distribution Date, immediately after any distribution of Liquidity Shared Revenues pursuant to Section 11.01 and immediately prior to any distribution of Term Shared Revenues pursuant to Section 11.03, in the following order of priority:

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Collateral Trustee shall distribute such Term Shared Revenues to such Secured Party Representatives ratably in proportion to such amounts;

(c) third, to the Indenture Trustee, an amount equal to the unpaid Defeasance and Reserve Amount (if any) for such Payment Quarter;

(d) fourth, to each Hedge Counterparty, an amount equal to the unpaid amount of any termination payment then due and payable under the related Secured Interest Rate Agreement; provided that, if such Term Shared Revenues shall be insufficient to pay the foregoing termination payment amounts in full (any such deficiency, a “Termination Payment Deficiency”), then the Collateral Trustee shall distribute such Term Shared Revenues to such Hedge Counterparties ratably in proportion to such amounts; and

(e) fifth.

(i) to each Bank Agent, an amount equal to the unpaid Related Senior Secured Obligations then due and payable under the related Credit Agreement;

(ii) to the Indenture Trustee, an amount equal to the unpaid Related Senior Secured Obligations then due and payable under the Trust Indenture; and

(iii) to each Hedge Counterparty, an amount equal to the unpaid Related Senior Secured Obligations then due and payable under the related Secured Interest Rate Agreement;

provided that, if such Term Shared Revenues shall be insufficient to pay the foregoing amounts described in this clause (e) in full (any such deficiency, a “Related Obligation Deficiency”), then the Collateral Trustee shall distribute such Term Shared Revenues to such Secured Party Representatives ratably in proportion to the foregoing amounts.

Any amounts remaining in the Term Shared Revenues Account on any Monthly Distribution Date after giving effect to the distribution of amounts pursuant to this Section 11.02 on such date, shall remain in the Term Shared Revenues Account and shall be distributed thereafter pursuant to this Section 11.02, Section 11.03 or Section 11.06, as applicable.

11.03 Quarterly Term Shared Revenues Distribution. Unless a Notice of Default Distribution is then effective, the Collateral Trustee will distribute the Term Shared Revenues held in the Term Shared Revenues Account prior to 10:00 A.M., New York time, on the last Monthly Distribution Date to occur in each Payment Quarter (such date, the “Quarterly Distribution Date”), immediately after and in addition to any distribution of Term Shared Revenues pursuant to Section 11.02, in the following order of priority:

(a) first, to each Bank Agent, an amount equal to the Required Quarterly Prepayment Amount in respect of the related Credit Agreement; and

(b) second, to the extent of the remaining excess, to the Secured Party Representative in respect thereof, an amount equal to the amounts then due and payable in

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(a) first.

(i) to each Bank Agent, the amount of accrued and unpaid interest on all Outstanding Term Loans (and, if interest on such Outstanding Term Loans is scheduled to be due and payable after such distribution date but prior to the next succeeding Monthly Distribution Date, the amount of interest to accrue on such Outstanding Term Loans to such due date assuming no change in any applicable interest rate),

(ii) to the Indenture Trustee, the amount of accrued and unpaid interest on the Outstanding Indenture Obligations (and, if any such interest is scheduled to be due and payable after such distribution date but prior to the next succeeding Monthly Distribution Date, the amount of interest scheduled to accrue on the Outstanding Indenture Obligations to such due date assuming no change in any applicable interest rate), and

(iii) to each Hedge Counterparty, an amount equal to the unpaid amount (if any) of any net payment (other than a termination payment) then due and payable, or to become due and payable on or before the next succeeding Monthly Distribution Date, by Citizens under the related Secured Interest Rate Agreement;

provided that, if such Term Shared Revenues, shall be insufficient to pay the foregoing amounts in full (any such deficiency, an “Interest Deficiency”), then the Collateral Trustee shall distribute such Term Shared Revenues to such Secured Party Representatives ratably in proportion to such amounts;

(b) second.

(i) to each Bank Agent, an amount equal to the aggregate unpaid principal of Outstanding Term Loans payable on or before the last Business Day of the Payment Quarter in which such Monthly Distribution Date occurs (less any amount already transferred by the Collateral Trustee pursuant to this Section 11.02 in respect of the principal of Term Loans payable in such Payment Quarter), and

(ii) to the Indenture Trustee, an amount equal to the aggregate unpaid principal (other than any such principal representing a defeasance or sinking fund payment) of the Outstanding Indenture Obligations payable on or before the last Business Day of the Payment Quarter in which such Monthly Distribution Date occurs (less any amount already held by the Indenture Trustee as an irrevocable defeasance fund or reserve with respect to such obligations to the extent available for the payment of such principal) plus the amount of any unpaid redemption premium, if any, payable on the next call date thereon;

provided that, if such Term Shared Revenues shall be insufficient to pay the foregoing principal amounts in full (any such deficiency, a “Principal Deficiency”), then the

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respect of Junior Secured Obligations, provided that, if such Term Shared Revenues shall be insufficient to pay such amounts in full, then the Collateral Trustee shall distribute such Term Shared Revenues to such Secured Party Representatives ratably in proportion to the foregoing amounts;

(c) third, to the extent of the remaining excess, the Collateral Trustee shall distribute to the Indenture Trustee in an amount equal to the Proceeds Account Deficiency Amount of for deposit into the “Proceeds Account” established under the Trust Indenture; and

(d) fourth, to the extent of the remaining excess, the Collateral Trustee shall deposit such excess in the Citizens Account.

11.04 Net Premium and Surcharge Revenues Distribution. (a) Unless a Notice of Default Distribution is then effective, the Collateral Trustee will, from time to time, withdraw amounts on deposit in the Net Premium and Surcharge Revenues Account on any Business Day and pay over such amounts as directed by Citizens upon receipt from Citizens of a certificate stating that such amounts will be used within the 30 days following such withdrawal either (x) to pay Loss Claims and/or to pay operating and other expenses of Citizens or (y) to make an additional deposit in the Defeasance Subaccount under, and as defined, in the Indenture, and stating that such deposit is permitted pursuant to the terms of the Credit Agreement.

(b) Unless a Notice of Default Distribution is then effective, on each Monthly Distribution Date, immediately following the distribution of Term Shared Revenues pursuant to Section 11.02 above, in the event a Deficiency exists, the Collateral Trustee shall distribute the Net Premium and Surcharge Revenues held in the Net Premium and Surcharge Revenues Account in the following order of priority:

(i) first, to each Secured Party Representative with respect to which an Interest Deficiency exists, the amount of such Interest Deficiency, provided that if such Net Premium and Surcharge Revenues shall be insufficient to pay the foregoing amounts in full, then the Collateral Trustee shall distribute such Net Premium and Surcharge Revenues to such Secured Party Representatives ratably in proportion to such amounts;

(ii) second, to each Secured Party Representative with respect to which a Principal Deficiency exists, the amount of such Principal Deficiency, provided that if such Net Premium and Surcharge Revenues shall be insufficient to pay the foregoing amounts in full, then the Collateral Trustee shall distribute such Net Premium and Surcharge Revenues to such Secured Party Representatives ratably in proportion to such amounts;

(iii) third, to the Indenture Trustee, the amount of any Amortization Deficiency then existing;

(iv) fourth, to each Hedge Counterparty with respect to which a Termination Payment Deficiency then exists, an amount equal to such Termination Payment Deficiency, provided that if such Net Premium and Surcharge Revenues shall be insufficient to pay the foregoing amounts in full,

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then the Collateral Trustee shall distribute such Net Premium and Surchage Revenues to such Hedge Counterparties ratably in proportion to such amounts;

(v) fifth, to each Secured Party Representative with respect to which a Related Obligation Deficiency exists, the amount of such Related Obligation Deficiency, provided that if such Net Premium and Surchage Revenues shall be insufficient to pay the foregoing amounts in full, then the Collateral Trustee shall distribute such Net Premium and Surchage Revenues to such Secured Party Representative ratably in proportion to such amounts.

11.05 Reserved

11.06 Default Distributions. (a) Subject to subsection (b) below, all Collateral held by the Collateral Trustee in any Collateral Account while a Notice of Default Distribution is in effect shall, to the extent available for distribution, be distributed by the Collateral Trustee on dates fixed by the Collateral Trustee (the first of which shall be within 30 days after the Collateral Trustee receives a Notice of Default Distribution and the remainder of which shall be monthly thereafter on the day of the month corresponding to the first distribution date (or, if such day is not a Business Day, the next succeeding Business Day, and, in any case, if there is no such corresponding day, the last day of such month) for such distribution, or, in each case, such later date as is provided in Section 11.07 below (individually a "Default Distribution Date" and collectively "Default Distribution Dates") in the following order of priority:

(i) first, to the Collateral Trustee or to any other holder of Senior Secured Obligations which has theretofore advanced or paid to the Collateral Trustee any unpaid fees and other expenses and liabilities of the Collateral Trustee incurred under Sections 11 and 13 or in connection with a Notice of Default Distribution, an amount equal to the amount of accrued and unpaid fees and other expenses and liabilities incurred by the Collateral Trustee or so advanced or paid by such other Secured Party prior to such Default Distribution Date;

(ii) second, to the Collateral Trustee or to any other holders of Senior Secured Obligations which has theretofore advanced or paid to the Collateral Trustee any unpaid fees and other expenses and liabilities of the Collateral Trustee incurred under this Agreement other than such fees and other expenses and liabilities referred to in clause (i) above, an amount equal to the amount of such accrued and unpaid fees and other expenses and liabilities incurred by the Collateral Trustee or so advanced or paid by such other holder of Senior Secured Obligations prior to such Default Distribution Date;

(iii) third, to each Secured Party Representative in respect of Senior Secured Obligations, an amount equal to their respective Catch-up Amounts (as defined below), if any, and, if the available Collateral shall be insufficient to pay such Catch-up Amounts in full, then to such Secured Party Representatives ratably in proportion to their respective Catch-up Amounts;

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amount of such other Secured Obligations (or, in the case of Senior Secured Obligations under any Secured Interest Rate Agreement or all Junior Secured Obligations, the aggregate unpaid amount then due and payable by Citizens in respect thereof) with respect to such Secured Party Representative (as notified by such other Secured Party Representative to the Collateral Trustee prior to such Default Distribution Date) plus the amount of all distributions made hereunder from the Collateral from and after the initial Default Distribution Date to such other Secured Party Representative in respect of such other Secured Obligations.

(b) The term "unpaid" as used in Sections 11.01 through 11.06 hereof, with respect to any Secured Obligations, refers:

(i) in the absence of a Delinquency Proceeding, to all amounts of such Secured Obligations Outstanding as of a distribution date, less the amount of any funds then held by the relevant Secured Party Representative and available for payment of such Secured Obligations, in each case as most recently notified by such Secured Party Representative to the Collateral Trustee, and

(ii) during the pendency of a Delinquency Proceeding, to all amounts which have not been disallowed in respect of such Secured Obligations as a basis for distribution (including estimated amounts, if any, allowed in respect of contingent claims), less the amount of any funds then held by the relevant Secured Party Representative and available for payment of such Secured Obligations (as most recently notified by such Secured Party Representative to the Collateral Trustee),

to the extent that prior distributions (whether actually distributed or set aside pursuant to Section 11.07 below) have not been made in respect thereof (it being understood and agreed that the term "unpaid" as so used shall not necessarily mean, unless so specified, that any such Secured Obligation is then due and payable).

11.07 Distribution Calculations. (a) Each Secured Party Representative entitled to any distribution under Sections 11.01 through 11.06 hereof shall notify the Collateral Trustee and Citizens in writing at least eight Business Days prior to each scheduled distribution date in respect thereof of all unpaid amounts to be paid to it from each such distribution. At least six Business Days prior to making the determinations and allocations required above, the Collateral Trustee shall deliver to Citizens and each Secured Party Representative written notice of the amounts and type of Collateral and the basis of the Collateral Trustee's calculation of such amounts (e.g., principal, interest, fees or other amounts) proposed to be distributed to each Secured Party Representative entitled thereto with such proposed distributions to be based upon the Collateral Trustee's reasonable assumptions as to any earnings to be credited to the Collateral Accounts prior to such distribution. Each Secured Party Representative receiving notice of such proposed distribution agrees to notify the Collateral Trustee, Citizens and each other Secured Party Representative in respect of the Secured Obligations participating in such proposed distribution and, Citizens agrees to notify the Collateral Trustee and each Secured Party Representative, in each case, promptly (and in any event not later than the fifth Business Day from and including the date of the Collateral Trustee's delivery of notice of such proposed distribution) if it disagrees with the amounts and type of such Collateral proposed to be

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(iv) fourth, to each Secured Party Representative in respect of Senior Secured Obligations, the sum of (1) the aggregate unpaid principal of such Senior Secured Obligations and (2) the amount of unpaid redemption premium, if any, and accrued and unpaid interest on such Senior Secured Obligations (or, in the case of Senior Secured Obligations under any Secured Interest Rate Agreement, the aggregate unpaid amount then due and payable by Citizens in respect thereof), and, if the available Collateral shall be insufficient to pay such sums in full, then to such Secured Party Representatives ratably in proportion to such unpaid sums on such Default Distribution Date;

(v) fifth, to each Secured Party Representative in respect of Junior Secured Obligations, an amount equal to their respective Catch-up Amounts, if any, and, if the available Collateral shall be insufficient to pay such Catch-up Amounts in full, then to such Secured Party Representatives ratably in proportion to their respective Catch-up Amounts;

(vi) sixth, to each Secured Party Representative in respect of Junior Secured Obligations, amounts equal to all other sums then due and payable in respect of the Junior Secured Obligations, including, without limitation, the costs and expenses of such Secured Parties and their representatives which are due and payable under the relevant Secured Instruments as of such Default Distribution Date and, if the available Collateral shall be insufficient to pay such sums in full, then to such Secured Parties ratably in proportion to such sums; and

(vii) seventh, any surplus then remaining shall be paid to Citizens or as a court of competent jurisdiction may direct.

Catch-up Amounts shall be calculated on any Default Distribution Date before giving effect to any distribution on such Default Distribution Date pursuant to clauses (iii) and (v) above. The term "Catch-up Amount" means, with respect to any Secured Instrument, the amount, if any, required to be distributed from the Collateral to any Secured Party Representative in respect of any Senior Secured Obligations or Junior Secured Obligations, as the case may be, thereunder, so that, immediately after giving effect to such distribution, the ratio of (i) all amounts distributed hereunder from the Collateral from and after the initial Default Distribution Date to such Secured Party Representative in respect of such Senior Secured Obligations or Junior Secured Obligations, respectively, to (ii) the sum of the unpaid amount of such Senior Secured Obligations (or, in the case of Senior Secured Obligations under any Secured Interest Rate Agreement, the aggregate unpaid amount then due and payable by Citizens in respect thereof) or the sum of the unpaid amount then due and payable in respect of Junior Secured Obligations, respectively, with respect to such Secured Party Representative (as notified by such Secured Party Representative to the Collateral Trustee prior to such Default Distribution Date), plus the amount of all distributions made hereunder from the Collateral from and after the initial Default Distribution Date to such Secured Party Representative in respect of such Senior Secured Obligations or Junior Secured Obligations, respectively, is equal to the highest ratio of (iii) all amounts distributed hereunder from the Collateral from and after the initial Default Distribution Date to any other Secured Party Representative in respect of Secured Obligations ranking on a parity therewith under any other Secured Instrument to (iv) the sum of the aggregate unpaid

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distributed, and, in the event of any such disagreement, the Collateral Trustee shall withhold distribution until receipt of joint written instructions from all Secured Party Representatives participating in such proposed distribution and, unless a Notice of Default Distribution is then effective, Citizens, as to the proper amounts and type of such Collateral to be distributed. In making the determinations and allocations required pursuant to Section 11 or any other provision of this Agreement, the Collateral Trustee may conclusively rely upon information supplied by each Secured Party Representative (and not challenged within the time period set forth above by any other Secured Party Representative or, unless a Notice of Default Distribution is then effective, Citizens) as to the amounts payable with respect to Secured Obligations represented by such Secured Party Representative, and the Collateral Trustee shall have no liability to any of the other Secured Parties or Citizens for actions taken in reliance on such information. The Collateral Trustee shall, concurrently with making any distribution hereunder, deliver to each Secured Party Representative and Citizens written notice of the amounts and type of Collateral and the basis of the Collateral Trustee's final calculation of such amounts (e.g., principal, interest, fees or other amounts) being distributed to each Secured Party Representative entitled thereto. All distributions made by the Collateral Trustee shall be (subject to any decree of any court of competent jurisdiction) final and the Collateral Trustee shall have no duty to inquire as to the, application by the Secured Parties of any amounts distributed to them.

(b) To the extent that the Collateral Trustee distributes proceeds of Collateral collected with respect to Secured Obligations entitled thereto held by one holder to or on behalf of Secured Obligations entitled thereto held by a second holder, the first holder shall be deemed to have purchased a participation in such Secured Obligations held by the second holder, or shall be subrogated to the rights of the second holder to receive any subsequent payments and distributions made with respect to the portion thereof paid or to be paid by the application of such proceeds.

(c) Citizens shall remain liable for any Secured Obligation that remains unpaid. The Collateral Trustee may make distributions hereunder in cash or in kind or, on a ratable basis, in any combination thereof.

SECTION 12. Further Assurances; Covenants. Citizens hereby covenants and agrees:

12.01 Performance of Agreements. Citizens will comply with and perform its assurances, covenants and obligations under each Secured Instrument (within any applicable grace period provided for therein), and, without limiting the foregoing, its further assurances, covenants and obligations hereunder.

12.02 Delivery of Collateral. Citizens will deliver or cause to be delivered to the Collateral Trustee (in cash, by wire transfer to the Custodian Account or another account to be designated by the Collateral Trustee or by deposit of an instrument payable to Citizens with the Collateral Trustee) all Collateral to be held by the Collateral Trustee (for the benefit of the holders of the Secured Obligations) in accordance with this Agreement.

12.03 Name Changes; Offices. Citizens will not change its name, identity or structure in any manner unless (x) such change shall be permitted under the terms of each Credit

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Agreement, the Trust Indenture and each Secured Interest Rate Agreement and (y) Citizens shall have given the Collateral Trustee and each Secured Party Representative not less than 30 days' prior written notice thereof and delivered an opinion of counsel with respect thereto in accordance with Section 12.06. Citizens will not (i) change the location of its chief executive office or chief place of business or the locations where it keeps or holds any Collateral or any records relating thereto from the applicable location described in Section 2.03 or (ii) establish any new office or offices unless, in each case, it shall have given the Collateral Trustee and each Secured Party Representative not less than 30 days' prior notice thereof and delivered an opinion of counsel with respect thereto in accordance with Section 12.06. Citizens shall not in any event change the location of any Collateral if such change would cause the Security Interests in such Collateral to lapse or cease to be perfected.

12.04 Further Assurances. (a) From time to time, at its expense, Citizens will execute, deliver, file and record any statement, assignment, instrument, document, agreement or other paper and take any other action (including, without limitation, any filings of financing or continuation statements under the UCC or the giving of notice of Security Interests to Persons) that from time to time may be necessary or desirable, or that the Collateral Trustee, at the direction of any Secured Party Representative, may reasonably request, in order to create, preserve, perfect, continue the perfection of, confirm or validate the Security Interests or to enable the Secured Parties to obtain the full benefits of this Agreement, or to enable the Collateral Trustee to exercise and enforce any of its rights, powers and remedies hereunder with respect to any of the Collateral. To the extent permitted by applicable law, Citizens hereby authorizes the Collateral Trustee to execute and file financing statements or continuation statements without Citizens' signature appearing thereon. Citizens agrees that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. To the extent permitted by applicable law, Citizens hereby also authorizes the Collateral Trustee to act as Citizens' attorney-in-fact and to execute, deliver, file and record other statements, assignments, instruments, documents, agreements or papers and to take other actions as provided above in the name of Citizens.

(b) If Citizens has knowledge that any Collateral is at any time in the possession or control of any third party (other than the Collateral Trustee or any surplus lines agent or the Florida Surplus Lines Service Office), Citizens will notify such third party in writing of the Security Interests created hereby and direct such third party in writing to hold all such Collateral in trust for the Collateral Trustee hereunder subject to the Collateral Trustee's instructions (and to deliver promptly a copy of such notice and direction to the Collateral Trustee).

(c) Citizens will keep full and accurate books and records relating to the Collateral, and stamp or otherwise mark such books and records in such manner as the Collateral Trustee may reasonably require in order to reflect the Security Interests in favor of the Collateral Trustee (for the benefit of the holders of the Secured Obligations).

(d) Citizens will promptly notify or cause to be notified (and Citizens hereby authorizes the Collateral Trustee, upon written direction and upon its receipt of adequate information for such purpose, to notify) the FHCF, each Assessable Insurer and the Florida Surplus Lines Service Office (and to cause the Florida Surplus Lines Service Office to notify

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Interests, and that all filing fees and taxes, if any, payable in connection with such filings or other actions have been paid in full.

12.07 Fees of Collateral Trustee. Citizens will pay the fees (including, during the effectiveness of a Notice of Default Distribution, such reasonable additional fees as are requested in connection with the performance of additional duties in connection with such notice) of the Collateral Trustee (other than any successor Collateral Trustee), as agreed upon by Citizens and the Collateral Trustee, and its reasonable expenses for services provided under this Agreement, and will pay the fees and expenses of any successor Collateral Trustee as agreed at the time of appointment of such successor Collateral Trustee.

12.08 Records of Obligations. Citizens will deliver to the Collateral Trustee and each Secured Party Representative on the tenth of each month, and from time to time upon request of the Collateral Trustee, a list setting forth, as of the end of the prior month, (i) with respect to the Trust Indenture and the Outstanding Indenture Obligations, the aggregate unpaid principal amount of the Outstanding Indenture Obligations and the scheduled amortization or principal payment dates applicable thereto and the name and address of the Indenture Trustee, (ii) with respect to each Credit Agreement, the aggregate unpaid principal amount of all Outstanding Liquidity Loans and all Outstanding Term Loans and the maturity or scheduled principal payment dates applicable thereto and the name and address of the Bank Agent thereunder, (iii) with respect to any Secured Interest Rate Agreement, the market value of such agreement and the name and address of the Hedge Counterparty thereunder and (iv) with respect to each other Secured Instrument, the aggregate unpaid principal or face amount Outstanding thereunder and to the extent known, the names of the holders of Secured Obligations Outstanding thereunder. Citizens shall furnish to the Collateral Trustee on the closing date for the Initial Credit Agreement and the issuance and sale of the initial series of Indenture Obligations a list setting forth the name and address of each party to which notices must be sent under each Secured Instrument in effect on such date and Citizens shall furnish promptly to the Collateral Trustee any changes or additions to such list of which it receives notice. Citizens may rely on information provided by the relevant Secured Party Representative in preparing the information required to be delivered under this Section 12.08. Each Secured Party Representative agrees to notify the Collateral Trustee, Citizens and each other Secured Party Representative in writing promptly and in any event within five Business Days after receipt thereof if it disagrees with any such information delivered by Citizens.

12.09 Obligations. Citizens hereby acknowledges and agrees that the obligations of Citizens under this Agreement will at all times constitute direct and general obligations of Citizens, attributable to the Coastal Account, payable from all moneys and other assets of Citizens in or relating to the Coastal Account. The Collateral Trustee agrees and acknowledges, and each of the other Secured Parties, by its acceptance of the benefits of this Agreement, is deemed to agree and acknowledge, that it has no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated to the Personal Lines Account or the Commercial Lines Account in accordance with the Act and the Plan) in respect of the obligations under this Agreement.

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each surplus lines agent) and, at the request of any Bank Agent or the Indenture Trustee upon occurrence of an "Event of Default" under (and as defined in) any Credit Agreement or the Trust Indenture, respectively, the holders of Assessable Policies that the Collateral has been assigned to the Collateral Trustee and that any payments due or to become due in respect of the Collateral are to be made directly to the Collateral Trustee hereunder, and that such payments shall be made in cash or by wire transfer to an account to be designated by the Collateral Trustee. Citizens shall promptly notify the Florida Surplus Lines Service Office to direct each surplus lines agent for an Assessable Insured that any payments due or to become due in respect of the Collateral are to be made directly to the Florida Surplus Lines Service Office for further payment to the Collateral Trustee. Citizens shall instruct the Florida Surplus Lines Service Office that any such payments received by it are to be promptly paid to the Collateral Trustee.

(e) Promptly upon request, Citizens will provide to the Collateral Trustee and each Secured Party Representative all information and evidence any of such Persons may reasonably request concerning the Collateral to enable the Collateral Trustee to enforce the provisions of this Agreement.

(f) Citizens will pay any and all recording and filing fees and any and all stamp, excise, intangibles and other taxes, if any, which may be payable or determined to be payable in connection with this Agreement (or any amendment, supplement, modification or waiver hereof) or the consummation of any of the transactions contemplated hereby.

12.05 Other Liens. Except as otherwise provided in this Agreement or as permitted by each Credit Agreement and the Trust Indenture, Citizens will not sell, lease, exchange, assign, pledge, mortgage, grant a lien upon or security interest in, or otherwise dispose of, or grant, or permit any Person to obtain, a right to payment or reimbursement from (including, without limitation, by reason of rights of subrogation), or grant any option with respect to, any Collateral.

12.06 Opinions of Counsel. At its cost and expense, Citizens will cause to be delivered to the Collateral Trustee and each Secured Party Representative an opinion of counsel, in form and substance satisfactory to such Secured Party Representative, (x) not more than six months nor less than two months before the expiration of any financing statement or amendment or supplement thereto, continuation statement or other document that has been recorded or filed to perfect and protect the Security Interests and (y) not more than two months nor less than 30 days prior to each date on which Citizens proposes to take any action contemplated by Section 12.03, to the effect that all financing statements and amendments or supplements thereto, continuation statements and other documents required to be recorded or filed in order to perfect and protect (or continue the perfection of) the Security Interests as perfected and prior security interests in the Collateral against all other creditors and policyholders of Citizens for a period, specified in such opinion, continuing until a date not earlier than five years from the date of such opinion, have been filed in each filing office necessary for such purpose and that no action, other than such actions as are contemplated by the opinion of counsel of Citizens delivered on the closing date for the Initial Credit Agreement and the issuance and sale of the initial series of Indenture Obligations or any subsequent opinion delivered pursuant to this Section 12.06, are required to be taken in order so to perfect and protect (or continue the perfection of) the Security

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SECTION 13. Remedies.

13.01 Notices of Default Distribution. (a) Within one Business Day following the receipt of a Notice of Default Distribution, the Collateral Trustee shall promptly notify Citizens, any co-collateral trustee or separate collateral trustee and each Secured Party Representative of its receipt thereof. The Collateral Trustee shall also promptly notify Citizens, any co-collateral trustee or separate collateral trustee and each Secured Party Representative of the date of the first Default Distribution Date established pursuant to Section 11.06. Except as expressly permitted hereunder, the Collateral Trustee is not empowered to exercise any remedy under this Section 13 unless a Notice of Default Distribution is in effect.

(b) A Notice of Default Distribution shall become effective one Business Day following the receipt thereof by the Collateral Trustee. During the effectiveness of a Notice of Default Distribution, any other Secured Party Representative in respect of Senior Secured Obligations (other than the Collateral Trustee) may deliver a separate Notice of Default Distribution, whether or not an event or condition described in clause (i)(a) or (i)(b) of the definition of "Notice of Default Distribution" has occurred or is continuing with respect to such Senior Secured Obligations. A Notice of Default Distribution, once effective, shall remain in effect unless and until it is canceled as provided in paragraph (c) below.

(c) The Secured Party Representative or Representatives giving a Notice of Default Distribution shall be entitled to cancel it by delivering a written notice of cancellation to the Collateral Trustee (x) before the Collateral Trustee takes any action to exercise any remedy with respect to the Collateral or (y) thereafter, if the Collateral Trustee believes, based upon advice of counsel, that all actions it has taken to exercise any remedy or remedies with respect to the Collateral can be reversed; provided that each Notice of Default Distribution delivered with respect to any Senior Secured Obligations pursuant to the second sentence of Section 13.01(b), shall unless an event or condition described in clause (i)(a) or (i)(b) of the definition of "Notice of Default Distribution" has occurred and is continuing with respect to such Senior Secured Obligations, be automatically canceled upon the cancellation of all other Notices of Default Distribution then in effect. The Collateral Trustee shall promptly notify Citizens as to the receipt and contents of any such notice of cancellation and shall promptly notify Citizens and each Secured Party Representative as to the cancellation of any Notice of Default Distribution.

13.02 Remedies. During the effectiveness of a Notice of Default Distribution, the Collateral Trustee may exercise on behalf of the Secured Parties all rights under this Agreement, and may exercise all rights of a secured party under the UCC or under common law and, in addition, the Collateral Trustee may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) withdraw all cash and Investments in each Collateral Account and apply such cash and Investments and other cash, if any, then held by it as Collateral as specified in Section 11.06 and (ii) if there shall be no such cash or Investments or if such cash and Investments shall be insufficient to pay all the Secured Obligations in full, sell the Collateral relating thereto or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Collateral Trustee may deem satisfactory. The Collateral Trustee or any other Secured Party may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed

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standard price quotations, at any private sale). Citizens will execute and deliver such documents and take such other action (including, without limitation, assembling Collateral and making it available to the Collateral Trustee at a place designated by the Collateral Trustee) as the Collateral Trustee deems necessary or advisable in order that any such sale may be made in compliance with law. Upon any such sale the Collateral Trustee shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of Citizens which may be waived, and Citizens, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The notice (if any) of such sale shall (1) in the case of a public sale, state the time and place fixed for such sale, and (2) in the case of a private sale, state the day after which such sale or other disposition may be consummated. Any such public sale shall be held at such time or times within ordinary business hours and at such place as the Collateral Trustee may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels as the Collateral Trustee may determine. The Collateral Trustee shall not be obligated to make any such sale pursuant to any such notice. The Collateral Trustee may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In the case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Collateral Trustee until the selling price is paid by the purchaser thereof, but the Collateral Trustee shall not incur any liability in the case of the failure of such purchaser to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may again be sold upon like notice. The Collateral Trustee, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

13.03 Authority upon Default. Citizens hereby irrevocably appoints the Collateral Trustee its true and lawful attorney, with full power of substitution, in the name of Citizens, the Collateral Trustee, the Secured Parties or otherwise, for the sole use and benefit of the Secured Parties, but at Citizens' expense, to exercise, to the extent permitted by law, at any time and from time to time so long as a Notice of Default Distribution is in effect, all or any of the following powers pursuant to this Agreement with respect to all or any of the Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof;

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto;

(c) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof, as fully and effectually as if the Collateral Trustee or any other Secured Party, as the case may be, were the absolute owner thereof;

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SECTION 14. Definitions.

14.01 Definitions. The following terms, as used herein, have the following meanings:

"Act" shall mean Section 627.351(6), of the Florida Statutes, as amended, and as the same may be further amended or modified.

"Additional Indenture Obligations" shall mean any notes, bonds and other instruments evidencing indebtedness of Citizens (other than the 1997 Notes) issued from time to time under the Trust Indenture.

"Additional Interest Reserve Amount" shall have the meaning provided in the Initial Credit Agreement; provided that, in the event the Initial Credit Agreement shall have been terminated, such term shall have the meaning provided in the Subsequent Credit Agreement then in effect; provided that, if no such definition is contained in such Subsequent Credit Agreement, the "Additional Interest Reserve Amount" shall mean, with respect to each issuance of Additional Indenture Obligations, the amount, if any, required to be deposited in the Reserve Account established under the Trust Indenture with respect to such Additional Indenture Obligations on the date of issuance thereof.

"Amortization Deficiency" shall mean, on each Monthly Distribution Date, an amount (if positive) equal to the Defeasance and Reserve Amount applicable to such Monthly Distribution Date less the amount distributed to the Indenture Trustee pursuant to Section 11.02(c) on such date.

"Assessable Insured" shall have the meaning provided in the Plan.

"Assessable Insurer" shall have the meaning provided in the Plan.

"Assessable Policies" shall have the meaning provided in the Initial Credit Agreement; provided that, in the event the Initial Credit Agreement shall have been terminated, such term shall have the meaning provided in the Subsequent Credit Agreement.

"Authorized Investments" shall mean and include (x) with respect to amounts on deposit in any Collateral Account, any of the investments described in clauses (i) through (iv) below, so long as at the time of the making of such investment, (a) with respect to the investment of moneys in each of the Collateral Accounts created hereunder (and any subaccounts therein) other than the Citizens Account, such obligations are rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) of each of Moody's and S&P and (b) with respect to the investment of moneys in the Citizens Account, such obligations are rated in one of the three (3) highest rating categories (without regard to any gradations within such categories) of each of Moody's and S&P and (y) with respect only to amounts on deposit in the Premium and Surcharge Revenues Account, any of the investments described in clauses (i) through (x) below, so long as at the time of the making of such investment, such obligations are rated in one of the three (3) highest rating categories (without regard to gradations within such categories) of each of Moody's and S&P; provided however, that in the case of obligations described in clauses (v), (vi) and (vii) below, if the obligation itself is not assigned a rating as

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(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto; and

(e) to give notice of the Security Interests and Notice of Default Distribution to the FHCF, each Assessable Insurer and the Florida Surplus Lines Service Office and to direct that any payments due or to become due in respect of Collateral are to be made directly to the Collateral Trustee hereunder and to give notice of the Security Interests to the holders of Assessable Policies and to the Florida Surplus Lines Service Office and cause the Florida Surplus Lines Service Office to give such notice to the surplus lines agents;

provided that the Collateral Trustee shall give Citizens not less than ten days' prior written notice of the time and place of any sale or other intended disposition of any of the Collateral, except any Collateral which is of a type customarily sold on a recognized market. The parties agree that such notice constitutes "reasonable notification" within the meaning of Section 9-504(3) of the UCC and under common law.

13.04 Direction of Required Secured Parties. (a) The Required Secured Parties shall have the right, by one or more instruments in writing executed and delivered to the Collateral Trustee, to direct the time, method and place of conducting any proceeding for any right or remedy available to the Collateral Trustee, or of exercising any trust or power conferred on the Collateral Trustee, or for the appointment of a receiver, or for the taking of any action authorized by this Section 13; provided that (i) such direction shall not conflict with the provisions of law or of this Agreement and (ii) the Collateral Trustee shall, if it so requests, be indemnified as provided in Section 15.06(d). Nothing in this Section shall impair the right of the Collateral Trustee in its discretion to take any action which it deems proper and which is not inconsistent with such direction by the Required Secured Parties. In the absence of such direction, the Collateral Trustee shall have no duty to take or refrain from taking any action unless explicitly required herein.

(b) If, within fifteen days after the Collateral Trustee receives a Notice of Default Distribution which has not been cancelled, the Collateral Trustee shall not have received written directions, or shall have received conflicting directions, from the Required Secured Parties pursuant to subsection 13.04 above for the exercise of rights or remedies by the Collateral Trustee, the Collateral Trustee shall, until it receives written directions from the Required Secured Parties, follow written directions from Secured Parties holding more than 50% of the Senior Secured Obligations then Outstanding under the Secured Instruments in respect of which Notices of Default Distribution have been given; provided that (i) such direction shall not conflict with the provisions of applicable law or of this Agreement, (ii) the Collateral Trustee shall, if it so requests, be indemnified as provided in Section 15.06(d), (iii) in the case of the Trust Indenture and the Outstanding Indenture Obligations, the Indenture Trustee shall be deemed to be the holder of all Secured Obligations Outstanding thereunder and (iv) in the case of any Credit Agreement and the Outstanding Notes thereunder, the Bank Agent and the Required Banks thereunder shall be deemed to be the holders of all Secured Obligations Outstanding thereunder.

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described in (y) above, then the rating assigned by each of Moody's and S&P to the issuer, provider or transferor as the case may be, must satisfy the requirements set forth in clauses (v), (vi) or (vii) below:

(i) (A) any obligations which as to principal and interest constitute direct obligations of, or are guaranteed by, the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America or (B) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in subclause (A) of this clause (i) provided that such securities are stripped by the Federal Reserve Bank of New York;

(ii) (A) notes, bonds, debentures or similar obligations of the Federal National Mortgage Association issued under its Charter Act; (B) notes, bonds, debentures or similar obligations of the Federal Home Loan Mortgage Corporation issued under its Charter Act; (C) consolidated notes, bonds, debentures or similar obligations of the Farm Credit Banks and System-wide notes, bonds, debentures or similar obligations of the Farm Credit Banks, in either case issued under Sections 4.2(c) and 4.2(d) of the Farm Credit Act of 1971, as amended; (D) notes, bonds, debentures or similar obligations of the Farm Credit System Financial Assistance Corporation issued under the Farm Credit Act of 1971, as amended; (E) (x) bonds, notes, debentures or similar obligations of the Resolution Funding Corporation or of the Financing Corporation issued under Section 21 or 21B of the Federal Home Loan Bank Act, as amended or (y) any other receipt, certificate or other evidence of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in sub-clause (x) of this sub-clause (E) provided that such securities are stripped by the Federal Reserve Bank of New York; and (F) consolidated bonds, debentures, notes or similar obligations of the Federal Home Loan Banks issued under authority of Section 11 of the Federal Home Loan Bank Act; but shall include any unit investment instrument or mutual fund only if made up solely of such obligations described in the foregoing clauses (A) through (F); provided that, with respect to all such obligations, (I) such obligations shall be maintained in the book-entry system operated by the Federal Reserve Banks, and (II) the Custodian, as the Securities Intermediary of the Collateral Trustee shall credit such securities to the Custodian Account. As used in the immediately preceding sentence for purposes of this subparagraph (ii), "Securities Intermediary", has the meaning assigned to such term in 24 C.F.R. § 81.2 (for investments of the types described in clauses (A) and (B)); 12 C.F.R. § 615.5450 (for investments of the types described in clauses (C) and (D)); 12 C.F.R. § 1511.1 (for investments of the types described in clause (E) relating to the Resolution Funding Corporation) and 12 C.F.R. § 987.1 (for investments of the type described in clause (E) relating to the Financing Corporation); and 12 C.F.R. § 987.1 (for investments of the types described in clause (F));

(iii) certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States or any national banking association (the

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long-term unsecured debt obligations of which bank, trust company or national banking association are rated by each of Moody's and S&P in one of their two (2) highest rating categories (without regard to gradations within such categories)), provided that such certificates of deposit must be purchased directly from such bank, trust company or national banking association and issued in the name of the Collateral Trustee, must at all times remain in the possession of the Collateral Trustee or such other bank acting as its agent, and must be continuously and fully insured by the Federal Deposit Insurance Corporation or collateralized (at 102%) by securities described in clause (i) above;

(iv) securities representing an interest or interests in money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AA-Am-G, AA-Am or A-am and a rating by Moody's of Aa or better; provided that, concurrently with such investment, such securities shall be registered in the name of the Collateral Trustee on the books of the issuer;

(v) commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by each of Moody's and S&P, which commercial paper is limited to issuers that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that are rated by each of Moody's and S&P in one of their two (2) highest rating categories (without regard to any gradations within such categories) for the issuer's unsecured debentures, other than commercial paper (or, if an issuer does not have such a rating, such issuer's commercial paper is supported by a letter of credit or other obligation issued by a financial institution whose unsecured debt is rated by each of Moody's and S&P in one of their two (2) highest rating categories); provided that purchases of eligible commercial paper may not exceed two hundred seventy (270) days maturity nor represent more than ten percent (10%) of the outstanding commercial paper of an issuing authority;

(vi) repurchase agreements collateralized by securities described in clauses (i) or (ii) above that satisfy the requirements of (b) above, with any registered broker/dealer or with any domestic commercial bank whose unsecured long-term debt obligations are rated by each of Moody's and S&P in one of their three (3) highest rating categories (without regard to any gradations within such categories), provided that (A) a specific written repurchase agreement governs the transaction, (B) the repurchase agreement has a term of thirty (30) days or less, or the Borrower will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five (5) Business Days of such valuation, and (C) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(vii) guaranteed investment contracts or funding agreements with banks, securities dealers or insurance companies whose unsecured long-term debt obligations are rated by each of Moody's and S&P in one of their two (2) highest rating categories (without regard to gradations within such categories);

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"Business Day" shall mean any day except a Saturday, Sunday or other day on which commercial banks in Jacksonville, Florida, and any other city in which the principal or designated offices of any Bank Agent, the Indenture Trustee or the Collateral Trustee are located, are authorized or required by law to close.

"Catch-up Amounts" shall have the meaning provided in Section 11.06(a).

"Citizens" shall have the meaning provided in the first paragraph of this Agreement.

"Citizens Account" shall mean the account established pursuant to Section 7 of this Agreement.

"Clearing Corporation" shall have the meaning given such term in Section 8-102(3) of the UCC or, if the Revised UCC is enacted in the State of Florida, Section 8-102(a)(4) of the Revised UCC.

"Clearing Corporation Security" shall mean Collateral consisting of a security registered in the name of a Clearing Corporation or its nominee.

"Collateral" has the meaning set forth in Section 1.01(a).

"Collateral Account" shall mean any of the accounts and subaccounts established with the Collateral Trustee hereunder (including any additional accounts established with the Collateral Trustee pursuant to Section 9).

"Collateral Trustee" shall have the meaning provided in the first paragraph of this Agreement.

"Commercial Lines Account" shall have the meaning provided in the Plan.

"Credit Agreement" shall mean (i) at any time from and after the date hereof until the termination of the "Commitments" under (and as defined in) the Initial Credit Agreement and the payment of all amounts payable by Citizens thereunder, the Initial Credit Agreement and (ii) at any time from and after the effectiveness of any Subsequent Credit Agreement until the termination of the Banks' commitments thereunder to make loans or other extensions of credit and the payment of all amounts payable by Citizens thereunder, each such Subsequent Credit Agreement.

"Credit Documents" with respect to any Credit Agreement shall have the meaning provided in such Credit Agreement.

"Custodian Account" shall have the meaning provided in Section 21.01

"Default Distribution Date" shall have the meaning provided in Section 11.06(a)

"Defeasance and Reserve Amount" shall mean, for any Payment Quarter, the amount, as notified to the Collateral Trustee by the Indenture Trustee, representing the sum of

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(viii) subject to the requirements of (y) above, corporate securities;

(ix) subject to the requirements of (y) above, municipal obligations; and

(x) forward delivery contracts in respect of obligations described in clauses (i), (ii) and (v) above with banks, securities dealers or insurance companies whose unsecured long-term debt obligations are rated by each of Moody's and S&P in one of their (3) highest rating categories (without regard to gradations within such categories).

"Bank Agent" shall mean (x) with respect to the Initial Credit Agreement, the Initial Bank Agent, and (y) with respect to any Subsequent Credit Agreement, the administrative agent for the lenders thereunder.

"Banks" shall mean (x) with respect to the Initial Credit Agreement, the Initial Banks and (y) with respect to any Subsequent Credit Agreement, the lenders from time to time party thereto.

"Book-entry Farm Credit Security" shall have the meaning given the term "Book-entry Security" in Section 615.5450 of the Farm Credit Bank Regulations.

"Book-entry Federal Home Loan Bank Security" shall have the meaning given such term in Section 912.1 of the Federal Home Loan Bank Regulations.

"Book-entry Funding Corporation Security" shall have the meaning given such term in Section 1511.1 of the Resolution Funding Corporation Regulations.

"Book entry GSE Security" shall have the meaning given such term in Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations.

"Book-Entry Treasury Security" shall have the meaning given the term "Book-entry Security" in Section 357.2 of the Treasury Regulations.

"Budgeted Operating Expenses" shall mean the projected operating expenses for the Coastal Account for a Plan Year as reflected in a budget prepared and adopted by Citizens prior to the commencement of such Plan Year, a copy of which budget shall be provided to the Collateral Trustee and to each Credit Enhancement Facility Issuer that then has a Credit Enhancement Facility outstanding prior to the commencement of such Plan Year, or as soon as practicable after such budget has been prepared and adopted by Citizens, if after the commencement of such Plan Year. If the budget for a Plan Year has not been adopted prior to the commencement of such Plan Year, reference shall be made to the budget for the immediately preceding Plan Year until such time as the budget for the then current Plan Year is adopted. If an amendment is made to the operating expenses component of the budget for the Coastal Account during the course of a Plan Year, a copy of such amendment shall be provided as soon as practicable to the Collateral Trustee and to each Credit Enhancement Facility Issuer that then has a Credit Enhancement Facility Outstanding.

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(x) the amounts required to be transferred during such Payment Quarter to each Sinking Fund Subaccount pursuant to subclause (c) of clause FIRST in Section 6.03 of the Trust Indenture and (y) the amounts required to be transferred during such Payment Quarter to each Defeasance Subaccount pursuant to subclause (d) of clause FIRST in Section 6.03 of the Trust Indenture.

"Deficiency" shall mean and include any Interest Deficiency, Principal Deficiency, Amortization Deficiency, Termination Payment Deficiency and Related Obligation Deficiency.

"Delinquency Proceeding" shall mean any rehabilitation, insolvency, liquidation, bankruptcy, receivership, conservatorship, reorganization or similar proceeding against Citizens or its property under any provision of Florida law (including, without limitation, Chapter 631, Florida Statutes or any successor statute) or federal law.

"Department of Insurance" shall mean the State of Florida Department of Insurance; provided, however, that effective January 7, 2003, such term shall mean the Department of Insurance and Financial Services or such other successor to the Department of Insurance as specified by law.

"Draw" has the meaning specified for such term in the Trust Indenture.

"Emergency Assessments" shall mean the assessments authorized to be levied by Citizens in respect of the Coastal Account under paragraph (b)(3).d. of the Act.

"Entitlement Holder" shall have the meaning given such term in Section 615.5450 of the Farm Credit Bank Regulations with respect to Book-entry Farm Credit Securities; Section 912.1 of the Federal Home Loan Bank Regulations with respect to Book-entry Federal Home Loan Bank Securities; Section 1511.1 of the Resolution Funding Corporation Regulations with respect to Book-entry Funding Corporation Securities; Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations with respect to Book entry GSE Securities; Section 357.2 of the Treasury Regulations with respect to Book-entry Treasury Securities; and, with respect to other securities, Section 8-102(a)(7) of the Revised UCC.

"Entitlement Order" shall have the meaning given such term in Section 8-102(a)(8) of the Revised UCC.

"Farm Credit Bank Regulations" shall mean 12 C.F.R. Part 615, Subpart O, as amended by regulations published at 61 F.R. 67192 (December 20, 1996).

"Federal Home Loan Bank Regulations" shall mean 12 C.F.R. Part 912, as amended by regulations published at 61 F.R. 64024 (December 3, 1996).

"FHCF" shall mean the Florida Hurricane Catastrophe Fund and any successor thereto.

"FHCF Reimbursements" shall mean reinsurance or reimbursement receivables in respect of the Coastal Account to which Citizens is contractually entitled from the State Board of

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Administration of the State of Florida, which administers the FHCF, including the amount of any loan or advance made by FHCF to Citizens in respect thereof.

“Financial Asset” shall have the meaning given such term in Section 8-102(a)(9) of the Revised UCC.

“Financial Intermediary” shall have the meaning given such term in Section 8-313(4) of the UCC.

“FRB” shall mean a United States Federal Reserve Bank.

“FRB Account” shall mean the Participant’s Security Account maintained by the FRB in the name of the Custodian.

“Hedge Counterparty” shall mean any Person that is party to a Secured Interest Rate Agreement, other than Citizens or any other Person which has entered into a Secured Interest Rate Agreement on behalf of Citizens.

“Coastal Account” shall have the meaning provided in the Plan.

“Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations” shall mean 24 C.F.R. Part 81, as amended by regulations published at 62 F.R. 28977 (May 29, 1997).

“Indenture Obligations” shall mean and include (x) 1997 Notes and (y) any Additional Indenture Obligations.

“Indenture Trustee” shall have the meaning provided in the second WHEREAS clause hereof.

“Initial Bank Agent” shall have the meaning provided in the first WHEREAS clause of this Agreement.

“Initial Banks” shall have the meaning provided in the first WHEREAS clause of this Agreement.

“Initial Credit Agreement” shall have the meaning provided in the first WHEREAS clause of this Agreement.

“Interest Deficiency” shall have the meaning provided in Section 11.02(a).

“Interest Rate Agreement” shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement.

“Investment” shall mean any Authorized Investment and any other investment (whether or not authorized hereunder) in which funds held by the Collateral Trustee hereunder may at any time be invested.

“Notice of Default Distribution” shall mean:

(i) a written notice delivered to the Collateral Trustee

(x) by a Bank Agent with respect to the Credit Agreement to which it is a party, or

(y) by the Indenture Trustee with respect to the Outstanding Indenture Obligations and the Trust Indenture,

in either case stating that (a) Citizens has failed to pay any principal or interest when due and any applicable grace period has expired in respect of any Senior Secured Obligation thereunder, or (b) an event or condition has occurred which has resulted in the acceleration of the Secured Obligations thereunder prior to the stated maturity of such Secured Obligations; or

(ii) a written notice delivered to the Collateral Trustee by any Secured Party Representative pursuant to the second sentence of Section 13.01(b) during the effectiveness of another Notice of Default Distribution.

“Outstanding” (i) as used with respect to Indenture Obligations, has the meaning specified for such term in the Trust Indenture and (ii) as used with respect to any other Secured Obligations, shall mean such Secured Obligations which are outstanding or, in the case of the Secured Obligations under a Secured Interest Rate Agreement, which are then due and payable, in each case, by reference to the provisions of the related Secured Instrument; provided that, for purposes of Sections 13.04(b) and 20.04 and the definition of “Required Secured Parties”, unless a Notice of Default distribution is then effective, “Outstanding” shall mean, with respect to any Credit Agreement, the aggregate amount of “Commitments” under, and as defined in, such Credit Agreement.

“Participant” shall have the meaning given such term in Section 615.5450 of the Farm Credit Bank Regulations with respect to Book-entry Farm Credit Securities; Section 912.1 of the Federal Home Loan Bank Regulations with respect to Book-entry Federal Home Loan Bank Securities; Section 1511.1 of the Resolution Funding Corporation Regulations with respect to Book-entry Funding Corporation Securities; Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations with respect to Book-entry GSE Securities; and Section 357.2 of the Treasury Regulations with respect to Book-entry Treasury Securities.

“Participant’s Security Account” shall have the meaning given such term in Section 615.5450 of the Farm Credit Bank Regulations with respect to Book-entry Farm Credit Securities; Section 912.1 of the Federal Home Loan Bank Regulations with respect to Book-entry Federal Home Loan Bank Securities; Section 1511.1 of the Resolution Funding Corporation Regulations with respect to Book-entry Funding Corporation Securities; Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations with

“Junior Secured Obligation” shall mean any obligation which Citizens designates as a Junior Secured Obligation pursuant to Section 10 after the date hereof.

“Lien” shall mean any mortgage, pledge, security interest, encumbrance, lien or change of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement or any lease in the nature thereof).

“Liquidity Loan”, with respect to any Credit Agreement, has the meaning specified for such term in such Credit Agreement.

“Liquidity Shared Revenues” shall mean:

(i) all Regular Assessments;

(ii) all FHCF Reimbursements;

(iii) all Investments acquired with any of the items described in clause

(iv) or (ii) above;

(v) all earnings upon the items described in clauses (i) through (iii) above; and

(vi) all Proceeds of all or any of the Liquidity Shared Revenues described in clauses (i) through (iv) above.

“Liquidity Shared Revenues Account” shall mean the account established pursuant to Section 3 of this Agreement.

“Loss Claims” shall have the meaning provided in the Initial Credit Agreement or, in the event such Initial Credit Agreement shall have been terminated, in any Subsequent Credit Agreement.

“Monthly Distribution Date” shall have the meaning provided in Section

“Moody’s” shall mean Moody’s Investors Service, Inc., or any successor corporation thereto.

“Net Premium and Surcharge Revenues” shall mean all Premium and Surcharge Revenue less the Budgeted Operating Expenses.

“1997 Notes” shall mean the \$300,000,000 6.50% Series 1997A Senior Secured Notes due 2002, \$150,000,000 6.70% Series 1997A Senior Secured Notes due 2004, and the \$300,000,000 6.85 % Series 1997A Senior Secured Notes due 2007 issued under the Trust Indenture concurrently with the effectiveness of the Initial Credit Agreement.

“1999A Notes” shall mean the \$1,000,000,000 7.125% Series 1999A Senior Secured Insured Notes due 2019 issued under the Trust Indenture.

respect to Book-entry GSE Securities; and Section 357.2 of the Treasury Regulations with respect to Book-entry Treasury Securities.

“Payment Quarter” shall mean each of (w) the period from February 26 of any year through and including May 25 of such year, (x) the period from May 26 of any year through and including August 25 of such year, (y) the period from August 26 of any year through and including November 25 of such year and (z) the period from November 26 of any year through and including February 25 of the next succeeding year.

“Person” shall mean an individual, a corporation, a limited liability company, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Personal Lines Account” shall have the meaning provided in the Plan.

“Plan” shall mean the Plan of Operation of Citizens as in effect on August 1, 2002, as subsequently amended from time to time in accordance with the terms hereof and thereof.

“Plan Year” shall have the meaning provided in the Plan.

“Plan Year Deficit” shall have the meaning provided in the Plan.

“Premium and Surcharge Revenues” shall mean:

(i) all premiums, surcharges and recoupment amounts charged or levied by, or otherwise payable to, Citizens, in each case in respect of the Coastal Account;

(ii) all Investments acquired with the items described in clause (i) above;

(iii) all earnings upon the items described in clauses (i) and (ii) above;

(iv) all Proceeds of all or any of the Premium and Surcharge Revenues described in clauses (i) through (iii) above.

“Premium and Surcharge Revenues Account” shall mean the account established pursuant to Section 5 of this Agreement.

“Principal Deficiency” shall have the meaning provided in Section 11.02(b).

“Proceeds” shall mean all proceeds of, and all other profits, products, or receipts, in whatever form, whether cash or noncash, arising from, the Collateral or the collection, sale, lease, exchange, assignment, or other disposition of, or other realization upon, Collateral, including without limitation all claims of Citizens against other Persons for loss of, or proceeds payable under, any Collateral, in each case whether now existing or hereafter arising.

“Proceeds Account Deficiency Amount” shall mean, with respect to any Quarterly Distribution Date, an amount equal to (x) the aggregate initial principal amount of all

Indenture Obligations theretofore issued minus (y) the amount then on deposit in the Proceeds Account, as certified to the Collateral Trustee by the Indenture Trustee.

“Qualifying Bank Facility” shall mean, at any time, any Credit Agreement in respect of which the sum of the aggregate unused commitments thereunder plus the aggregate outstanding principal amount of loans thereunder, in each case, at such time is at least equal to the lesser of (x) \$500,000,000 and (y) the aggregate outstanding principal amount of the Outstanding Indenture Obligations at such time.

“Quarterly Distribution Date” shall have the meaning provided in Section 11.03.

“Regular Assessments” shall mean the regular, interim and other assessments that may be levied by Citizens in respect of the Coastal Account on Assessable Insurers and Assessable Insureds pursuant to Section 627.351(6)(b)(3)(a), (b)(3)(b) and (g)(l) of the Act and Section 16 of the Plan.

“Related Obligation Deficiency” shall have the meaning provided in Section 11.02(e).

“Related Senior Secured Obligations” shall mean:

- (i) all sums payable by Citizens under each Credit Document (other than any such sums described in clause (i) of the definition of Senior Secured Obligations);
- (ii) all sums payable by Citizens under the Trust Indenture (other than any such sums described in clause (ii) of the definition of Senior Secured Obligations);
- (iii) all sums payable by Citizens hereunder (other than such sums described in clause (iii) of the definition of Senior Secured Obligations); and
- (iv) all sums payable by Citizens under each Secured Interest Rate Agreement, including any termination payment in respect thereof (other than such sums described in clause (iv) of the definition of Senior Secured Obligations).

provided that the terms “sums” as used above shall include, without limitation, any interest which accrues on the relevant obligations after, or would so accrue but for, the commencement of any Delinquency Proceeding.

“Required Banks” shall mean (i) with respect to the Initial Credit Agreement, the “Required Banks” as defined in the Initial Credit Agreement, and (ii) with respect to any Subsequent Credit Agreement, the percentage of the commitments or of the aggregate unpaid principal amount of the loans, or the number of Banks, which is required for the Banks or any of them under such Subsequent Credit Agreement to consent to or take the action proposed to be taken under this Agreement.

“Required Bond Prepayment Amount” shall mean, for each distribution from the Additional Bonds Revenue Account, (x) with respect to the Initial Credit Agreement, an amount equal to 50% of the aggregate Additional Bond Revenues (excluding the proceeds of the 1999A

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“Revised UCC” shall mean the Revised Article 8 of the Uniform Commercial Code (with conforming and miscellaneous amendments to Articles 1, 3, 4, 5, 9 and 10), 1994 Official Text, as adopted by the American Law Institute and the National Conference of Commissioners on Uniform State Laws and approved by the American Bar Association on February 15, 1995, or once enacted in the State of Florida, as in effect from time to time in the State of Florida.

“S&P” shall mean Standard & Poor’s Ratings Group, a division of The McGraw-Hill Companies, Inc., or any successor corporation thereto.

“Secured Instruments” shall mean, collectively, (i) each Credit Agreement and each Credit Document relating thereto, (ii) the Trust Indenture and the Outstanding Indenture Obligations thereunder, (iii) each Secured Interest Rate Agreement, (iv) this Agreement and (v) each agreement or instrument evidencing Junior Secured Obligations, in each case so long as any amount is payable thereunder (or, in the case of any Credit Agreement, so long as any Bank has any commitment to make loans or other extensions of credit thereunder).

“Secured Interest Rate Agreement” shall mean an Interest Rate Agreement entered into by Citizens (or any other Person on Citizens’ behalf) to hedge its interest rate risk under the Trust Indenture or any Credit Agreement, as the case may be, listed on Schedule I hereto (as such Schedule may be amended and supplemented from time to time pursuant to Section 10) and identified on such Schedule as either hedging interest rate risk with respect to Indenture Obligations or a specific Credit Agreement, as such Interest Rate Agreement may be amended and supplemented from time to time.

“Secured Obligations” shall mean, collectively, the Senior Secured Obligations and the Junior Secured Obligations.

“Secured Parties” shall mean:

- (i) so long as any Bank has any commitment to make loans or other extensions of credit under a Credit Agreement or any amount is payable by Citizens under such Credit Agreement, the Banks and the Bank Agent under such Credit Agreement;
- (ii) so long as any amount is payable by Citizens under the Trust Indenture or any Outstanding Indenture Obligation, the Indenture Trustee as trustee for the holders of the Indenture Obligations;
- (iii) so long as any Secured Interest Rate Agreement is in effect, each Hedge Counterparty party thereto;
- (iv) so long as any amount is payable by Citizens under this Agreement, the Collateral Trustee; and
- (v) so long as any amount is payable by Citizens in respect of any Junior Secured Obligation, the holder or holders of such Junior Secured Obligation; provided that if a trustee or agent is appointed to act for the benefit or on behalf of the holders of

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Notes) deposited in the Additional Bond Revenues Account immediately prior to such distribution, provided that, to the extent the aggregate amount of Additional Bond Revenues (excluding the proceeds of the 1999A Notes) theretofore deposited at any time in the Additional Bond Revenues Account shall equal or exceed \$750,000,000 (or such greater amount as may be consented to by the Required Banks under the Initial Credit Agreement (or to the extent required under the Initial Credit Agreement, all of the Banks)), the Required Bond Prepayment Amount with respect to the Initial Credit Agreement shall equal 100% of such excess and (y) with respect to each Subsequent Credit Agreement, the amount, if any, certified as the Required Bond Prepayment Amount to the Collateral Trustee by the Bank Agent with respect to such Subsequent Credit Agreement.

“Required Quarterly Prepayment Amount” shall mean (x) with respect to the Initial Credit Agreement, an amount equal to 50% of the aggregate amount (including the value of all Investments then held therein) on deposit in the Term Shared Revenues Account on the Quarterly Distribution Date immediately prior to any distribution pursuant to Section 11.03 and (y) with respect to each Subsequent Credit Agreement, the amount, if any, certified as the Required Quarterly Prepayment Amount to the Collateral Trustee by the Bank Agent with respect to such Subsequent Credit Agreement.

“Required Secured Parties” shall mean (i) for purposes of Section 13 (and Section 15 to the extent relating thereto), the Secured Parties Representatives representing the Outstanding Secured Obligations in respect of which Notices of Default Distribution have been given, (ii) for purposes of Section 17 (and Section 15 to the extent relating thereto), the Secured Parties holding or representing more than 50% of the Senior Secured Obligations then Outstanding and (iii) for all other purposes, the Bank Agent under each Qualifying Bank Facility (acting at the direction of or with the consent of the Required Banks or, to the extent required therein, all of the Banks thereunder) or, if there is no Qualifying Bank Facility, the Indenture Trustee or, if there are no Outstanding Indenture Obligations, the Hedge Counterparty under each Secured Interest Rate Agreement; provided that for purposes of clause (ii) above, (x) the Bank Agent and the Required Banks shall be deemed to be the holders of all Secured Obligations Outstanding under the related Credit Agreement and (y) the Indenture Trustee shall be deemed to be the holder of all Secured Obligations Outstanding under the Trust Indenture and the Outstanding Indenture Obligations and provided further that, with respect to any amendment or other waiver providing for any release of, or the granting of additional Liens on, all or a material portion of the Collateral, “Required Secured Parties” shall mean: (i) so long as any Bank has any commitment to make loans or other extensions of credit under a Credit Agreement or any principal, interest or fees are payable by Citizens under such Credit Agreement, the Bank Agent thereunder (acting at the direction of or with the consent of the Required Banks or, to the extent required therein, all of the Banks thereunder); (ii) so long as any principal, interest, premium or fees are payable by Citizens under the Trust Indenture or any Outstanding Indenture Obligation, the Indenture Trustee; and (iii) so long as any payment is payable by the Citizens under any Secured Interest Rate Agreement, each Hedge Counterparty party thereto.

“Resolution Funding Corporation Regulations” shall mean 12 C.F.R. Part 1510, as amended by regulations published at 61 F.R. 66875 (December 19, 1996).

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such Junior Secured Obligation, the “Secured Party” in respect of such Junior Secured Obligation shall be such trustee or agent.

“Secured Party Representative” shall mean (i) with respect to the Banks and the Bank Agent under any Credit Agreement, such Bank Agent and (ii) with respect to each other Secured Party, such other Secured Party.

“Securities Account” shall have the meaning given such term in Section 8-501 (a) of the Revised UCC.

“Securities intermediary” shall have the meaning given to such term in Section 615.5450 of the Farm Credit Bank Regulations with respect to Book-entry Farm Credit Securities; Section 912.1 of the Federal Home Loan Bank Regulations with respect to Book-entry Federal Home Loan Bank Securities; Section 1511.1 of the Resolution Funding Corporation Regulations with respect to Book-entry Funding Corporation Securities; Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations with respect to Book-entry GSE Securities; Section 357.2 of the Treasury Regulations with respect to Book-entry Treasury Securities; and, with respect to other securities, Section 8-102(a)(14) of the Revised UCC.

“Security Entitlement” shall have the meaning given such term in Section 615.5450 of the Farm Credit Bank Regulations with respect to Book-entry Farm Credit Securities; Section 912.1 of the Federal Home Loan Bank Regulations with respect to Book-entry Federal Home Loan Bank Securities; Section 1511.1 of the Resolution Funding Corporation Regulations with respect to Book-entry Funding Corporation Securities; Section 81.2 of the Housing and Urban Development (HUD), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) Regulations with respect to Book-entry GSE Securities; Section 357.2 of the Treasury Regulations with respect to Book-entry Treasury Securities; and, with respect to other securities, Section 8-102(a)(17) of the Revised UCC.

“Security Interests” shall mean the pledge of and liens upon and security interests in the Collateral made hereby (or purported to be made hereby) and securing (or purported to secure) the Secured Obligations.

“Senior Secured Obligations” shall mean:

- (i) all principal of and interest on Outstanding Liquidity Loans and Outstanding Term Loans;
- (ii) all principal of and interest on Outstanding Indenture Obligations;
- (iii) all sums payable under this Agreement in connection with the enforcement and collection of the Collateral;
- (iv) all sums due and payable by Citizens in respect of any net payment (other than a termination payment) under any Secured Interest Rate Agreement; and

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(v) all sums representing Related Senior Secured Obligations;

provided that the terms “interest” and “sums” as used above shall each include, without limitation, any interest which accrues on the relevant Senior Secured Obligations after, or would so accrue but for, the commencement of any Delinquency Proceeding.

“Special Purpose Insurers” shall have the meaning provided in the Initial Credit Agreement or, in the event such Initial Credit Agreement shall have been terminated, in any Subsequent Credit Agreement.

“Subsequent Credit Agreement” shall mean any loan or credit agreement entered into by Citizens which becomes effective at any time, or from time to time, after (or simultaneously with) the termination of the “Commitments” under (and as defined in) the Initial Credit Agreement and the payment of all amounts payable under the Initial Credit Agreement, and listed on Schedule I hereto (as such Schedule may be amended and supplemented from time to time), as such loan or credit agreement may be amended from time to time.

“Suspense Account” shall mean the account established pursuant to Section 8 of this Agreement.

“Termination Payment Deficiency” shall have the meaning provided in Section 11.02(d).

“Term Loan”, with respect to any Credit Agreement, has the meaning specified for such term in such Credit Agreement.

“Term Shared Revenues” shall mean:

- (i) all Emergency Assessments;
- (ii) all Investments acquired with any Emergency Assessments;
- (iii) all earnings upon the items described in clauses (i) and (ii) above;
- (iv) all Proceeds of all or any of the Term Shared Revenues described in clauses (i) through (iii) above.

“Term Shared Revenues Account” shall mean the account established pursuant to Section 4 of this Agreement.

“Treasury Regulations” shall mean 31 C.F.R. Part 357, as amended by regulations published at 61 F.R. 43626 (August 23, 1996).

“Trust Estate” shall mean all right, title and interest of the Collateral Trustee in, to and under the Collateral.

“Trust Indenture” shall have the meaning provided in the second WHEREAS clause of this Agreement.

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amount if a Notice of Default Distribution is in effect. A copy of such certificate or notice shall be delivered promptly by the Collateral Trustee to Citizens and each other Secured Party Representative and, in any case, except as provided in Section 11.07 with respect to notices delivered thereunder which shall be delivered within the time periods provided therein, within five Business Days following delivery thereof to the Collateral Trustee. If any such Secured Party Representative shall not give such information to the Collateral Trustee, such Secured Party Representative shall not be entitled to receive distributions hereunder until it does so (or, in the case of any such information that is challenged by any other Secured Party Representative or, so long as no Notice of Default Distribution is then effective, Citizens, until all parties challenging such information agree on the amount of such Secured Obligation), in which case distributions shall be calculated by the Collateral Trustee based, with respect to such Secured Party Representative, on information then most recently delivered by Citizens pursuant to Section 12.08 and not challenged prior to the date of such proposed distribution by any other party, and the amount so calculated to be distributable to such Secured Party Representative shall be held in trust for such Secured Party Representative until such Secured Party Representative has given such information to the Collateral Trustee (and such information is not challenged by any other Secured Party Representative or, so long as no Notice of Default Distribution is then effective, by Citizens), whereupon the amount distributable to such Secured Party Representative shall be recalculated on the basis of such information and distributed to it, to the extent funds are then available therefor. Each Secured Party Representative agrees to notify the Collateral Trustee, Citizens and each other Secured Party Representative promptly (and in any event within five Business Days following delivery thereof by the Collateral Trustee) if it disagrees with any such information provided by a Secured Party Representative.

15.04 Actions by Collateral Trustee. Notwithstanding any other provision of this Agreement, the Collateral Trustee shall not be liable for any action taken or omitted to be taken by it in accordance with this Agreement or otherwise except for its own gross negligence or willful misconduct. Other than as expressly set forth in this Agreement, nothing in this Agreement shall be construed to require the Collateral Trustee to take any action which would cause it to become liable to any Person.

15.05 The Collateral Trustee in its Individual Capacity. The Collateral Trustee may accept deposits from, lend money to, and generally engage in any kind of banking or trust business with, Citizens and its affiliates as if it were not the Collateral Trustee.

15.06 Reliance. (a) Whenever in the administration of this Agreement, the Collateral Trustee shall deem it necessary or desirable that a factual matter be proved or established in connection with the Collateral Trustee taking, suffering or omitting any action hereunder, the Collateral Trustee (unless other evidence in respect thereof is herein specifically prescribed) may conclusively rely upon a certificate of the Executive Director of Citizens delivered to the Collateral Trustee (a copy of which certificate shall be delivered promptly by Citizens to each other Secured Party Representative) and not challenged as provided below by any Secured Party Representative and such certificate shall be full warrant to the Collateral Trustee for any action taken, suffered or omitted in reliance thereon, subject, however, to the provisions of Sections 15.06(c), 15.06(f), 15.06(g) and 15.07. Each Secured Party Representative agrees to notify the Collateral Trustee, Citizens and each other Secured Party

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“Type” shall mean any type of Liquidity Shared Revenues determined with respect to the source of such Liquidity Shared Revenues, Regular Assessments or FHCF Reimbursements.

“UCC” shall mean the Uniform Commercial Code as in effect from time to time in the State of Florida; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection of the Security Interests in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than Florida, “UCC” shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection.

“U.S. Government Obligation” shall mean Collateral consisting of any Book-entry Farm Credit Security, Book-entry Federal Home Loan Bank Security, Book-entry Funding Corporation Security, Book-entry GSE Security or Book-entry Treasury Security, including the Security Entitlements therein.

14.02 Statutes. Unless otherwise specified herein; all references in this Agreement to the Act or any provision thereof or any other statute will be deemed to refer to any amendment thereof or any similar provision in any successor statute.

SECTION 15. Concerning the Collateral Trustee.

15.01 Acceptance of Trust. The Collateral Trustee, for itself and its successors, hereby accepts the trusts created by this Agreement upon the terms and conditions hereof.

15.02 Lack of Reliance on the Collateral Trustee. The Collateral Trustee shall not be responsible in any manner whatsoever for the correctness of any recitals, statements, representations or warranties herein. The Collateral Trustee makes no representations as to the value or condition of the Collateral or the Trust Estate or any part thereof, or as to the title of Citizens thereto or as to the security afforded by this Agreement, or as to the validity, execution (except its own execution), enforceability, legality or sufficiency of this Agreement or of the Secured Obligations, and the Collateral Trustee shall incur no liability or responsibility in respect of any such matters. The Collateral Trustee shall not be responsible for insuring the Collateral or for the payment of taxes, charges or assessments or discharging of liens upon the Collateral or otherwise as to the maintenance of the Collateral, except that if the Collateral Trustee takes possession of any Collateral, the Collateral Trustee shall preserve the Collateral in its possession it being understood and agreed that the Collateral Trustee is not responsible for losses incurred in connection with the purchase and sale of Authorized Investments hereunder.

15.03 Nature of Duties. The Collateral Trustee shall not be required to ascertain or inquire as to the performance by Citizens of any of the covenants or agreements contained herein, in the absence of willful misconduct on its part, or in any Secured Instrument. Whenever it is necessary for the Collateral Trustee to ascertain the amount of Secured Obligations then held or represented by a Secured Party Representative, the Collateral Trustee may rely on a certificate or notice of such Secured Party Representative as to such amount that has not been challenged by any other Secured Party Representative or Citizens, provided that Citizens may not challenge any

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Representative promptly (and in any event within five Business Days following delivery thereof by Citizens) if it disagrees with any information contained in any such certificate of Citizens.

(b) The Collateral Trustee may consult with counsel (who may be counsel for Citizens) approved by the Collateral Trustee in good faith, and any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in accordance therewith. The Collateral Trustee shall have the right at any time to seek instructions concerning the administration of this Agreement from any court of competent jurisdiction.

(c) In the absence of willful misconduct on its part, the Collateral Trustee may conclusively rely, and shall be fully protected in acting, upon any resolution, statement, certificate, instrument, opinion, report, notice, request, consent, order, bond or other paper or document which it has no reason to believe to be other than genuine and which it believes to have been signed or presented by the proper party or parties or, in the case of telex or facsimile transmissions, to have been sent by the proper party or parties. Without limiting the generality of the immediately preceding sentence, in the absence of willful misconduct on its part, the Collateral Trustee may conclusively rely, and shall be fully protected in acting, upon the information most recently delivered to the Collateral Trustee by Citizens in accordance with Section 12.08 and not challenged by any Secured Party Representative. In the absence of willful misconduct on its part, the Collateral Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Collateral Trustee and conforming to the requirements of this Agreement; but in the case of any such certificates or opinions which by any provision hereof are required specifically to be furnished to the Collateral Trustee, the Collateral Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Agreement. In the absence of willful misconduct on its part, the Collateral Trustee may conclusively rely on any statement of a Bank Agent as to whether such Bank Agent is acting upon the direction or with the consent of the Required Banks.

(d) The Collateral Trustee shall not be under any obligation to exercise any of the rights or powers vested in the Collateral Trustee by this Agreement at the request or direction of the Required Secured Parties pursuant to this Agreement unless the Collateral Trustee shall have been provided adequate security and indemnity against the costs, expenses and liabilities (including reasonable attorneys' fees, legal expenses and court costs) which may be incurred by it in compliance with such request or direction, including such reasonable advances as may be requested by the Collateral Trustee, such security and indemnity to be in form and substance satisfactory to the Collateral Trustee.

(e) Upon any application or demand by Citizens to the Collateral Trustee to take or permit any action under any of the provisions of this Agreement, Citizens shall furnish to the Collateral Trustee a certificate of the Executive Director or Treasurer of Citizens (a copy of which certificate shall be delivered promptly by Citizens to each Secured Party Representative) stating that all conditions precedent, if any, provided for in this Agreement relating to the proposed action have been complied with, and in the case of any such application or demand as to which the furnishing of any document is specifically required by any provision of this Agreement relating to such particular application or demand, such additional document shall also

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be furnished. Each Secured Party Representative agrees to notify the Collateral Trustee, Citizens and each other Secured Party Representative promptly (and in any event within five Business Days after delivery thereof by Citizens) if it disagrees with any information contained in any such certificate (or additional document) furnished by Citizens.

(f) Unless a Notice of Default Distribution is in effect, the Collateral Trustee shall be obligated to perform such duties and only such duties as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Collateral Trustee. If and so long as a Notice of Default Distribution is in effect, the Collateral Trustee shall exercise the rights and powers vested in it by this Agreement upon receipt of satisfactory indemnity as provided in Section 15.06(d), and shall not be liable with respect to any action taken by it, or omitted to be taken by it, in good faith in accordance with the direction of the Required Secured Parties or directions given to the Collateral Trustee pursuant to Section 13.04(b).

(g) Except as herein otherwise expressly provided, the Collateral Trustee shall not be under any obligation to take any action which is discretionary with the Collateral Trustee under the provisions hereof except upon the written request of the Required Secured Parties and then only upon receipt of satisfactory indemnity as provided in Section 15.06(d). The Collateral Trustee shall make available during normal business hours for inspection and copying by each Secured Party Representative each certificate or other paper furnished to the Collateral Trustee by Citizens or any other Person under or in respect of this Agreement or any of the Collateral.

15.07 Standard of Care. Subject to Sections 15.03, 15.06(a), 15.06(b) and 15.06(c) hereof and other provisions of this Agreement expressly providing a different standard of action, the Collateral Trustee and the Custodian shall use the same degree of care and skill, as a similarly situated corporate trustee would use under the circumstances of a similar collateral trust arrangement, as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Collateral Trustee shall be deemed to have exercised such degree of care and skill in the custody of the Collateral in its possession if such items are accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage thereto, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by the Collateral Trustee or Custodian in good faith. Neither the Collateral Trustee and the Custodian nor the Custodian shall have any liability with respect to the investment results of any amounts invested in Authorized Investments.

15.08 Deposits. All moneys received by the Collateral Trustee under or pursuant to any provision of this Agreement (except moneys received for the payment or reimbursement of fees and expenses of the Collateral Trustee) shall be held in trust for the purses for which they were paid or are held.

15.09 Indemnity. (a) Citizens shall save, indemnify and hold harmless each of the Collateral Trustee and the Custodian, its affiliates and their respective directors, officers, agents, attorneys and employees against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such

company or one or more other Persons, to act as co-collateral trustee or co-collateral trustees jointly with the Collateral Trustee, or to act as separate collateral trustee or trustees on behalf of the Secured Parties, or one or more additional Custodians, with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment (which shall include provisions for the protection of such co-collateral trustee or separate collateral trustee or additional Custodian similar to the provisions of Section 15, subject to the provisions of subsection (b) below).

(b) Every separate collateral trustee and every co-collateral trustee, other than any successor Collateral Trustee appointed pursuant to Section 17, shall, to the extent permitted by law, be appointed and act and be such, subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Collateral Trustee hereunder shall be conferred or imposed and exercised or performed by the Collateral Trustee and such separate collateral trustee or trustees or co-collateral trustee or co-collateral trustees, jointly, as shall be provided in the instrument appointing such separate collateral trustee or trustees or co-collateral trustee or co-collateral trustees, except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Collateral Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations shall be exercised and performed by such separate collateral trustee or trustees or co-collateral trustee or co-collateral trustees;

(ii) no power given hereby to, or which it is provided herein may be exercised by, any such co-collateral trustee or co-collateral trustees or separate collateral trustee or trustees, shall be exercised hereunder by such co-collateral trustee or co-collateral trustees or separate collateral trustee or trustees except jointly with, or with the consent in writing of, the Collateral Trustee, anything contained herein to the contrary notwithstanding; and

(iii) no collateral trustee hereunder shall be personally liable by reason of any act or omission of any other collateral trustee hereunder.

(c) Each such separate collateral trustee and co-collateral trustee shall be entitled to receive such fees in connection with its performance hereunder as shall be agreed by such Person and Citizens, but shall not be entitled to receive any portion of the fees payable to the Collateral Trustee hereunder pursuant to Section 12.07.

SECTION 17. Successor Collateral Trustee or Custodian. (a) The Collateral Trustee and/or Custodian may resign at any time by giving notice thereof to each Secured Party Representative and Citizens which resignation shall not become effective until a successor Collateral Trustee and/or Custodian, as the case may be, shall have been appointed pursuant to this Section and such successor Collateral Trustee and/or Custodian, as the case may be, shall have accepted such appointment in writing. Upon any such notice of resignation, Citizens shall have the right to appoint a successor Collateral Trustee and/or Custodian, as the case may be, with the consent of the Required Secured Parties; provided that during the effectiveness of a

indemnitees' negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any other Secured Instrument or any action taken or omitted by such indemnitees hereunder or thereunder. The provisions of this Section 15.09 shall survive termination of this Agreement and the removal or resignation of the Collateral Trustee.

(b) In any suit, proceeding or action brought by the Collateral Trustee under or with respect to the Collateral for any sum owing hereunder or to enforce any provision hereof, Citizens will save, indemnify and hold harmless each of the Collateral Trustee and the Custodian, its affiliates and their respective directors, officers, agents, attorneys, employees and the holders of Secured Obligations, their respective affiliates and their respective directors, officers, agents, attorneys and employees from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaim, recoupment or reduction of liability whatsoever of the obligor thereunder, arising out of a breach by Citizens of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing to or in favor of such obligor or its successors from Citizens, and all such obligations of Citizens shall be and remain enforceable against and only against Citizens and shall not be enforceable against the Collateral Trustee, any other Secured Party, their respective affiliates and their respective directors, officers, agents, attorneys and employees.

15.10 Reports by the Collateral Trustee. The Collateral Trustee will deliver to Citizens and each Secured Party Representative, as soon as available but in no event later than the fifteenth Business Day of each month, a written statement setting forth in reasonable detail the deposits to and disbursements from, and the resulting balance of, each Collateral Account during the immediately preceding calendar month.

15.11 Other Secured Parties. The provisions of this Section 15 shall inure to the benefit of any Secured Party taking any action to effect compliance on behalf of Citizens with the provisions of this Agreement or of any other Secured Instrument as contemplated in Section 18.

15.12 Disputes. In the event that a dispute arises between, or conflicting directions are given to the Collateral Trustee by, any parties seeking payment or distribution from funds held by the Collateral Trustee hereunder as to the amount of any such payment or distribution, including, without limitation, a dispute as to a distribution or payment under Section 11, and such dispute or conflicting directions shall not be resolved by such parties. Within a reasonable period of time, the Collateral Trustee may interplead and deposit such disputed funds into the registry of a court of competent jurisdiction (in a manner reasonably calculated to maintain the perfection of the Security interests) for a determination by such court as to the appropriate distribution thereof, and the Collateral Trustee shall, upon such deposit, be fully discharged and released from its duties hereunder with respect to such funds.

SECTION 16. Appointment of Co-Collateral Trustees and Additional Custodian. (a) At any time or times, in order to comply with any legal requirement in any jurisdiction, or if the Collateral Trustee shall be advised by counsel, satisfactory to it, that it is necessary or prudent in the interest of the Secured Parties, or if any Bank Agent or the Indenture Trustee shall in writing so request, or if the Collateral Trustee shall deem it desirable for its own protection in the performance of its duties hereunder, the Collateral Trustee may appoint another bank or trust

Notice of Default Distribution, the Required Secured Parties shall have the sole right to appoint a successor Collateral Trustee and/or Custodian. If no successor Collateral Trustee and/or Custodian shall have been so appointed by Citizens or the Required Secured Parties, as the case may be, and shall have accepted such appointment, within 30 days after the retiring Collateral Trustee and/or Custodian gives notice of resignation, then the retiring Collateral Trustee and/or Custodian may, on behalf of the Secured Parties, appoint a successor Collateral Trustee and/or Custodian, as the case may be, which shall be a trust company or commercial bank organized or licensed under the laws of the United States of America or of any State thereof with trust powers and, in either case, having a combined capital and surplus of at least \$100,000,000, or apply to any court of competent jurisdiction to appoint a successor Collateral Trustee and/or Custodian, as the case may be, to act until such time, if any, as a successor Collateral Trustee and/or Custodian shall have been appointed pursuant to the immediately preceding sentence. Any successor Collateral Trustee so appointed by such court shall immediately and without further act be superseded by any successor Collateral Trustee and/or Custodian appointed by Citizens or the Required Secured Parties, as the case may be, as provided above. Upon the acceptance of its appointment as Collateral Trustee and/or Custodian hereunder by a successor Collateral Trustee and/or Custodian, as the case may be, such successor Collateral Trustee and/or Custodian, as the case may be, shall thereupon succeed to and become vested with all the rights and duties of the retiring Collateral Trustee, and the retiring Collateral Trustee and/or Custodian, as the case may be, shall be discharged from its duties and obligations hereunder. After any retiring Collateral Trustee's and/or Custodian's resignation hereunder as Collateral Trustee and/or Custodian, the provisions of Section 15 (and, with respect to a retiring Collateral Trustee to the extent such fees have not been fully paid at the time of such resignation, Section 12.07) shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Collateral Trustee and/or Custodian.

(b) Any corporation into which the Collateral Trustee and/or Custodian may be merged, or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Collateral Trustee and/or Custodian shall be a party, or any corporation to which the corporate trust business of the Collateral Trustee and/or Custodian has been sold or transferred, shall be Collateral Trustee and/or Custodian, as the case may be, under this Agreement without the execution or filing of any paper or any further act on the part of the parties hereto.

SECTION 18. Expenses. If Citizens fails to comply with the provisions of this Agreement or any of the other Secured Instruments such that the value of any Collateral or the validity, perfection, rank or value of any Security Interest is thereby diminished or potentially diminished or put at risk, the Collateral Trustee (if requested by any Bank Agent or the Indenture Trustee) or any other Secured Party (if the Collateral Trustee fails or refuses to effect such requested compliance) may; but shall not be required to, effect such compliance on behalf of Citizens, and Citizens shall reimburse the Collateral Trustee or such other Secured Party for the costs thereof on demand. All reasonable expenses of protecting and maintaining the Collateral, any and all excise, property, sales, and use taxes imposed by any state, federal, or local authority on any of the Collateral, or in respect of periodic appraisals and inspections of the Collateral to the extent the same may be requested by any Bank Agent or the Indenture Trustee from time to time, or in respect of the sale or other disposition thereof shall be borne and paid by Citizens; and if Citizens fails to promptly pay any portion thereof when due, or fails to pay any other amount

Citizens has agreed to pay under this Agreement, the Collateral Trustee or any other Secured Party may, at its option, but shall not be required to, pay the same and the Collateral Trustee may charge Citizens' account therefor, and Citizens agrees to reimburse the Collateral Trustee or such other Secured Party therefor on demand. All sums so paid or incurred by the Collateral Trustee or any other Secured Party for any of the foregoing and any and all other sums for which Citizens may become liable under this Agreement and all reasonable costs and expenses (including reasonable attorneys' fees, legal expenses and court costs) reasonably incurred by the Collateral Trustee or any other Secured Party in enforcing or protecting the Security Interests or any of the rights or remedies of the Collateral Trustee or the Secured Parties under this Agreement, shall, together with interest thereon until paid at the rate equal to the lesser of (i) the highest rate permitted by law, and (ii) the highest default rate of interest applicable to the Senior Secured Obligations, be Senior Secured Obligations.

SECTION 19. Termination of Security Interests Release of Collateral. Upon the repayment in full of all Secured Obligations and the termination of all Secured Instruments, in each case as notified to the Collateral Trustee by the relevant Secured Party Representative, the Security Interests shall terminate and all rights to the Collateral shall revert to Citizens. At any time and from time to time prior to such termination of the Security Interests, the Collateral Trustee may release any of the Collateral with the prior written consent of the Required Secured Parties. Upon any such termination of the Security Interests or release of Collateral, the Collateral Trustee will, at the expense of Citizens, execute and deliver to Citizens such documents as Citizens shall reasonably request to evidence the termination of the Security Interests or the release of such Collateral, as the case may be. Notwithstanding the foregoing, the agreements contained in Sections 15.09 and 18 shall survive any termination of the Security Interests.

SECTION 20. Miscellaneous.

20.01 Notices. Unless otherwise specified in this Agreement, all notices, requests, demands, consents or other communications given to Citizens, the Collateral Trustee or any Secured Party Representative shall be given in writing or by telex or facsimile transmission and shall be deemed to have been duly given when personally delivered or when duly deposited in the mails, registered or certified mail postage prepaid, return receipt requested, or when transmitted by telex or facsimile transmission and confirmation of receipt is received, addressed (i) if to Citizens or the Collateral Trustee, to such party at its address, telex or telecopy number specified on the signature pages hereof or any other address, telex or telecopy number which such party shall have specified for the purpose of communications hereunder, by notice in writing to the party sending such communication or (ii) if to any Secured Party Representative, to it at its address, telex or telecopy number specified from time to time by it or in the list most recently provided by Citizens to the Collateral Trustee pursuant to Section 12.08; provided that any notice, request or demand to or upon the Collateral Trustee shall not be effective or deemed given until received; and provided further, that any notice, request, demand, consent or other communication as to which prompt delivery or a prompt response is required or contemplated hereunder shall, to the extent practicable, be given by facsimile transmission.

20.02 Waivers, Non-Exclusive Remedies. No failure on the part of the Collateral Trustee, any co-collateral trustee, any separate collateral trustee or any Secured Party

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SECTION 21. The Custodian.

21.01 Custodian Account. All Collateral consisting of U.S. Government Obligations or Clearing Corporation Securities, and such other securities and/or cash as the Collateral Trustee may determine in its discretion, shall be credited to one or more Securities Accounts maintained by the Custodian in the name of the Collateral Trustee (each, the "Custodian Account").

21.02 Instructions and Entitlement Orders. (a) For so long as the Custodian shall not have received notice from the Collateral Trustee that all of the Secured Obligations have been discharged, the Custodian agrees that it shall at all times comply strictly with any and all instructions and Entitlement Orders relating to any and all of the Collateral credited to the Custodian Account originated by the Collateral Trustee without the further consent by Citizens or any other Person, and Citizens hereby irrevocably authorizes the Collateral Trustee to originate such instructions and Entitlement Orders in accordance with the terms hereof.

(b) It is understood and agreed that the Custodian's duty to comply with instructions and Entitlement Orders relating to any and all of the Collateral credited to the Custodian Account originated by the Collateral Trustee is absolute, and the Custodian shall be under no duty or obligation nor shall the Custodian have the authority to inquire or determine whether or not such instructions or Entitlement Orders shall be made in accordance with this Agreement, nor seek confirmation thereof from Citizens or any other Person.

(c) The Custodian shall not accept or comply with any instructions or Entitlement Orders relating to any of the Collateral credited to the Custodian Account originated by any Person other than the Collateral Trustee (or its successor or assignee) or any court of competent jurisdiction.

(d) The Custodian shall be entitled to each of -the protections and indemnities set forth herein for the benefit of the Collateral Trustee.

21.03 Representations, Warranties and Additional Covenants of the Custodian. The Custodian shall be deemed to represent, warrant and covenant each time any Financial Asset (including, without limitation, any U.S. Government Obligation or Clearing Corporation Security) is credited to the Custodian Account that:

(i) the Custodian is a Financial Intermediary and is acting in that capacity;

(ii) the Custodian is not a Clearing Corporation;

(iii) the Custodian shall execute and deliver to the Collateral Trustee a confirmation (in writing or otherwise) of the purchase by the Collateral Trustee of each U.S. Government Obligation, Clearing Corporation Security, and other Collateral credited to the Custodian Account upon the crediting to the Custodian Account of each such U.S. Government Obligation, Clearing Corporation Security and other Collateral credited to the Custodian Account, and each such confirmation shall supersede any other confirmation sent or delivered by the Custodian to the Collateral Trustee with respect to the same Collateral;

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to exercise, and no delay in exercising, and no course of dealing with respect to, any right under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise by the Collateral Trustee, any co-collateral trustee, any separate collateral trustee or any Secured Party of any right under this Agreement preclude any other or further exercise thereof or the exercise of any other right. The rights in this Agreement are cumulative and are not exclusive of any other remedies provided by law.

20.03 Successors and Assigns. This Agreement is for the benefit of the Collateral Trustee, the Custodian, each of the Secured Parties and their respective successors and assigns, and in the event of an assignment of all or any of the Secured Obligations, the rights and obligations hereunder, to the extent applicable to the indebtedness or obligation so assigned, shall be transferred with such indebtedness or obligation. This Agreement shall be binding on Citizens and its permitted successors and assigns except that Citizens may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of the Secured Parties.

20.04 Changes in Writing. Neither this Agreement nor any provision hereof may be amended, modified, waived, discharged or terminated orally, but only in writing signed by Citizens, the Collateral Trustee and the Custodian with the consent of the Required Secured Parties; provided that no such writing shall (i) amend, modify or waive any provision of this Section 20.04 without the consent of each Secured Party, (ii) change the definition of "Required Secured Parties" or the definition of "Required Banks" incorporated by reference therein, without the consent of each Secured Party adversely affected thereby, or (iii) amend, modify or waive any provision of Section 1 or 11 or the definition of "Collateral" or the definition of "Secured Obligations" (or, in each case, the definition of any defined term incorporated by reference therein) without the consent of each Secured Party whose rights would be adversely affected thereby. Upon its receipt thereof, the Collateral Trustee will promptly deliver a copy of each proposed amendment, modification or waiver of this Agreement to Citizens and each Secured Party Representative. Any amendment, modification or waiver effected in accordance with this Section 20.04 shall be binding upon Citizens, the Secured Parties, the holders of Secured Obligations, the Collateral Trustee, the Custodian and their respective successors.

20.05 Facsimiles as Originals. Any document, notice or agreement contemplated or required hereby, may be transmitted via facsimile transmission, and such facsimile copy shall be deemed an original executed copy of such document, notice or agreement; provided that the sender thereof shall have confirmed by telephone that the recipient received it.

20.06 Florida Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Florida, except as otherwise required by mandatory provisions of law and except to the extent that remedies provided by the laws of any jurisdiction other than Florida and applicable hereto -are governed by the laws of such jurisdiction.

20.07 WAIVER OF JURY TRIAL. EACH OF CITIZENS AND THE COLLATERAL TRUSTEE HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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(iv) the Custodian by book entry shall identify each U.S. Government Obligation, Clearing Corporation Security and other Collateral credited to the Custodian Account as belonging to the Collateral Trustee;

(v) the Custodian is a Participant of the FRB and, in connection with any U.S. Government Obligation credited to the Custodian Account, is acting in that capacity;

(vi) the FRB Account is a Participant's Security Account;

(vii) the FRB Account will be maintained by the FRB in the name of the Custodian during the term of this Agreement;

(viii) the Custodian has received a confirmation (in writing or otherwise) from the FRB that the FRB has credited to the FRB Account each U.S. Government Obligation credited to the Custodian Account;

(ix) the Custodian is a Securities Intermediary and is acting in that capacity with respect to the Collateral Trustee;

(x) the Custodian shall treat the Collateral Trustee as the Custodian's Entitlement Holder with respect to the Collateral (including, without limitation, the U.S. Government Obligations) credited to the Custodian Account;

(xi) the Custodian shall treat the Custodian Account as a Securities Account;

(xii) the Custodian will treat each item of property (including, without limitation, the U.S. Government Obligations, the Clearing Corporation Securities and any cash and cash equivalents) credited to the Custodian Account as a Financial Asset;

(xiii) the Custodian is a participant in the Clearing Corporation, or a customer of a participant in the Clearing Corporation, in whose name (or the name of the nominee of such Clearing Corporation) Clearing Corporation Securities credited to the Custodian Account are registered;

(xiv) the Custodian has received a confirmation (in writing or otherwise) from the Clearing Corporation or a participant in the Clearing Corporation that the Clearing Corporation or such participant has credited to the account of the Custodian the Clearing Corporation Securities credited to the Custodian Account;

(xv) the Custodian has not and will not identify any of the Collateral credited to the Custodian Account (including, without limitation, the U.S. Government Obligations and Clearing Corporation Securities credited to the Custodian Account) as belonging to any Person other than the Collateral Trustee, for the benefit of the holders of the Secured Obligations;

(xvi) the Custodian has not confirmed and will not confirm the purchase of any Collateral credited to the Custodian Account (including, without limitation, the U.S. Government Obligations and Clearing Corporation Securities credited to the Custodian

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Account) by any Person other than the Collateral Trustee, for the benefit of the holders of the Secured Obligations; and

(xvii) the Custodian has not entered into any agreement (other than this Agreement) with any Person under which the Custodian would be obligated to comply with any Entitlement Orders with respect to the Custodian Account and/or Collateral (including, without limitation, any and all U.S. Government Obligations) credited thereto and/or which purports to limit or condition the obligation of the Custodian to comply with the instructions and Entitlement Orders originated by the Collateral Trustee as set forth in this Agreement, and agrees not to enter into any such agreements without the prior written consent of the Collateral Trustee.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CITIZENS PROPERTY INSURANCE CORPORATION

By: _____
Name:
Title: Chairman

WELLS FARGO BANK, N.A., as Successor
Collateral Trustee

By: _____
Name:
Title:

WELLS FARGO BANK, N.A., as Custodian

By: _____
Name:
Title:

AGREED AND ACKNOWLEDGED:
WACHOVIA BANK, NATIONAL ASSOCIATION,
as Indenture Trustee

By: _____
Name:
Title:

SCHEDULE I
TO
SECURITY AGREEMENT

SECURED INSTRUMENTS

1. Pledge, Security and Trust Agreement, dated as of August 6, 1997, among Florida Windstorm Underwriting Association, SunTrust Bank, Central Florida, National Association, as Collateral Trustee, and SunTrust Bank, Central Florida, National Association, as Custodian (the "Agreement").
2. Initial Credit Agreement (as defined in the Agreement) and the Term Notes and Liquidity Notes issued thereunder as defined therein.
3. Trust Indenture (as defined in the Agreement)
4. 1997 Notes (as defined in the Agreement)
5. Bank Collateral Agreement, dated as of August 6, 1997, between Florida Windstorm Underwriting Association and The Chase Manhattan Bank, as Collateral Agent.

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APPENDIX C

**AUDITED FINANCIAL STATEMENTS – STATUTORY BASIS
AND SUPPLEMENTAL SCHEDULES FOR YEARS ENDED DECEMBER 31, 2013 AND 2012 AND
MANAGEMENT DISCUSSION AND ANALYSIS – STATUTORY BASIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

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**FINANCIAL STATEMENTS – STATUTORY BASIS
AND SUPPLEMENTAL SCHEDULES**

Citizens Property Insurance Corporation

December 31, 2013 and 2012

Citizens Property Insurance Corporation
Financial Statements – Statutory Basis and Supplemental Schedules
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December 31, 2013 and 2012

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To the Board of Governors and Management
Citizens Property Insurance Corporation

We have audited the accompanying statutory financial statements of Citizens Property Insurance Corporation ("Citizens") which comprise the statutory statements of admitted assets, liabilities and accumulated surplus as of December 31, 2013 and 2012, and the related statutory statements of income, changes in accumulated surplus, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Florida Office of Insurance Regulation ("FOIR"); this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the 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 controls over financial reporting. 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Notes 2 and 14 to the financial statements, Citizens prepared these financial statements using accounting practices prescribed or permitted by the FOIR, which is a basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The effects on the financial statements of the variances between such practices and accounting principles generally accepted in the United States of America are described in Note 14, and are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the previous paragraph, the financial statements referred to above 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, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus of Citizens as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Combining Statement of Admitted Assets, Liabilities and Accumulated Surplus by Account - Statutory Basis, Supplemental Combining Statement of Income by Account - Statutory Basis, Summary Investment Schedule and Supplemental Investment Risks Interrogatories as of December 31, 2013 are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the FOIR. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audits of the 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 statutory basis financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such schedules are fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

A handwritten signature in cursive script that reads 'Johnson Lambert LLP'.

Jacksonville, Florida
May 28, 2014

Citizens Property Insurance Corporation
Statements of Admitted Assets, Liabilities and Accumulated Surplus - Statutory Basis

	December 31	
	2013	2012
	<i>(In Thousands)</i>	
Admitted assets		
Bonds	\$ 12,828,989	\$ 13,210,556
Cash and short-term investments	<u>1,494,855</u>	<u>1,586,632</u>
Total cash and invested assets	14,323,844	14,797,188
Investment income due and accrued	81,873	88,286
Premiums receivable	147,567	178,231
Reinsurance recoverable on paid losses and LAE	2,351	(4,349)
Other receivables under reinsurance contracts	27,133	18,407
Assessment receivable	176,894	354,287
Other admitted assets	<u>6,945</u>	<u>11,169</u>
Total admitted assets	<u><u>\$ 14,766,607</u></u>	<u><u>\$ 15,443,219</u></u>
Liabilities and accumulated surplus		
Liabilities:		
Loss reserves	\$ 953,329	\$ 1,140,377
Loss adjustment expense reserves	303,444	278,678
Retroactive reinsurance ceded	(1,626)	-
Unearned premiums	1,093,992	1,272,645
Unearned assessment income	43,602	85,051
Taxes and fees payable	3,143	5,989
Provision for reinsurance	1,881	2,047
Bonds payable	4,995,038	5,910,316
Interest payable	25,846	31,772
Advance premiums and suspended cash	70,440	85,824
Other liabilities	<u>269,310</u>	<u>335,363</u>
Total liabilities	<u>7,758,399</u>	<u>9,148,062</u>
Accumulated surplus:		
Restricted	15,339	11,112
Unrestricted	<u>6,992,869</u>	<u>6,284,045</u>
Total accumulated surplus	<u>7,008,208</u>	<u>6,295,157</u>
Total liabilities and accumulated surplus	<u><u>\$ 14,766,607</u></u>	<u><u>\$ 15,443,219</u></u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Income – Statutory Basis

	Years Ended December 31	
	2013	2012
	<i>(In Thousands)</i>	
Premiums earned	\$ 1,880,761	\$ 2,248,095
Losses incurred	502,375	815,507
Loss adjustment expenses incurred	248,050	258,109
Other underwriting expenses incurred	<u>461,683</u>	<u>562,566</u>
Underwriting income	668,653	611,913
Net interest income	128,440	129,885
Net realized gain on sales	52,828	61,293
Interest expense	<u>(200,711)</u>	<u>(197,691)</u>
Net investment expense	(19,443)	(6,513)
Line of credit fees and note issuance costs	-	(8,333)
Takeout bonus income	-	43
Assessment income	26,166	59,421
Other (expense) income	<u>(10,030)</u>	<u>8,285</u>
Net income	<u><u>\$ 665,346</u></u>	<u><u>\$ 664,816</u></u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Changes in Accumulated Surplus – Statutory Basis

	<i>(In Thousands)</i>
Balance at January 1, 2012	\$ 5,588,141
Net income	664,816
Change in nonadmitted assets	41,919
Change in provision for reinsurance	618
Other	<u>(337)</u>
Change in accumulated surplus	<u>707,016</u>
Balance at December 31, 2012	6,295,157
Net income	665,346
Change in nonadmitted assets	31,296
Change in provision for reinsurance	166
Prior year assessment income	15,283
Other	<u>960</u>
Change in accumulated surplus	<u>713,051</u>
Balance at December 31, 2013	<u>\$ 7,008,208</u>

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows – Statutory Basis

	Years Ended December 31	2013	2012
		<i>(In Thousands)</i>	
Operating activities			
Premiums collected, net of reinsurance	\$ 1,674,421	\$ 2,231,224	
Loss and loss adjustment expenses paid	(912,708)	(1,001,131)	
Underwriting expenses paid	(472,124)	(557,214)	
Net investment income received	60,536	131,112	
Other income received	17,033	50,404	
Net cash provided by operating activities	<u>367,158</u>	<u>854,395</u>	
Investing activities			
Proceeds from investments sold, matured or repaid	7,604,897	9,016,897	
Investments acquired	<u>(7,369,289)</u>	<u>(11,558,037)</u>	
Net cash provided by (used in) investing activities	<u>235,608</u>	<u>(2,541,140)</u>	
Financing and miscellaneous activities			
Borrowed funds (repaid) received	(871,530)	1,182,515	
Other cash received	176,987	128,003	
Net cash (used in) provided by financing and activities	<u>(694,543)</u>	<u>1,310,518</u>	
Net decrease in cash and short-term investments	(91,777)	(376,227)	
Cash and short-term investments:			
Beginning of year	<u>1,586,632</u>	<u>1,962,859</u>	
End of year	<u>\$ 1,494,855</u>	<u>\$ 1,586,632</u>	

See accompanying notes to statutory basis financial statements.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 1 – GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and to add affordability as an element of Citizens' statutory mission.

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' President and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the Coastal Account. A brief history of each account follows:

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 1 – GENERAL (CONTINUED)

Personal Lines Account History – The Florida Residential Property and Casualty Joint Underwriting Association (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 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 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 Commercial Lines Account.

Coastal Account History – The Florida Windstorm Underwriting Association, which was a residual market mechanism for windstorm and hail coverage in select areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. 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. 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 under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

Legislation enacted during a special session in 2007 significantly changed the standards Citizens uses to set rates. Historically, Citizens' rates were required to be actuarially sound and not competitive with approved rates charged by authorized insurers. The standard that Citizens develop rates that are not competitive with approved rates charged by authorized insurers was removed, although the requirement for actuarially sound rates remains.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 1 – GENERAL (CONTINUED)

Also, the 2007 Special Legislation rescinded the rates for Citizens premiums which took effect January 1, 2007, except for rates which were lowered. Such legislation required Citizens, as of January 1, 2007, to use the lower rates that were in effect on December 31, 2006 and to provide refunds to policyholders who had paid higher rates as a result of that rate filing. This requirement produced a reduction to the homeowner multi-peril rates and residential fire/dwelling rates of 11.0% and 17.4%, respectively, and decreased residential wind-only rates for the Costal Account 18.2%. Also per the Special Legislation, the rates in effect on December 31, 2006 remained in effect through December 31, 2009.

During the 2009 legislative session, Citizens' statute was amended to require that beginning on July 15, 2009 and each year thereafter, Citizens must make a recommended actuarially sound rate filing for each personal and commercial line of business it writes, to be effective no earlier than January 1, 2010. In addition, the new law requires that Citizens implement such rate increases so that the rate increase per policyholder does not exceed ten percent, excluding coverage changes and surcharges.

During the 2011 legislative session, Citizens statute was amended to allow Citizens to charge an actuarially sound rate for sinkhole coverage, outside of the 10 percent per policy cap. Additionally, a number of changes were made in the law with respect to coverage provided for sinkhole including statutory definitions of sinkhole loss, sinkhole activity and structural damage. Finally the legislation provided for a claims filing deadline on a sinkhole claim of two years and a claims filing deadline of three years for a windstorm or hurricane claim.

During the 2013 legislative session, Citizens was authorized to create a clearinghouse program to confirm eligibility of new applicants to Citizens and to provide new applicants and existing Citizens policyholders enhanced access to offers of coverage from authorized insurers. Under the program, authorized insurers that have voluntarily agreed to participate in the program are able to make offers of coverage to new applicants and existing Citizens policyholders that may render their property ineligible for coverage with Citizens. The clearinghouse program launched on January 27, 2014, with four authorized carriers participating in the program. Currently only new applicants seeking HO-3 policies are subject to the clearinghouse. During the remainder of 2014, Citizens plans to begin submitting existing HO-3 business through the platform, add an additional 16 carriers to the program and develop a process for diverting ineligible applicants and existing policyholders for commercial residential coverage into the private insurance market.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 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 are prepared in accordance with National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office.

Statutory accounting principles (SAP) is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America (GAAP). The significant SAP which differ from GAAP are as follows:

- a. Acquisition costs incurred in connection with successfully acquiring new business, such as commissions, certain servicing company fees, and other costs of acquiring, renewing and servicing the business are charged to operations as incurred rather than deferred and amortized over the policy term.
- b. 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. GAAP, on the other hand, includes these as assets unless impaired.
- c. Investments in debt securities are generally valued at cost and are amortized under the valuation standards of the NAIC. According to GAAP, investments in debt securities are generally reported at fair value.
- d. Certain expenses associated with multiple periods, such as line of credit fees, note issuance costs and takeout bonus expenses, are charged to operations as incurred, rather than deferred and amortized over the periods to which the expenses relate as required under GAAP.
- e. Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers are reported as reductions of the related reserves rather than as assets as required under GAAP.
- f. Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Also under GAAP, short-term investments are disclosed separately from cash and include investments with remaining maturities of one year or less.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Differences between Florida prescribed practices and SAP which affect Citizens are prescribed in Florida Statutes 625.305. This statute provides limitations on the admission of invested assets with ratings of 5 and 6 issued by the Securities Valuation Office (SVO) as a percentage of total admitted assets, among other limitations not applicable to Citizens. The effect of the prescribed practice on accumulated surplus is provided below.

Description	State	(in thousands)	
		2013	2012
Policyholders' surplus, state basis	FL	\$ 7,008,208	\$ 6,295,157
Effect of state prescribed practices			
F.S. 625.305(4)d. Non-Admitted Invested Assets	FL	61,253	89,176
Policyholders' surplus, SAP basis		\$ 7,069,461	\$ 6,384,333

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 highest quality and high quality are reported at amortized cost, with all other bonds 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.

Cash and Short-term Investments

Cash consists of 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. Cash and short-term investments include amounts on deposit in excess of insured limits through the Federal Deposit Insurance Corporation. Management does not consider this to represent a significant credit risk to Citizens.

Short-term investments consist of amounts invested in the Florida State Board of Administration's Florida Prime (SBA Florida Prime), formerly known as the Florida State Board of Administration's Local Government Investment Pool (LGIP), various money market funds, commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency short-term notes.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Investment Income (Expense)

Net investment income (expense) includes realized gains and losses on sales of investments that are recognized on the specific identification basis and losses for other-than-temporary write-downs on the fair value of certain investments. Net investment income (expense) also includes bond interest, bond expenses and investment expenses.

Furniture, Fixtures and Equipment

Depreciation and amortization expense was \$6.4 million and \$4.5 million for the years ended December 31, 2013, and 2012, respectively. 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
Capitalized office equipment and automobiles:	5 years
Furniture and equipment:	7 years
Leasehold improvements:	10 years

The cost and accumulated depreciation for EDP equipment and software was \$68.4 million and \$60.8 million at December 31, 2013 and \$67.0 million and \$56.2 million at December 31, 2012, respectively.

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, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses 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 loss adjustment expense reserves.

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 period are recorded as unearned premiums.

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 Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Assessments are also levied by the Florida Hurricane Catastrophe Fund (FHCF), which are in turn payable by Citizens' insureds. Citizens collects the FHCF assessments from its insureds and remits them to the FHCF.

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 of Governors and the Office and levied by Citizens (see Note 15). Assessment receivables are considered to be fully collectible.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include FHCF, private catastrophe reinsurance purchases and depopulation premiums.

Use of Estimates

The preparation of the 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments

The carrying value of cash and cash equivalents, premiums receivable, other admitted assets and other liabilities approximates fair value given their short-term nature.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. At December 31, 2013, approximately 55.6% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach. At December 31, 2013, approximately 13.8% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. See Note 15 for further information.

Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through May 28, 2014, the date on which these financial statements were available to be issued.

NOTE 3 – 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. 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 Citizens' 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.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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. During the current reporting period, no such transfers occurred.

Bonds carried at fair value categorized as Level 2 are valued using the market approach. The estimated fair values of some of these items were determined by independent pricing services and relevant market data observable inputs. Others were based on broker quotes from markets which were not considered actively traded. Some valuations were determined to be Level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features.

The exhibit below reflects the fair value and admitted values of all admitted assets that are financial instruments categorized into the three-level fair value hierarchy (*in thousands*). Citizens has no liability-based financial instruments.

Description	Total	Level 1	Level 2	Level 3
Financial Instruments - Assets				
U.S. Treasury	\$ 1,468,263	\$ 1,464,795	\$ 3,468	-
All Other Government States, Territories & Possessions	23,754	-	23,754	-
Political Subdivisions	1,076,807	-	1,076,807	-
Special Revenue	1,000,975	-	1,000,975	-
Industrial & Miscellaneous	4,894,573	-	4,894,573	-
Mortgage-backed Securities	4,240,838	-	4,240,838	-
	187,008	-	187,008	-
Total	\$ 12,892,218	\$ 1,464,795	\$ 11,427,423	-

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – 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 will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- **Liquidity Fund (Tax-exempt):** generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- **Claims-Paying Fund (Taxable):** generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund.
- **Claims-Paying Fund (Tax-exempt):** generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.

The Liquidity Fund taxable policy requires a minimum of half of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining half may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P or Fitch, respectively, at the time of purchase. The Claims Paying Fund taxable policy requires a minimum of 40% of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining 60% may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P and/or Fitch at the time of purchase. The Liquidity Fund and Claims Paying Fund tax-exempt policies require all securities be invested in tax exempt fixed income securities not subject to the federal alternative minimum tax rated A3/A-/A- equivalent or better by Moody's, S&P or Fitch, at the time of purchase. The investment policies provide that a significant portion of Citizens' assets should be in relatively short duration instruments and the majority of Citizens' assets should have a weighted duration consistent with the objectives of maximizing return without exposure to interest rate risk. Citizens may invest in fixed or variable rate instruments that have minimum ratings as specified in the investment policy by one of the Rating Agencies. Investments in the Liquidity Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 39 months and the weighted average maturity cannot exceed 365 days. Investments in the Claims Paying Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 61 months and the weighted average maturity cannot exceed 3.5 years. In accordance with Citizens'

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Investment Policy and Impairment (Continued)

applicable taxable and tax-exempt investment policies the majority of Citizens' bond proceeds and operating cash are managed by independent investment management firms engaged by Citizens and in part by Citizens' staff. Permitted investments generally must be rated in one of the two or three highest rating categories of each of the Rating Agencies (Moody's, S&P or Fitch), depending on the type of investment.

Citizens did not recognize any other-than-temporary impairments for the years ended December 31, 2013 or 2012. However, of the \$293.7 million other-than-temporary impairment recorded in 2007 and 2008, \$149.0 million has been recovered as of December 31, 2013. In addition, Citizens nonadmitted \$61.3 million and \$89.2 million of invested assets at December 31, 2013 and 2012, respectively, that were rated as 5 or 6 by the SVO, pursuant to Florida statutes (see Note 2).

The investment policy requires any repurchase agreement be collateralized 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, 2013 and 2012.

Short-term Investments

Citizens' short-term investments include shares held in the SBA Florida Prime. The entire amount of \$9.4 million invested in the SBA Florida Prime at December 31, 2013 is invested in Fund B, which has been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid assets. During 2013 and 2012, Citizens received principal recoveries of \$7.6 million and \$2.9 million, respectively.

As principal and interest payments are received, Citizens' allocable portion is eligible for withdrawal and such withdrawals have been consistently made. Citizens withdrew \$22.7 million and \$8.8 million, during 2013 and 2012, respectively. Full realization of the principal value of Fund B assets is not readily determinable.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS

Bonds

The amortized cost, gross unrealized gains and losses and fair value of bonds at December 31, 2013, were as follows (*in thousands*):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Bonds:				
U.S. Treasury and U.S. Government Securities	\$ 1,472,271	\$ 1,988	\$ (5,996)	\$ 1,468,263
All Other Government States, Territories and Possessions	23,775	47	(68)	23,754
	1,067,801	9,733	(727)	1,076,807
Political Subdivisions of States, Territories and Possessions	992,980	8,601	(606)	1,000,975
Special Revenue	4,876,572	26,746	(8,745)	4,894,573
Industrial & Miscellaneous	4,209,409	46,981	(15,552)	4,240,838
Mortgage-backed Securities	186,181	1,247	(420)	187,008
Total	\$ 12,828,989	\$ 95,343	\$ (32,114)	\$ 12,892,218

The amortized cost, gross unrealized gains and losses and fair value of bonds at December 31, 2012, were as follows (*in thousands*):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Bonds:				
U.S. Treasury and U.S. Government Securities	\$ 1,061,890	\$ 3,538	\$ (131)	\$ 1,065,297
All Other Government States, Territories and Possessions	25,510	95	(12)	25,593
	1,157,256	13,727	(294)	1,170,689
Political Subdivisions of States, Territories and Possessions	1,185,111	12,229	(1,040)	1,196,300
Special Revenue	6,032,518	41,899	(3,002)	6,071,415
Industrial & Miscellaneous	3,642,703	68,354	(417)	3,710,640
Loan-backed and Structured Securities:				
Mortgage-backed Securities	104,768	1,700	(35)	106,433
Other loan-backed Securities	800	-	(10)	790
Total	\$ 13,210,556	\$ 141,542	\$ (4,941)	\$ 13,347,157

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

The unrealized loss position of bonds at December 31, 2013 was as follows (*in thousands*):

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
U.S. Treasury & Agency	\$ 568,102	\$ (5,203)	\$ 49,003	\$ (793)	\$ 617,105	\$ (5,996)
All Other Government States, Territories and Possessions	5,922	(68)	1,017	-	6,939	(68)
Political Subdivisions	151,760	(681)	29,709	(46)	181,469	(727)
Special Revenue	82,921	(373)	57,084	(233)	140,005	(606)
Industrial & Miscellaneous	803,161	(3,444)	465,299	(5,300)	1,268,460	(8,745)
Mortgage-backed Securities	886,105	(12,203)	382,064	(3,350)	1,268,169	(15,552)
Total	55,687	(342)	29,635	(78)	85,322	(420)
	\$ 2,553,658	\$ (22,314)	\$ 1,013,811	\$ (9,800)	\$ 3,567,469	\$ (32,114)

The unrealized loss position of bonds at December 31, 2012 was as follows (*in thousands*):

	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Bonds:						
U.S. Treasury & Agency	\$ 115,229	\$ (131)	-	-	\$ 115,229	\$ (131)
All Other Government States, Territories and Possessions	17,541	(12)	-	-	17,541	(12)
Political Subdivisions	110,571	(263)	15,401	(31)	125,972	(294)
Special Revenue	252,116	(903)	5,187	(137)	257,303	(1,040)
Industrial & Miscellaneous	766,067	(2,157)	43,699	(845)	809,766	(3,002)
Loan-Backed and Structured Securities:	132,357	(334)	49,356	(83)	181,713	(417)
Mortgage-backed Securities	21,606	(35)	-	-	21,606	(35)
Other Loan-backed Securities	-	-	790	(10)	790	(10)
Total	\$ 1,415,487	\$ (3,835)	\$ 114,433	\$ (1,106)	\$ 1,529,920	\$ (4,941)

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

The following table presents securities for which an other-than-temporary impairment has been recognized in reporting periods prior to the year ended December 31, 2013, classified on the basis of lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis (*in thousands*).

Amortized Cost Before Other-Than-Temporary Impairment	Other-Than-Temporary Impairment Recognized	Amortized Cost After Other-Than-Temporary Impairment	Fair Value
\$ 425,734	\$ 290,668	\$ 135,066	\$ 196,835

There were 500 and 379 investment holdings in an unrealized loss position at December 31, 2013 and 2012, respectively.

Proceeds from maturities and sales of bonds during 2013 were \$7.6 billion with gross realized gains of \$36.7 million and gross realized losses of \$4.1 million and during 2012 were \$9.0 billion with gross realized gains of \$40.8 million and gross realized losses of \$3.5 million.

The amortized cost and fair value of securities at December 31, 2013, by contractual maturity, are shown below (*in thousands*). 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	Fair Value
Maturity:		
In 2014	\$ 1,282,584	\$ 1,286,997
In 2015-2018	11,097,933	11,149,052
In 2019-2023	45,270	45,343
After 2023	217,021	223,818
Mortgage-backed Securities	186,181	187,008
Total	\$ 12,828,989	\$ 12,892,218

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Bonds (Continued)

Sources and uses of net investment expense for the years ended December 31, 2013 and 2012, were as follows (*in thousands*):

	<u>2013</u>	<u>2012</u>
Interest income:		
U.S. Government Bonds	\$ 6,125	\$ 5,166
Bonds Exempt from U.S. Tax	56,622	54,181
Other Bonds	69,552	71,949
Cash, Cash Equivalents and Short-Term Investments	<u>2,809</u>	<u>4,967</u>
Total investment income	135,108	136,263
Investment expenses	<u>(6,668)</u>	<u>(6,378)</u>
Net interest income	\$ 128,440	\$ 129,885
Capital gains:		
U.S. Government Bonds	677	3,579
Bonds Exempt from U.S. Tax	12,024	7,065
Other Bonds	19,814	26,284
Cash, Cash Equivalents and Short-Term Investments	<u>20,313</u>	<u>24,367</u>
Net realized gain on sales	52,828	61,293
Interest expense:		
2007A Bond Series	(21,494)	(25,889)
2008A Bond Series	-	-
2009A Bond Series	(49,827)	(51,832)
2010A Bond Series	(59,833)	(67,816)
2011A Bond Series	(30,184)	(30,723)
2012A Bond Series	<u>(39,374)</u>	<u>(21,431)</u>
Total interest expense	(200,711)	(197,691)
Net investment expense	<u>\$ (19,443)</u>	<u>\$ (6,513)</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 4 – INVESTMENTS (CONTINUED)

Restricted Assets

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

	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	\$707,295	\$710,534	\$ (3,239)	\$707,295	4.61%	4.61%
On deposit with state	9,381	24,475	(15,094)	5,127	0.06%	0.06%
Other restricted assets	15,339	11,112	4,227	15,339	0.10%	0.10%
Total restricted assets	\$732,015	\$746,121	\$ (14,106)	\$727,761	4.77%	4.77%

NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and LAE reserves for the years ended December 31, 2013 and 2012, was as follows (*in thousands*):

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 1,419,055	\$ 1,346,570
Incurred related to:		
Current accident year	684,549	1,049,647
Prior accident years	<u>65,876</u>	<u>23,970</u>
	750,425	1,073,617
Paid related to:		
Current accident year	352,354	516,059
Prior accident years	<u>560,353</u>	<u>485,073</u>
	912,707	1,001,132
Balance at end of year	<u>\$ 1,256,773</u>	<u>\$ 1,419,055</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 5 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES (CONTINUED)

As a result of changes in estimates of insured events in prior years, primarily due to the re-estimation of costs relating to prior year litigated sinkhole claims, the provision for loss and LAE increased by approximately \$65.9 million and \$24.0 million, net of reinsurance, in 2013 and 2012, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims.

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 per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as loss adjustment expenses.

NOTE 6 – 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 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 considered as 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.

The effect of reinsurance on premiums written and earned is as follows (*in thousands*):

	2013		2012	
	Written	Earned	Written	Earned
Direct premiums	\$ 2,761,638	\$ 2,954,580	\$ 3,180,755	\$ 3,129,666
Ceded premiums	<u>(1,059,530)</u>	<u>(1,073,819)</u>	<u>(1,071,246)</u>	<u>(881,571)</u>
Net premiums	<u>\$ 1,702,108</u>	<u>\$ 1,880,761</u>	<u>\$ 2,109,509</u>	<u>\$ 2,248,095</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 6 – REINSURANCE AGREEMENTS

Coverage and retention amounts, by layer of coverage, were as follows (*rounded, in thousands*):

	December 31, 2013			
	Coastal Account		PLA/CLA	
	Coverage	Retention	Coverage	Retention
Layer 1 (FHCF)	\$ 3,029,000	\$ 1,229,000	\$ 2,196,000	\$ 891,000
Layer 2	604,000	1,351,000	N/A	N/A
Layer 3	250,000	5,139,000	N/A	N/A
Layer 4	1,000,000	5,445,000	N/A	N/A
	<u>\$ 4,883,000</u>		<u>\$ 2,196,000</u>	

	December 31, 2012			
	Coastal Account		PLA/CLA	
	Coverage	Retention	Coverage	Retention
Layer 1 (FHCF)	\$ 3,619,000	\$ 1,510,000	\$ 2,941,000	\$ 1,227,000
Layer 2	1,000,000	6,350,000	N/A	N/A
Layer 3	500,000	7,350,000	N/A	N/A
	<u>\$ 5,119,000</u>		<u>\$ 2,941,000</u>	

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 11), as well as premium ceded under 100% private quota share arrangements.

Ceded losses and LAE incurred were \$2.3 million and (\$12.3) million during 2013 and 2012, respectively.

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 7 – BONDS PAYABLE

Series 2007A Senior Secured Refunding Bonds – On February 26, 2007 Citizens issued \$1.06 billion of tax exempt post event High-Risk Account Senior Secured Refunding Bonds, Series 2007A for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the Florida Windstorm Underwriting Association (FWUA), a predecessor of Citizens. In order to refund these notes Citizens paid a make whole call premium at the time of refunding, amounting to \$181.1 million that was calculated on the current yield of a twelve year treasury note plus 30 basis points. The 2007A bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$111.5 million and \$106.1 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized premiums were \$513.6 million and \$629.8 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 4.11%.

Series 2009 Senior Secured Bonds – On May 7, 2009 Citizens issued \$1.02 billion of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-1 and \$625 million of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2009A-1 bonds bear interest ranging from 4.00% to 6.00% per annum, payable semi-annually on June 1st and December 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$0 and \$106.4 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized premiums were \$917.7 million and \$919.4 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 5.40%.

Series 2010 Senior Secured Bonds – On April 6, 2010 Citizens issued \$1.55 billion of High-Risk Account tax-exempt senior secured bonds, Series 2010A-1, \$500 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-2 (short-term notes) and \$350 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2010A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2010A-3 bonds have a variable interest rate (SIFMA rate plus 1.75%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$560 million and \$0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$1.36 billion and \$1.94 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 3.75%.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 7 – BONDS PAYABLE (CONTINUED)

Series 2011 Senior Secured Bonds – On July 14, 2011 Citizens issued \$645 million of Coastal Account tax-exempt senior secured bonds, Series 2011A-1, \$105 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-2 (short-term notes) and \$150 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2011A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2011A-3 bonds have a variable interest rate (SIFMA rate plus 1.76%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$0 and \$105 million during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$809.1 million and \$813.1 million as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 4.13%.

Series 2012 Senior Secured Bonds – On June 21, 2012 Citizens issued \$1.10 billion of PLA-CLA tax-exempt senior secured bonds, Series 2012A-1, \$200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-2 (short-term notes) and \$200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-3 (SIFMA floating rate notes) for the purpose of funding policyholder claims obligations in the event of a future catastrophe. The Series 2012A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable on December 1, 2012 and semi-annually on June 1st and December 1st thereafter. The Series 2012A-2 bonds bear interest of 2.50% per annum, payable at their maturity on June 1, 2013. The Series 2012A-3 bonds bear interest based on the SIFMA rate (initially 0.16%) plus 1.25% per annum, payable monthly in arrears on the first day of each calendar month commencing August 1, 2012. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$200 million and \$0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$1.39 billion and \$1.61 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 3.10%.

A schedule of bond maturities is as follows (*in thousands*):

Years ending December 31	Series 2007 Bonds	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2012 Bonds	Total
2014	\$ 117,220	\$ 168,055	\$ 100,000	\$ 150,000	\$ -	\$ 535,275
2015	123,225	-	410,000	80,000	275,000	888,225
2016	129,540	403,085	305,000	90,000	125,000	1,052,625
2017	136,165	343,500	525,000	-	130,000	1,134,665
2018	-	-	-	125,000	130,000	255,000
After	-	-	-	350,000	640,000	990,000
	<u>\$ 506,150</u>	<u>\$ 914,640</u>	<u>\$ 1,340,000</u>	<u>\$ 795,000</u>	<u>\$ 1,300,000</u>	<u>\$ 4,855,790</u>

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 7 – BONDS PAYABLE (CONTINUED)

A schedule of debt service requirements, including principal and interest, is as follows (in thousands):

Years ending December 31	Principal	Interest	Total
2014	\$ 535,275	\$ 220,436	\$ 755,711
2015	888,225	189,633	1,077,858
2016	1,052,625	141,663	1,194,288
2017	1,134,665	84,491	1,219,156
2018	255,000	54,483	309,483
After	990,000	\$ 76,902	1,066,902
	<u>\$ 4,855,790</u>	<u>\$ 767,607</u>	<u>\$ 5,623,397</u>

Unamortized premium at December 31, 2013 and 2012 was \$139.2 million and \$183.0 million, respectively.

The total interest expense on the bonds payable for the years ended December 31, 2013 and 2012 was \$200.7 million and \$197.7 million, respectively, including amortized premium of \$43.7 million and \$38.8 million, respectively. Total interest paid on the bonds payable for the years ended December 31, 2013 and 2012, was \$250.4 million and \$232.3 million, respectively.

NOTE 8 – 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 \$224.0 million and \$255.8 million during 2013 and 2012, respectively.

Additionally, Citizens entered into 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 \$50.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$8.8 million and \$10.1 million, during 2013 and 2012, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 9 – 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 2013 or 2012.

NOTE 10 – RETIREMENT PLAN

Defined Contribution 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 \$3.8 million and \$3.4 million for the years ended December 31, 2013 and 2012, respectively.

NOTE 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 (Assumption Agreement). 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 2013 and 2012, Citizens ceded \$387.6 million and \$262.1 million in premiums to Takeout Companies pursuant to Assumption Agreements.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. However, in February 2012, Citizens Board of Governors eliminated the ceding commission for all assumption agreements effective after October 1, 2011. While Citizens is not liable to cover claims after the assumption (unless the assumed insured exercises its option to return to Citizens during the assumption period), Citizens continues to service policies for items such as policyholder

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 11 – DEPOPULATION (CONTINUED)

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, 2013 and 2012, assumed premiums recoverable in the amount of \$27.1 million and \$18.4 million, respectively were due from certain Takeout Companies.

NOTE 12 – OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$8.5 million and \$7.0 million for the years ended December 31, 2013 and 2012, 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. Future minimum payments under operating leases are as follows (*in thousands*):

2014	\$ 5,324
2015	3,452
2016	1,456
2017	913
Total	<u>\$11,145</u>

NOTE 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:

Schirmer v. Citizens. This case was presented as a putative class action where the potential class members are Citizens' policyholders who made wind damage claims. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits. On February 15, 2012, the trial court declined to certify a class in this matter. While the 30 day timeframe for the Plaintiff to pursue an interlocutory appeal of the court's decision has passed, the underlying claim of the named Plaintiff is pending. Should the Plaintiff choose to litigate his remaining claim, he could seek appellate review at the conclusion of the matter in its entirety.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Davis & Hernandez v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who presented a claim for damage to their residential property from April 2006 to present. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits.

Citizens v. Perdido Sun. Citizens is currently involved in a case before the Florida Supreme Court, Citizens v. Perdido Sun Condominium, which raises the issue of whether Citizens has immunity against a cause of action asserting statutory bad faith pursuant to Section 624.155 Florida Statute. An appellate court in Florida recently ruled that a statutory bad faith claim can be brought against Citizens. In 2010, another Florida appellate court had concluded that Citizens has immunity from such claims. The Florida Supreme Court has accepted jurisdiction of the Citizens v. Perdido Sun case to resolve this conflict among the lower Florida appellate courts. A decision which rules that Citizens was subject to bad faith claims could have a material adverse impact on Citizens.

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. As of the end of 2013, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general 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.

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 14 - RECONCILIATION OF SAP TO GAAP

A reconciliation of Citizens' 2013 and 2012 statutory basis net income and accumulated surplus to its GAAP basis (as determined by the Governmental Accounting Standards Board) is as follows (*in thousands*):

	<u>2013</u>	<u>2012</u>
Net income - statutory basis	\$ 665,346	\$ 664,816
Adjustments:		
Deferred policy acquisition costs	(30,810)	(766)
Line of credit fees and note issuance costs	(23,295)	(15,852)
Allowance for doubtful accounts	1,814	(1,456)
Unearned assessment income	14,230	17,218
FIGA assessment income	16,046	(27,759)
Net unrealized (loss) gain on investments	(68,937)	87,268
Change in net assets - GAAP basis	<u>\$ 574,394</u>	<u>\$ 723,469</u>
	<u>2013</u>	<u>2012</u>
Accumulated surplus - statutory basis	\$ 7,008,208	\$ 6,295,157
Adjustments:		
Deferred policy acquisition costs	113,371	144,181
Nonadmitted assets	74,590	104,071
Provision for reinsurance	1,881	2,047
Deferred note issuance costs	67,432	90,728
Unearned assessment income	(23,712)	(22,658)
FIGA assessment recoverable	(11,714)	(27,759)
Net unrealized gain on investments	103,222	172,158
Change in net assets - GAAP basis	<u>\$ 7,333,278</u>	<u>\$ 6,757,925</u>

NOTE 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 accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the "Citizens Policyholder Surcharge") in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay premium. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on assessable insurers and assessable

Citizens Property Insurance Corporation
Notes to Financial Statements – Statutory Basis

NOTE 15 – ASSESSMENTS (CONTINUED)

insureds, each as defined herein. The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 2% of such premium of the Coastal account only. Effective July 1, 2012, the Regular Assessment was eliminated for the PLA and CLA accounts and was reduced from 6% to 2% for the Coastal Account.

Regular Assessments are levied on assessable insurers, as defined in Section 627.351(6), Florida Statutes, based upon each assessable insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on assessable insureds, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

If the deficit in any year in any account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all assessable insurers, Surplus Lines Agents and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs. The Regular Assessment base excludes Citizens policies (while the Emergency Assessment base includes Citizens policies). Prior to the enactment of the 2007 Legislation, the Regular Assessment base for each account included only property lines of business.

The Legislature, in Section 44 of 2006 SB 1980, appropriated \$715 million to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of \$87.2 million and \$4.6 million, respectively. The balance of \$623.2 million then partially reduced the High Risk Account deficit and Regular Assessment. The remaining \$163.1 million High Risk Account Regular Assessment and the \$887.5 million Emergency Assessment were approved in 2006. The Emergency Assessment is being collected over a ten year period, which commenced July 1, 2007 (see Note 2).

In November 2012, Citizens received a notice of assessment from the Florida Insurance Guaranty Association (FIGA) amounting to \$27.8 million. In December 2012, Citizens remitted payment for this assessment and submitted an informational filing with the Office for recoupment. Both the assessment income and assessment receivable were recorded in 2012 and are reflected in the accompanying financial statements. Citizens has recouped amounts during 2013 and expects to complete recoupment of the 2012 FIGA assessment during 2014.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Admitted Assets, Liabilities and
Accumulated Surplus by Account – Statutory Basis

December 31, 2013

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
	<i>(In Thousands)</i>			
Admitted assets				
Cash and invested assets:				
Bonds	\$ 12,828,989	\$ 4,676,011	\$ 1,614,561	\$ 6,538,417
Cash and short-term investments	1,494,855	315,046	245,281	934,528
Total cash and invested assets	14,323,844	4,991,057	1,859,842	7,472,945
Investment income due and accrued	81,873	24,208	6,314	51,351
Premiums receivable	147,567	65,941	4,989	76,637
Reinsurance recoverable on paid losses and LAE	2,351	2,108	-	243
Other receivables under reinsurance contracts	27,133	21,164	-	5,969
Assessment receivable	176,894	7,457	4,973	164,464
Other admitted assets	6,945	6,945	-	-
Inter-account receivable (payable)	-	55,069	(26,898)	(28,171)
Total admitted assets	<u>\$ 14,766,607</u>	<u>\$ 5,173,949</u>	<u>\$ 1,849,220</u>	<u>\$ 7,743,438</u>
Liabilities and accumulated surplus				
Liabilities:				
Loss reserves	\$ 953,329	\$ 725,318	\$ 106,237	\$ 121,774
Loss adjustment expense reserves	303,444	225,939	29,650	47,855
Retroactive reinsurance ceded	(1,626)	(1,509)	-	(117)
Unearned premiums	1,093,992	505,110	89,146	499,736
Unearned assessment income	43,602	-	-	43,602
Taxes and fees payable	3,143	2,711	586	(154)
Provision for reinsurance	1,881	1,847	-	34
Bonds payable	4,995,038	1,248,214	143,329	3,603,495
Interest payable	25,846	4,294	493	21,059
Advance premiums and suspended cash	70,440	30,864	6,272	33,304
Other liabilities	269,310	94,848	4,075	170,387
Total liabilities	7,758,399	2,837,636	379,788	4,540,975
Accumulated surplus	7,008,208	2,336,313	1,469,432	3,202,463
Total liabilities and accumulated surplus	<u>\$ 14,766,607</u>	<u>\$ 5,173,949</u>	<u>\$ 1,849,220</u>	<u>\$ 7,743,438</u>

Citizens Property Insurance Corporation
Supplemental Combining Statement of Income by Account – Statutory Basis

Year Ended December 31, 2013

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
	<i>(In Thousands)</i>			
Premiums earned	\$ 1,880,761	\$ 1,142,449	\$ 162,457	\$ 575,855
Losses incurred	502,375	414,386	14,891	73,098
Loss adjustment expenses incurred	248,050	187,182	8,988	51,880
Other underwriting expenses incurred	461,683	235,127	35,363	191,193
Underwriting income	668,653	305,754	103,215	259,684
Net interest income	128,440	42,291	15,585	70,564
Net realized gain on sales	52,828	15,435	7,720	29,673
Interest expense	(200,711)	(35,318)	(4,055)	(161,338)
Net investment income (expense)	(19,443)	22,408	19,250	(61,101)
Assessment income	26,166	-	-	26,166
Other expense	(10,030)	(8,376)	(21)	(1,633)
Net income	<u>\$ 665,346</u>	<u>\$ 319,786</u>	<u>\$ 122,444</u>	<u>\$ 223,116</u>

See independent auditors report on supplementary information

See independent auditors report on supplementary information

ANNUAL STATEMENT FOR THE YEAR 2013 OF THE Citizens Property Insurance Corporation

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3+4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	1,455,534,688	10.211	1,455,534,688		1,455,534,688	10.254
1.2 U.S. government agency obligations (excluding mortgage-backed securities)						
1.21 Issued by U.S. government agencies	3,436,000	0.004	3,436,000		3,436,000	0.004
1.22 Issued by U.S. government sponsored agencies	2,123,114,192	14.750	2,123,114,192		2,123,114,192	14.822
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	23,774,790	0.155	23,774,790		23,774,790	0.116
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.						
1.41 States, territories and possessions general obligations	1,007,801,329	7.423	1,007,801,329		1,007,801,329	7.430
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	392,079,739	5.903	392,079,739		392,079,739	5.902
1.43 Revenue and assessment obligations	2,753,485,195	19.141	2,753,485,195		2,753,485,195	19.223
1.44 Industrial development and similar obligations						
1.5 Mortgage-backed securities (includes residential and commercial MBS)						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	544,488	0.004	544,488		544,488	0.004
1.512 Issued or guaranteed by FHLMC and FHLMC	119,748,995	0.852	119,748,995		119,748,995	0.850
1.513 All other						
1.52 CDOs and RMBSs:						
1.521 Issued or guaranteed by GNMA, FHLMC, FHLMC or VA	55,787,834	0.407	55,787,834		55,787,834	0.409
1.522 Issued by non-ABS Government issuers and covered due by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521						
1.523 All other						
2. Other debt and other fixed income securities (excluding short term)						
2.1 Unaffiliated domestic securities (includes credit default swaps and hybrid securities)	2,903,227,770	20.634	2,903,181,067		2,903,181,067	20.594
2.2 Unaffiliated non-U.S. securities (including Canada)	1,245,226,921	8.805	1,245,226,921		1,245,226,921	8.803
2.3 Affiliated securities:						
3. Equity interests:						
3.1 Investments in mutual funds						
3.2 Preferred stocks:						
3.21 Affiliated						
3.22 Unaffiliated						
3.3 Publicly traded equity securities (excluding preferred stocks)						
3.31 Affiliated						
3.32 Unaffiliated						
3.4 Other equity securities:						
3.41 Affiliated						
3.42 Unaffiliated						
3.5 Other equity interests including tangible personal property under lease						
3.51 Affiliated						
3.52 Unaffiliated						
4. Mortgage loans:						
4.1 Construction and land development						
4.2 Agriculture						
4.3 Single family residential properties						
4.4 Multifamily residential properties						
4.5 Commercial loans						
4.6 Manufactured real estate loans						
5. Real estate investments:						
5.1 Property occupied by company						
5.2 Property held for production of income (including \$ _____ of property acquired in satisfaction of debt)						
5.3 Property held for sale (including \$ _____ property acquired in satisfaction of debt)						
6. Contract loans						
7. Derivatives						
8. Receivables for securities				XXX	XXX	XXX
9. Securities Lending (Line 10, Asset Page reinvested collateral)	1,552,062,987	10.750	1,494,854,833		1,494,854,833	10.406
10. Cash, cash equivalents and short-term investments						
11. Off-invested assets	14,335,086,464	100.000	14,320,843,187		14,320,843,187	100.000
12. Total invested assets						

SUPPLEMENT FOR THE YEAR 2013 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2013

(To Be Filed by April 1)

Of The Citizens Property Insurance Corporation _____

Address (City, State and Zip Code) Tallahassee, FL 32309-3524 _____

NAIC Group Code 00000 _____ NAIC Company Code 10064 _____ Employer's ID Number 59-3164851 _____

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$ 14,766,606,957
2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	CITY OF NEW YORK NY		\$ 347,563,514	2.4 %
2.02	STATE OF CALIFORNIA		\$ 276,092,991	1.9 %
2.03	STATE OF NEW YORK		\$ 228,395,705	1.5 %
2.04	STATE OF NEW JERSEY		\$ 205,615,429	1.4 %
2.05	STATE OF ILLINOIS		\$ 182,805,691	1.2 %
2.06	STATE OF WASHINGTON		\$ 155,706,399	1.1 %
2.07	COMMONWEALTH OF PENNSYLVANIA		\$ 153,395,590	1.0 %
2.08	GENERAL ELECTRIC CAPITAL CORP.		\$ 137,480,125	0.9 %
2.09	JPMORGAN CHASE & CO.		\$ 136,236,739	0.9 %
2.10	STATE OF OHIO		\$ 133,224,786	0.9 %

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

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC 1	\$ 14,198,759,704	96.2 %	P/RP-1	\$	%
3.02	NAIC 2	\$ 109,857,479	0.7 %	P/RP-2	\$	%
3.03	NAIC 3	\$	%	P/RP-3	\$	%
3.04	NAIC 4	\$	%	P/RP-4	\$	%
3.05	NAIC 5	\$	%	P/RP-5	\$	%
3.06	NAIC 6	\$ 73,813,759	0.5 %	P/RP-6	\$	%

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]
If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

4.02	Total admitted assets held in foreign investments	\$ 905,514,033	6.1 %
4.03	Foreign-currency-denominated investments	\$	%
4.04	Insurance liabilities denominated in that same foreign currency	\$	%

SUPPLEMENT FOR THE YEAR 2013 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2	
5.01 Countries designated NAIC 1.....	\$ 888,964,523		5.0 %
5.02 Countries designated NAIC 2.....	\$ 16,549,510		0.1 %
5.03 Countries designated NAIC 3 or below.....	\$		%

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

	1	2	
Countries designated NAIC 1:			
6.01 Country 1: UNITED KINGDOM.....	\$ 258,587,488		1.8 %
6.02 Country 2: FRANCE.....	\$ 167,097,327		1.1 %
Countries designated NAIC 2:			
6.03 Country 1: MEXICO.....	\$ 16,549,510		0.1 %
6.04 Country 2:	\$		%
Countries designated NAIC 3 or below:			
6.05 Country 1:	\$		%
6.06 Country 2:	\$		%

7. Aggregate unhedged foreign currency exposure..... \$ %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

	1	2	
8.01 Countries designated NAIC 1.....	\$		%
8.02 Countries designated NAIC 2.....	\$		%
8.03 Countries designated NAIC 3 or below.....	\$		%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

	1	2	
Countries designated NAIC 1:			
9.01 Country 1:	\$		%
9.02 Country 2:	\$		%
Countries designated NAIC 2:			
9.03 Country 1:	\$		%
9.04 Country 2:	\$		%
Countries designated NAIC 3 or below:			
9.05 Country 1:	\$		%
9.06 Country 2:	\$		%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

1 Issuer	2 NAIC Designation	3	4
10.01 BP CAPITAL MARKETS PLC.....	1	\$ 69,254,728	0.5 %
10.02 SVENSKA HANDELSBANKEN AB.....	1	\$ 63,419,711	0.4 %
10.03 GLAXOSMITHKLINE CAPITAL PLC.....	1	\$ 60,355,951	0.4 %
10.04 SHELL INTERNATIONAL FINANCE BV.....	1	\$ 57,095,161	0.4 %
10.05 TOTAL CAPITAL INTERNATIONAL SA.....	1	\$ 56,086,764	0.4 %
10.06 DIAGEO CAPITAL PLC.....	1	\$ 47,505,081	0.3 %
10.07 COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK BA/NETHERLANDS.....	1	\$ 39,461,455	0.3 %
10.08 SANOFI.....	1	\$ 37,556,335	0.3 %
10.09 BNP PARIBAS SA.....	1	\$ 36,774,749	0.2 %
10.10 WESTPAC BANKING CORP.....	1	\$ 35,484,389	0.2 %

SUPPLEMENT FOR THE YEAR 2013 OF THE Citizens Property Insurance Corporation

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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.

	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities	\$		%
Largest three investments held in nonaffiliated, privately placed equities:			
14.03	\$		%
14.04	\$		%
14.05	\$		%

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.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests	\$		%
Largest three investments in general partnership interests:			
15.03	\$		%
15.04	\$		%
15.05	\$		%

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 than 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.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02	\$		%
16.03	\$		%
16.04	\$		%
16.05	\$		%
16.06	\$		%
16.07	\$		%
16.08	\$		%
16.09	\$		%
16.10	\$		%
16.11	\$		%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

16. Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

Loans		
16.12 Construction loans	\$	%
16.13 Mortgage loans over 90 days past due	\$	%
16.14 Mortgage loans in the process of foreclosure	\$	%
16.15 Mortgage loans foreclosed	\$	%
16.16 Restructured mortgage loans	\$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential 1	Commercial 3	Agricultural 6
17.01 above 95% \$	2	4	5
17.02 91% to 95% \$	%	%	%
17.03 81% to 90% \$	%	%	%
17.04 71% to 80% \$	%	%	%
17.05 below 70% \$	%	%	%

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.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	1	2	3
18.02	\$	%	
18.03	\$	%	
18.04	\$	%	
18.05	\$	%	
18.06	\$	%	

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments 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 total admitted assets? Yes [X] No []
If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$	%
Largest three investments held in mezzanine real estate loans:		
19.03	\$	%
19.04	\$	%
19.05	\$	%

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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		
	1	2		1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	%	\$	\$	\$	
20.02 Repurchase agreements	\$	%	\$	\$	\$	
20.03 Reverse repurchase agreements	\$	%	\$	\$	\$	
20.04 Dollar repurchase agreements	\$	%	\$	\$	\$	
20.05 Dollar reverse repurchase agreements	\$	%	\$	\$	\$	

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	
	1	2	3	4
21.01 Hedging	\$	%	\$	%
21.02 Income generation	\$	%	\$	%
21.03 Other	\$	%	\$	%

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		
	1	2		1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging	\$	%	\$	\$	\$
22.02 Income generation	\$	%	\$	\$	\$
22.03 Replications	\$	%	\$	\$	\$
22.04 Other	\$	%	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-end			At End of Each Quarter		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5	
23.01 Hedging	\$	%	\$	\$	\$	
23.02 Income generation	\$	%	\$	\$	\$	
23.03 Replications	\$	%	\$	\$	\$	
23.04 Other	\$	%	\$	\$	\$	

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

This discussion provides an assessment by management of the consolidated financial position and the results of operations for Citizens Property Insurance Corporation (Citizens or the Company) for the year ended December 31, 2014. Information presented in this discussion is organized into three sections, (1) comparative analysis of the financial position, (2) comparative analysis of the results of operations and (3) budgetary analysis of the results of operations. The December 2014 financial report prepared by management should be used in conjunction with this discussion. The financial information referenced within this analysis has been prepared in accordance with Statutory Accounting Principles.

Comparative Financial Position Analysis (begins at page 3 of the financial report)

- Total admitted assets decreased \$852.4 million, or 6%, during the twelve-month period ending December 31, 2014. The overall decrease is largely the result of a decrease in total cash and invested assets resulting from an overall reduction in premium levels, reinsurance premiums paid, and repayments of principal on notes payables. The Company's invested assets at amortized cost totaled \$13.7 billion at December 31, 2014. The Company employs an investment policy that emphasizes protection of principal while maintaining adequate liquidity in order to meet future claim obligations. At December 31, 2014, the Company's cash and invested assets consists of: US Treasury and Agency securities and money market funds (27%), corporate bonds, commercial paper and certificates of deposit (32%), tax-exempt money market funds (8%), taxable municipal bonds (2%), tax-exempt municipal bonds (28%), tax-exempt variable rate demand notes (0%), prime money market funds (2%), and legacy assets (1%). During 2014, the Company earned approximately \$182.0 million in investment income, offset by \$180.8 million in interest expense. Certain investments, representing less than 1% of total cash and invested assets, continue to be held in legacy assets for which the Company continues to receive payments of principal and interest. Declines in market values of invested assets are continually evaluated to determine whether these declines are temporary or other-than-temporary in nature. In making this determination, the Company monitors external impairment indicators such as issuer credit ratings as well as the extent and duration of the related declines and internal impairment indicators such as the Company's intent and ability with respect to retention of the impaired securities. These indicators are obtained from both third-party valuation services and internal analyses performed by the Company. No such other-than-temporary declines in market value have been recorded in 2014 or 2013; however, other-than-temporary declines totaling \$294 million were recorded during 2007 and 2008 related to legacy assets. Full realization of the principal value on legacy assets is not readily determinable. However, it is noteworthy to mention that \$174.5 million of the other-than-temporary impairment has been recovered as of December 31, 2014. It is possible that the Company could recognize additional

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

other-than-temporary impairments in the future if future events, information and the passage of time cause it to conclude that declines in market value are other-than-temporary.

- ❖ Cash and invested assets decreased \$645.4 million, or 5%, at December 31, 2014 compared to December 31, 2013. This decrease is largely the result of the following cash inflows and outflows: \$973 in premiums collected (net of reinsurance premiums paid), \$167 million in collections of assessment funds and other non-operating sources, and \$69 million in net investment income, partially offset by \$655 million in loss payments, \$586 million in underwriting expenses and LAE paid, and \$535 million of principal payments on existing debt obligations.
- ❖ During 2014, the principal amount invested in the Florida State Board of Administration's Florida Prime (SBA Florida Prime), formerly known as the Florida State Board of Administration's Local Governmental Investment Pool (LGIP) was fully recovered. Prior to the full recovery, funds invested by the Company in the SBA Florida Prime were invested in Fund B, which was frozen from investor withdrawals due to that portfolio's investment in distressed illiquid assets. As principal and interest payments were received, the Company's allocable portion was eligible for withdrawal and such withdrawals were consistently made.
- Investment income due and accrued decreased \$7.7 million, or 9% at December 31, 2014 compared to December 31, 2013 consistent with the decrease in total invested assets. Investment income due and accrued generally represents roughly 3 to 4 months of income earnings and may fluctuate moderately as the composition of coupon-paying instruments changes based upon when those instruments pay coupons (i.e. monthly or semi-annually).
- Premiums receivable decreased \$29.7 million, or 20%, at December 31, 2014 compared to December 31, 2013 consistent with a decrease of approximately 20% in direct premiums written during the month of December 2014 compared to December 2013. Premiums collected tend to approximate monthly direct written premium due to a majority of policies remitting payment in full (roughly 80% of policies are on a full pay plan).
- Reinsurance recoverable on paid losses and LAE decreased \$1.4 million, or 61%, at December 31, 2014 compared to December 31, 2013. This decrease is the result of development of ceded loss and LAE reserves and the collection of payment by Citizens from the respective reinsurers. Included in this recoverable are amounts due from private reinsurers for catastrophe-related losses as well as amounts due from quota share reinsurers for non-catastrophe related losses. At December 31, 2014 Citizens has recoverable paid losses and LAE of \$0.6 million

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

and \$0.4 million due from private reinsurers in the PLA and Coastal Account, respectively.

- Premiums due from assuming companies increased \$5.5 million, or 20%, at December 31, 2014 compared to December 31, 2013 largely due to an increase in policies assumed during the 4th quarter of 2014 compared to the 4th quarter of 2013. At assumption, Citizens cedes all unearned premium to takeout carriers for the policies assumed while Citizens continues to service these policies until expiration. Additionally, adjustments to policies assumed (i.e. opt-outs and cancellations) impact the recorded receivable at each reporting period. Such servicing of policies includes cancellations and endorsements that could result in policyholder refunds. In addition, policyholder opt-outs that occur after the assumption date cause an increase in premiums due back to Citizens. The amount reported is net of any ceded premium receivables over 90 days past due or ceded premium receivables due from insolvent companies, as these receivables are considered uncollectible and have therefore been non-admitted (note that there has been no change to non-admitted balances since these balances were first recorded). No additional receivable balances were considered uncollectible during 2014.
- Assessment receivables decreased \$171.4 million, or 97%, at December 31, 2014 compared to December 31, 2013. This decrease is mainly due to collections of approximately \$164.9 million of Citizens' emergency assessments and collections of approximately \$6.4 million of the 2009 and 2012 Florida Insurance Guaranty Association (FIGA) assessment recoupment.
- Other admitted assets decreased \$2.4 million, or 34%, at December 31, 2014 compared to December 31, 2013. Other admitted assets consist principally of admitted electronic data processing (EDP) equipment. During 2014, net additions to EDP equipment were exceeded by increases in accumulated depreciation causing an overall decrease within other admitted assets.
- Total liabilities decreased \$1.228 billion, or 16%, at December 31, 2014 compared to December 31, 2013. This decrease is largely due to a decrease in loss reserves, unearned premium, and notes payable.
- Net loss and loss adjustment expense (LAE) reserves are determined based on the Company's estimate of the ultimate cost of settling all incurred but unpaid claims. Citizens does not discount liabilities for loss and LAE reserves. Net loss reserves decreased approximately \$215.3 million, or 23%, and net LAE reserves decreased approximately \$8.5 million, or 3%, at December 31, 2014 as compared to December 31, 2013. Activity with respect to unpaid losses and LAE is as follows:

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- ❖ Net loss and loss adjustment expense reserves related to the 2004 and 2005 hurricanes and the 2008 Tropical Storm Fay (CAT claims) decreased from \$68.2 million at December 31, 2013, to \$45.6 million at December 31, 2014. The reduction in the loss reserves is due to the settlement of outstanding hurricane claims. It is expected that these loss reserves will continue to run-off through 2015 and likely beyond.
- ❖ Net unpaid losses and LAE reserves not related to hurricanes (non-CAT claims) decreased from \$1.19 billion at December 31, 2013 to \$987.4 million at December 31, 2014. The sinkhole PLA loss and ALAE reserves comprise 41% of the combined non-catastrophe reserves.
- Retroactive reinsurance reserves of \$1.5 million were recognized at December 31, 2014 related to the quota share treaty executed with a takeout carrier. These reserves represent the total reserves ceded by Citizens in relation to the retroactive component of the quota share treaty.
- Reinsurance premiums payable decreased \$15.5 million, or 11% at December 31, 2014 compared to December 31, 2013. The decrease is largely driven by a decrease in year over year costs of risk transfer vehicles that provide coverage over multiple years. At December 31, 2014, reinsurance premiums payable consists solely of premiums payable to private reinsurers. Premium installments for private reinsurance are typically paid in equal installments each quarter.
- Direct written premium decreased 25% during 2014 as compared to 2013. Net unearned premiums decreased \$397.9 million, or 36%, at December 31, 2014 compared to December 31, 2013. Direct unearned premium decreased \$290.2 million, or 22%, consistent with the observed decrease in direct premiums written; ceded unearned premium increased \$107.7 million, or 54%, as a result of an increase in policy assumptions during 2014 relative to 2013, particularly during the last quarter of 2014. Reinsurance premiums for the Florida Hurricane Catastrophe Fund (FHCF) and private reinsurance are recognized over a 6-month period commencing in June and are fully earned at December 31 of each calendar year. Accordingly, no ceded unearned premium related to private reinsurance or FHCF coverage is recorded at December 31, 2014.
- Unearned assessment income decreased \$24.3 million, or 56%, at December 31, 2014 compared to December 31, 2013. This decrease consists of twelve months of earnings elapsed since 2013 for future interest costs of post-event notes related to the 2005 HRA emergency assessment in addition to an adjustment that was recorded in December of 2014 to reduce net financing costs.
- Taxes and fees payable decreased \$4.2 million, or 133%. This decrease results from an overall decrease in taxable direct premiums written as well as offsetting tax credits applied at year end.

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For the year ended December 31, 2014

- Commissions payable decreased \$4.1 million, or 26%, at December 31, 2014 compared to December 31, 2013. This decrease corresponds to a decrease of roughly the same percentage in commissionable premium for the month of December 2014 compared to the month of December 2013. Note that commissions are generally settled monthly.
- Notes payable decreased \$574.4 million, or 11%, at December 31, 2014 compared to December 31, 2013. This decrease is driven by repayments of principal totaling \$535.3 million in addition to the net amortization of bond premiums/discounts totaling approximately \$39.1 million during 2014.
- Interest payable decreased \$3.3 million, or 13%, at December 31, 2014 compared to December 31, 2013. This decrease is driven by the principal reduction in notes outstanding of approximately the same percentage.
- Advanced premiums and suspended cash decreased \$21.5 million, or 30%, at December 31, 2014 compared to December 31, 2013. This balance is comprised primarily of advanced premiums which make up 95% of the total balance. Advanced premiums accumulate when payments are received before the effective date of the related policy and result due to the daily collection of premium payments and application of these payments to policyholder balances.
- Accounts payable and accrued expenses decreased \$2.8 million, or 9%, at December 31, 2014 compared to December 31, 2013. This decrease is consistent with the observed decrease in administrative expenses for the year ending December 31, 2014.
- Escheat liability decreased \$12.5 million, or 21%, at December 31, 2014 compared to December 31, 2013. This decrease is driven principally by two factors - current year payments made to State Unclaimed Property bureaus and reversals of previously reported unclaimed funds. The reversals of previously reported unclaimed funds arise due to internal research efforts that match outstanding (unclaimed) payments with their intended recipients.
- Other liabilities increased \$57.3 million, or 288%, at December 31, 2014 compared to December 31, 2013. Other liabilities consist of amounts due to brokers, premiums due to assuming companies, and surcharges payable. Amounts due to brokers increased \$13.7 million, or 100%, as a result of differences between trade dates and settlement dates of securities purchased. A majority of these payables typically settle within 5 to 10 business days after their respective trade dates. Premiums due to assuming companies increased \$6.9 million, or 56%, as a result of an increase in depopulation activity during the 4th quarter of 2014 compared to the 4th quarter of 2013. Surcharges payable increased \$36.6 million, or 496%, due to the recognition of a liability titled Reserve for Future Assessments. The recognition of this liability arises as a result

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

of collections of the 2005 Emergency Assessment receivable in excess of the amount of assessment levied to cure the corresponding deficit caused by the 2004 and 2005 storm seasons.

- Surplus increased \$375.8 million, or 5%, at December 31, 2014 compared to December 31, 2013, largely as a result of 2014 net income, which is discussed in further detail below.

Comparative Statement of Operations Analysis (page 7 of the financial report)

- Net earned premiums decreased \$502.9 million, or 27%, during 2014 as compared to 2013. This decrease is driven by the following factors:
 - ❖ Direct written premiums decreased approximately \$677.8 million, or 25%, during 2014 compared to 2013. This decrease is the result of a 35% decrease in policies in-force due to high depopulation during last quarter of 2013 and first half of 2014 along with impacts of the Clearinghouse implementation, partially offset by rate increases due to the continued implementation of the glide path.
 - ❖ Ceded written premiums to takeout companies increased \$67.4 million, or 17%, during 2014 compared to 2013. This increase results from continued efforts to reduce Citizens' exposure coupled with growth in the private market and interest in the removal of Citizens policies. Note that in 2014, roughly \$40.2 million in premiums were depopulated from the CLA whereas in 2013, no depopulation occurred within the CLA.
 - ❖ Ceded written premiums to reinsurers increased \$22.8 million, or 8%, during 2014 compared to 2013. This increase is primarily driven by an increase in the amount of coverage purchased through traditional and capital markets, partially offset by decreases in the relative cost of coverage purchased. During the 2013 hurricane season, Citizens purchased reinsurance coverage totaling \$1.85 billion compared to the 2014 hurricane season wherein Citizens purchased reinsurance coverage totaling \$3.27 billion.

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- Net Losses incurred decreased approximately \$61.2 million, or 12%, during 2014 compared to 2013. However, the losses incurred for CAT and non-CAT claims warrant individual discussion to delineate differences between periods.

	December 31, 2014	December 31, 2013
Net Losses incurred - CAT	(\$ 5.3) million	(\$ 8.5) million
Net Losses incurred - Non-CAT	\$ 446.5 million	\$ 510.9 million
Total losses incurred	\$ 441.2 million	\$ 502.4 million

- ❖ The losses incurred represents CAT and non-CAT losses, which includes paid claims, case reserves, and incurred but not reported (IBNR) reserves.
- ❖ CAT Only: Favorable loss development from 2013 to 2014 was approximately \$7.6 million and \$5.3 million gross and net of reinsurance, respectively. Note that a majority of the remaining claims are in litigation. Some uncertainty still remains surrounding the ultimate settlement of these remaining claims and the future development (favorable or adverse) will depend upon the outcome of the litigation.
- ❖ Non-CAT Only: The reduction in non-CAT incurred losses during 2014 compared to 2013 is due to a combination of several factors impacting all three accounts (PLA, CLA and Coastal). The significant decrease in overall exposure due to depopulation from 2013 to 2014 has led to a smaller number of claims being reported in 2014, thereby reducing the total dollar amount of incurred losses. However, depopulation companies generally select policies with lower expected losses relative to the premium. Therefore, despite the reduction in net policies retained by Citizens, these remaining policies generally have higher expected losses relative to the premium resulting in upward pressure to the overall loss ratio. Additionally there has been some adverse development on prior accident years for litigated water claims, likewise resulting in upward pressure to the overall loss ratio. These upward pressures on the loss ratio are somewhat mitigated by overall rate increases that went into effect at the beginning of 2014.
- Net Loss adjustment expenses incurred decreased \$49.1 million, or 20%, during 2014 compared to 2013. This decrease is largely driven by a reduction in the number of claims reported in 2014, partially offset by overall adverse development of sinkhole claims in prior accident years.
- Certain expenses vary directly with and are proportionate to written premiums. Accordingly, the decrease in written premiums during the current year caused a decrease in both producer commissions (agents are paid a percentage of

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

commissionable premium ranging from 10% to 14% depending on the type of business) and taxes & assessments (premium and State Fire Marshal taxes approximate 1.75% and 1% of certain written premium, respectively). However, during 2014, a portion of the credits used to offset premium taxes increased, thereby reducing the overall effective premium tax rate for 2014.

Administrative and other underwriting expenses include traditional administrative costs, professional fees, servicing carrier fees, and underwriting costs (such as inspection fees and ISO participation fees). These expenses are provided in detail on page 10 of the financial report. Administrative and other underwriting expenses decreased \$19.3 million, or 10%, during 2014 compared to 2013. The following factors contributed to the overall decrease in administrative expenses (page 10 of the financial report):

- ❖ Salary expenses, employee benefits and payroll taxes increased \$7.7 million, or 7.8%, during 2014 compared to 2013. This increase is attributable to the rebalancing of outsourcing levels and organizational realignment as recommended in the KPMG organizational review. The increase in staff in 2014 resulted in an improved operating structure with increased efficiency. A significant amount of the increase in salaries, benefits and taxes was offset by a corresponding decrease in Contingent Staffing and Professional Fees as a result of the conversion of outsourced staff to in-house staff. During 2014, the Company implemented a salary merit increase for employees equal to an average rate of 3%.
- ❖ Contingent Staffing and Professional Services decreased \$11.1 million, or 23%, during 2014 compared to 2013. \$7.8 million of this decrease is attributable to a decrease in contingent staff and professional services associated with the Core project. The majority of the remaining \$3.3 million decrease is attributed to the conversion of IT contract staff to employees per the KPMG organizational review and recommendations.
- ❖ Other underwriting fees decreased \$3.4 million, or 34%, during 2014 compared to 2013. This decrease is mainly due to the completion of the Inspection Outreach Program which comprised a majority of the expenditures within this category during 2013. Excluding Inspection Outreach Program expenditures, the expenses within this category were relatively consistent year over year.
- ❖ Other processing fees decreased \$0.6 million, or 43%, during 2014 compared to 2013. These fees have decreased throughout 2014 and will continue to decline as all activity runs off of the legacy policy systems and onto Citizens Insurance Suite.
- ❖ Training expenses increased \$0.3 million, or 110%, during 2014 compared to 2013. Training expenses have trended downward for the four previous years

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For the year ended December 31, 2014

due to lower external training resulting from efficiencies gained by consolidating a large part of corporate-wide internal training. In addition, business needs related to several major corporate initiatives have been reported as reasons for delaying or foregoing external training. Therefore, it is anticipated that training expenses will continue to trend back upward to more normal levels in 2015.

- ❖ Recruiting expenses increased \$0.6 million, or 76%, during 2014 compared to 2013. This variance is driven by relocation benefits related to the consolidation of the System and Operations business unit to Jacksonville.
- ❖ Printing expenses decreased \$1.6 million, or 26%, during 2014 compared to 2013. A reduction in printing expense was anticipated and budgeted due to reduction in PIF and print savings attributed to Citizens PolicyCenter®.
- ❖ Operating supplies and computer hardware expenses decreased \$0.3 million, or 15%, during 2014 compared to 2013. There were significant one-time furniture and technology purchases related to the Core project in 2013. Other factors driving this variance are 1) delays in 2014 new furniture purchases with the awareness of lease consolidation and 2) a concerted effort to reduce toner and paper costs company-wide.
- ❖ Subscription and dues - No significant change from the prior year.
- ❖ Postage expenses decreased \$1.1 million, or 17%, during 2014 compared to 2013. The majority of postage expenses (approximately 98%) are directly related to policy documentation. This decrease is largely the result of continued reduction of policies in force resulting from the attrition of policies and depopulation. Also a factor is the benefits of less printed and subsequently mailed documents in Citizens PolicyCenter®.
- ❖ Telecommunication - No significant change from the prior year.
- ❖ Legal expenses and related matters increased \$1.5 million, or 135%, during 2014 as compared to 2013 as a result of unanticipated costs with regard to securities compliance issues, Florida Supreme Court Appeal on bad faith, and Legal Billing Review.
- ❖ Insurance expenses increased \$0.1 million, or 12%, during 2014 compared to 2013. This increase is largely due to anticipated/budgeted increases in premium.
- ❖ Travel and meals increased \$0.3 million, or 22%, during 2014 compared to 2013 due to an increase in field staff in operational areas, travel related to claims litigation, and travel related to the negotiation of facility leases.

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- ❖ Servicing carrier fees decreased \$2.9 million, or 33%, during 2014 compared to 2013 due to 1) a year over year reduction in new business applications, endorsements, and phone calls resulting from a reduction in policies in force and 2) a transition from outsourcing to insourcing these underwriting processes as a result of changes recommended in the KPMG operational review.
- ❖ Rent - facilities expenses decreased \$0.7 million, or 9%, during 2014 compared to 2013 due to the lease re-negotiations with a lower rental rate for the Tampa lease (retroactive to 2013), lease terminations for Tallahassee leases at CC2 and North Monroe, and lower associated utilities and property taxes.
- ❖ Rent - office equipment and furniture expenses decreased \$0.6 million, or 40%, during 2014 compared to 2013 due to decreased rental costs related to emergency generators. Two emergency generators for catastrophe preparedness were purchased in the fourth quarter of 2013 which eliminated the need for emergency generator rental.
- ❖ Depreciation expense increased \$0.2 million, or 3%, during 2014 compared to 2013 and is primarily attributable to EDP acquisitions in 2014.
- ❖ Maintenance and repairs expenses decreased \$0.1 million, or 7%, during 2014 compared to 2013. This decrease is primarily the result of a reduction in the overall scope of coverage for security services and a general expense reduction in maintenance expense for unplanned/unforeseen projects in Citizens' leased facilities.
- ❖ Software maintenance and licensing decreased \$1.0 million, or 7%, during 2014 compared to 2013. A significant inventory of equipment in storage and networking, inclusive of associated software maintenance and licensing, was acquired as part of the Core and Data Center projects. These were new acquisitions in 2013 that were not repeated in 2014.
- ❖ The ULAE expense allocation represents administrative costs associated with claims processing that are allocated to LAE in accordance with applicable accounting pronouncements. The ULAE expense allocation was \$32.8 million in 2014, representing a 25% increase compared to \$26.2 million recorded in 2013. This is primarily due to reclassification of expenses in 2014 from professional services to contingent staffing, as professional services is not included and contingent staffing is included in this allocation.
- ❖ FMAP expense allocation decreased \$0.1 million, or 42%, during 2014 compared to 2013. The lower allocation occurred because the FMAP call center was outsourced in August 2013 and the call center invoices were subsequently charged to this expense account. Prior to August 2013, the

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

expenses for the in-house FMAP call center staff were accounted for in Salaries, Benefits and Payroll Taxes.

- ❖ Producer expense collection - No significant change from the prior year.
- ❖ Bank Charges - No significant change from the prior year.
- ❖ Miscellaneous - No significant change from the prior year.
- Capital acquisitions increased \$1.3 million, or 134%, during 2014 compared to 2013. During 2012, there were a substantial amount of EDP capital acquisitions. Consequently, 2013 acquisitions dropped to a very low level because there were no significant additional EDP needs. The 2014 acquisitions have increased to historically normal levels.
- Net investment income and net realized gains on sales were relatively unchanged during 2014 compared to 2013. However, with a declining invested asset base, the effective total return during 2014 was marginally higher than 2013. The increase in return was driven by the liquidation of certain invested assets in order to meet cash flow needs, resulting in an increase in realized gains during 2014.
- Interest expense decreased \$19.9 million, or 10%, during 2014 compared to 2013. This decrease is the result of a year over year decrease in the principal value of notes payable as a result of debt service payments made during 2014.
- Assessment income decreased \$9.4 million, or 36%, during 2014 compared to 2013. This decrease is the result of an adjustment made to the remaining unearned assessment income balance to reduce net financing costs incurred with the issuance of the 2007 post event bonds.
- Other income (expense) increased \$15.8 million, or 158%, during 2014 compared to 2013. This increase is largely the result of two primary drivers - the retroactive component of the quota share agreement executed in May 2013 and premium balances that were charged off in 2013. The loss on retroactive reinsurance totaled \$16.6 million in 2013 but not in 2014. After considering the impact of these items, other income during 2014 did not vary significantly or unexpectedly compared to 2013.
- Net income decreased \$278.4 million, or 42%, for the year ended December 31, 2014 compared to the year ended December 31, 2013. The impact to net income influenced by the reduction in net earned premiums was partially offset by decreases in certain underwriting expenses as well as losses and LAE incurred.
- The expense ratio for the CLA was 20%, compared to 18% and 17% for the PLA and Coastal Account, respectively. The cost of operations in the CLA, as a

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

percentage of direct written premiums, is higher than the costs in the PLA and Coastal Account. This can be attributed to higher commission rates for the CLA and overall higher processing costs paid to an outside vendor; however, these processing costs are expected to reduce with the implementation of Core.

Budgetary Statement of Operations Analysis (page 14 of the financial report)

- Net earned premiums were \$536.7 million, or 28%, less than budgeted. This variance is due to the following factors:
 - ❖ Direct written premiums in 2014 were \$340.2 million, or 14%, less than budgeted primarily due to less than expected new and renewal business resulting from higher than anticipated depopulation during 2014. Reductions in direct written premium within the PLA comprised a majority of the total written premium variance. Premium variances by account were as follows - \$257.9 million, or 22% (PLA), \$20.2 million, or 11% (CLA), and \$62.1 million, or 6% (Coastal Account).
 - ❖ Premiums ceded to takeout companies were \$319.9 million, or 237%, more than budgeted due to higher than anticipated depopulation in 2014. The number of policies budgeted for depopulation during 2014 was 141,601 which was significantly less than the actual 416,623 policies removed. After 277,002 policies were removed in 2012 and 365,767 policies were removed in 2013, it was anticipated that the depopulation trends would begin to taper off due to a reduction in the number of policies that would likely be depopulated. However, changes to external factors (e.g. reinsurance pricing) have impacted the desirability of policies remaining at Citizens which in turn increased the levels of actual depopulation relative to 2014 budgeted depopulation.
 - ❖ Premiums ceded to reinsurers were \$108.8 million, or 20%, more than budgeted. This variance is due to both a reduction in the total FHCF premium (largely due to less than expected net retained policy count) and an expansion of the 2014 risk transfer program that necessitated an authorized increase over budgeted reinsurance premiums.
- Net losses incurred in 2014 of \$441.2 million were \$143.0 million, or 25%, less than budgeted. This decrease is largely due to declining levels of premium along with the absence of tropical storm activity during 2014. While the budgeted loss ratio does not contemplate catastrophic events, a provision is included for non-catastrophic tropical storms, of which there were none during 2014.

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- Net loss adjustment expenses incurred in 2014 were \$13.7 million, or 7%, more than budgeted. This increase is primarily driven by an increase in legal costs associated with adverse development of sinkhole claims. LAE incurred was budgeted at 31.7% of losses incurred whereas actual LAE incurred was 45.1% of loss incurred, representing an increase of 13.4 percentage points.
- Producer commissions and taxes & assessments are each based on a certain percentage of written premiums. As written premiums fluctuate, these expenses are expected to fluctuate proportionately. During 2014, written premiums were 14% less than budgeted. Producer commissions were 15% less than budgeted and taxes & assessments were 28% less than budgeted. The larger decrease in taxes & assessments results from a higher effective premium tax rate used within the budget compared to the effective premium tax rate realized during 2014, primarily due to an increase in offsetting tax credits applied at year end.

Administrative and other underwriting expenses that are not directly attributable to a particular account (PLA, CLA or Coastal) are allocated on the basis of premiums written, policies in force, or other similar factors. Actual administrative and other underwriting expenses for 2014 were \$12.9 million, or 7%, less than budgeted, largely due to lower than expected salaries and related expenses (\$8 million, or 7%, less than budgeted) and professional services (\$6.9 million, or 49%, less than budgeted). Specific variances by expense category are as follows (page 16 of the financial report):

- ❖ Salaries, benefits and payroll taxes were \$8.0 million, or 7%, less than budgeted amounts due to difficulties / delays in filling budgeted / vacant positions and attrition along with timing delays in filling positions in conjunction with the consolidation of Systems and Operations in Jacksonville.
- ❖ Contingent Staffing expenses were \$2.8 million, or 10%, more than budgeted primarily due to higher than budgeted contingent staffing expenses for the Core Project. In the fourth quarter, contingent staffing related to Core was \$4.3 million though no amounts were budgeted as the project was anticipated to be complete by the end of the third quarter. With respect to the \$4.3 million Core expenditure, this item is merely a timing difference as the 2013 actual amount was less than budgeted by approximately \$4.3 million. After consideration of this timing difference, actual expenditures for Contingent Staffing were within approximately 3% budgeted amounts.
- ❖ Other underwriting fees - No significant variance from budgeted amounts.
- ❖ Other processing fees were \$0.2 million, or 23%, less than budgeted due to a greater than expected decrease in CSC fees resulting from the transition to Citizens PolicyCenter®.

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- ❖ Training expenses for 2014 were \$0.3 million, or 36%, less than budgeted. Factors contributing to this variance are efficiencies in training achieved in 2014 through business process changes, delays in filling budgeted positions, and postponement of training to 2015 due to timing issues.
- ❖ Recruiting expenses were approximately \$0.6 million, or 72%, more than budgeted. This variance is driven by enhanced relocation benefits related to the consolidation of the Systems and Operations business unit. These enhanced relocation benefits were not anticipated in the budget.
- ❖ Printing expenses were approximately \$0.6 million, or 12%, less than budgeted. Previously processed and printed material is now available online through Citizens PolicyCenter®; however, the extent of cost savings was not fully accounted for in the budget. Less new business applications and overall PIF reduction are also contributing to lower than budgeted printing expenses.
- ❖ Operating supplies expense were \$0.2 million, or 31%, less than budgeted. This variance is primarily due to variances in the Facilities and General Services Division as a result of the deferral of planned furniture purchases with the awareness of lease consolidation and overall supply needs being lower than anticipated in conjunction lower than anticipated staffing and training levels.
- ❖ Subscriptions and dues - No significant variance from budgeted amounts.
- ❖ Postage expenses were approximately \$1.0 million, or 17%, less than budgeted primarily due to reductions in policies in force. Similar to printing, postage was lower than anticipated due to the benefits of online documents available in Citizens PolicyCenter®. Additionally, the Facilities' postage budget includes reserves and funding for unplanned projects, much of which was not needed during 2014.
- ❖ Telecommunication expenses were approximately \$0.37 million, or 8%, less than budgeted due to lower than anticipated usage of long distance services and data communication lines.
- ❖ Legal expenses and related matters were \$1.3 million, or 103%, more than budgeted as a result of unanticipated costs with regard to securities compliance issues, Florida Supreme Court Appeal on bad faith, and Legal Billing Review.
- ❖ Insurance expenses - No significant variance from budgeted amounts.
- ❖ Travel and meals - No significant variance from budgeted amounts.

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Management Discussion and Analysis

For the year ended December 31, 2014

- ❖ Servicing carrier fees were \$1.5 million, or 20%, less than budgeted due to 1) lower than projected new business applications, endorsements, and phone calls, all of which are directly impacted by a reduction in PIF and 2) transition from outsourcing to insourcing these underwriting processes as a result of changes recommended in the KPMG operational review.
- ❖ Professional services were approximately \$6.3 million, or 44%, less than budgeted due to lower than expected professional service costs related to the new Agency Management System implementation and Clearinghouse. These costs have been budgeted in 2015.
- ❖ Rent expenses for facilities were \$0.8 million, or 9%, less than budgeted due to due to the Tampa lease re-negotiation with a lower rental rate not anticipated in the budget and lower than expected property tax and utilities expenses.
- ❖ Rent expenses for office equipment and furniture - No significant variance from budgeted amounts.
- ❖ Depreciation expense was \$1.2 million, or 16%, less than budgeted which correlates to the shortfall of budgeted capital expenditures.
- ❖ Maintenance and repairs expenses were \$0.1 million, or 7%, less than budgeted primarily due to contingency funds that were budgeted but ultimately not used.
- ❖ Bank charges - No significant variance from budgeted amounts.
- ❖ Software maintenance and licensing expenses were \$2.3 million, or 15%, less than budgeted due delays in anticipated acquisitions for projects that were delayed, postponed or cancelled (e.g. AMS, Purchasing System, QA Software, Fraud Analytics, Medicare Reporting)
- ❖ Computer hardware and maintenance expenses were \$0.5 million or 28%, lower than budgeted. Project delays (as noted software maintenance and licensing expenses) have affected the timing of the acquisition of budgeted computer hardware.
- ❖ The ULAE expense allocation represents costs associated with the Claims department that are allocated to loss adjustment expenses in accordance with applicable accounting standards. ULAE expense allocation was \$5.5 million, or 14%, less than the budgeted which is attributable to lower than budgeted ULAE allocable administrative expenses, the most significant of

Citizens Property Insurance Corporation

Management Discussion and Analysis

For the year ended December 31, 2014

- which are salaries and related expenses, contingent staffing and software maintenance and licensing.
- ❖ FMAP expense allocation is \$0.1 million, or 50%, lower than budgeted due to the FMAP call center invoices which were expensed to this category but were budgeted in professional services.
- ❖ Producer expense collection - No significant variance from budgeted amounts.
- ❖ Miscellaneous expense - No significant variance from budgeted amounts.
- Capital acquisitions were \$2.7 million, or 54%, less than budgeted due to deferment or cancellation of planned capital acquisitions.
- Investment income was \$47.4 million, or 35% more than budgeted due to the recognition of realized gains during 2014 (which are not contemplated in the budget), partially offset by a lower than expected investable asset base as a result of an increase in depopulation activity.
- Interest expense was consistent with the amount budgeted.
- Assessment income was \$3.6 million, or 17%, less than budgeted due to an adjustment made to the 2014 amount relating to financing costs incurred with the issuance of the 2007 post event bonds.
- Other income was \$1.0 million, or 19%, more than budgeted. This increase is largely the result of a reduction in premium balances charged off during 2014 offset by the impact of current year activity of the retroactive reinsurance transaction originally recognized during 2013.
- Net income was \$308.3 million, or 44%, less than budgeted largely due to greater than anticipated depopulation and lower than anticipated direct premiums written, partially offset by lower than anticipated losses and greater than anticipated investment income.

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APPENDIX D
AUDITED FINANCIAL STATEMENTS – GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES FOR
YEARS ENDED DECEMBER 31, 2013 AND 2012

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Citizens Property Insurance Corporation
Financial Statements
December 31, 2013 and 2012

Citizens Property Insurance Corporation
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December 31, 2013 and 2012

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Independent Auditor's Report

To the Board of Governors and Management
Citizens Property Insurance Corporation

Report on the Financial Statements

We have audited the accompanying statements of net position of Citizens Property Insurance Corporation ("Citizens"), a component unit of the State of Florida, as of December 31, 2013 and 2012, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters, Management Discussion and Analysis and Supplemental Revenues, Expenses and Claim Development Information

Accounting principles generally applicable to Citizens require that the management's discussion and analysis on pages 3-9 and 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters and Combining Supplemental Statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's basic financial statements. The supplemental combining statements of net position, of revenues, expenses and changes in net position, and schedule of supplemental revenues, expenses and claim development information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental statements referred to above are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 30, 2014 on our consideration of Citizens internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering and assessing the results of our audit.

A handwritten signature in cursive script that reads 'Johnson Lambert LLP'.

Jacksonville, Florida
May 30, 2014

Citizens Property Insurance Corporation Management's Discussion & Analysis

This discussion provides an assessment by management of the current financial position and results of operations for Citizens Property Insurance Corporation (Citizens). Management encourages readers to consider the information presented here in conjunction with additional information included in the accompanying financial statements, notes to the financial statements and supplemental financial information.

Financial Highlights

- The assets of Citizens exceeded its liabilities at the close of the most recent year by \$7.3 billion.
- Citizens' total net position increased by \$575.4 million. This increase is largely attributable to net income as further explained below.
- Operating income increased \$26.7 million during 2013 compared to 2012. This increase is primarily the result of rate increases associated with the glide path, partially offset by reductions in net premiums earned as a result of premiums ceded to both takeout companies and to private reinsurers.
- Operating expenses decreased 24% during 2013 compared to 2012. This decrease is primarily due to a decrease in losses incurred for the current accident year.
- Non-operating revenues decreased 157% during 2013 compared to 2012 due largely to an overall decrease in net investment income.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to Citizens' basic financial statements, which consist of the statements of net position, statements of revenues, expenses and changes in net position and the statements of cash flows. This report also contains other supplementary information in addition to the basic financial statements.

The *statements of net position* present information on all of Citizens' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indication of whether the financial position of Citizens is improving or deteriorating.

The *statements of revenues, expenses and changes in net position* present information illustrating changes to Citizens' net position during the most recent fiscal year. All changes in net position are reported when the underlying events giving rise to the changes occur, regardless of the timing of related cash flows.

Citizens Property Insurance Corporation Management's Discussion & Analysis

Overview of Financial Statements (Continued)

The *statements of cash flows* present information concerning cash receipts and cash payments during the year. The statements illustrate the cash effects of operating, investing and financing transactions during the fiscal years presented.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 18 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning Citizens' revenues, expenses and claims development information for the last ten policy years and combining financial statements.

A summary of Citizens' Statements of Net Position is presented below (*in thousands*):

	2013	2012	Change (%)
Assets			
Current assets	\$ 3,533,983	\$ 3,822,231	-8%
Capital assets	12,362	16,505	-25%
Other noncurrent assets	11,768,434	12,303,426	-4%
Total assets	<u>\$ 15,314,779</u>	<u>\$ 16,142,162</u>	<u>-5%</u>
Liabilities			
Current liabilities	\$ 3,525,005	\$ 4,321,886	-18%
Noncurrent liabilities	4,456,496	5,062,351	-12%
Total liabilities	<u>7,981,501</u>	<u>9,384,237</u>	<u>-15%</u>
Net position			
Invested in capital assets	12,362	16,505	-25%
Restricted	15,339	11,112	38%
Unrestricted	7,305,577	6,730,308	9%
Total net position	<u>7,333,278</u>	<u>6,757,925</u>	<u>9%</u>
Total liabilities and net position	<u>\$ 15,314,779</u>	<u>\$ 16,142,162</u>	<u>-5%</u>

Citizens Property Insurance Corporation
Management's Discussion & Analysis

Financial Analysis

Assets

Total assets decreased \$827.4 million, or 5%, during 2013 primarily due to repayments of principal on the 2007A, 2010A, and 2012A series debt obligations and payments for losses and loss adjustment expenses (LAE), partially offset by collections of net premiums during 2013. Certain investments, representing less than 1% of total cash and invested assets, continue to be held in legacy assets for which Citizens continues to receive payments of principal and interest. During 2012, total assets increased \$2.2 billion, or 16%, primarily due to the increase in cash and invested assets resulting from the \$1.5 billion pre-event bond issuance along with a considerable increase in premiums collected, partially offset by repayments of principal on debt obligations and payments for losses and LAE.

Current assets include cash, cash equivalents, and short-term investments of \$2.9 billion and \$3.1 billion at December 31, 2013 and 2012, respectively. Long-term investments totaled \$11.6 billion and \$12.0 billion at December 31, 2013 and 2012, respectively. The decrease in invested assets of \$574.4 million is the result of repayments of principle on debt obligations and payments for losses and LAE, partially offset by the collection of net premiums and the collection of emergency assessment funds. During 2012, invested assets increased 2.2 billion, or 17%, due to the \$1.5 billion bond issuance, positive net cash flows from 2012 operations, and the collection of emergency assessment funds, partially offset by debt maturities and payments for losses and LAE.

Capital assets decreased \$4.1 million, or 25%, during 2013. This decrease is primarily due to cyclical reduction in capital asset purchases as well as depreciation on capital assets purchased during prior years. During 2012, capital assets increased \$7.7 million largely as a result of capital assets needed as part of Citizens' Core Project.

Liabilities

Total liabilities decreased \$1.4 billion, or 15%, during 2013. This decrease is largely the result of decreases in long-term debt as well as decreases in loss reserves and unearned premiums. During 2012, total liabilities increased \$1.5 billion, or 19%, largely due to increases in long-term debt, loss reserves, unearned premiums and reinsurance premiums payable.

Current liabilities are comprised primarily of loss reserves, loss adjustment expense (LAE) reserves, unearned premium, and the current portion of long-term debt. Loss and LAE reserves decreased \$162.3 million, or 11%, from 2012 to 2013. Net loss and LAE reserves related to the 2004 and 2005 hurricanes were \$68.2 million as of December 31, 2013 as compared to \$88.1 million as of December 31, 2012. The decrease in 2013 is largely due to the settlement of outstanding hurricane claims. It is expected that these loss reserves will continue to run-off through 2014 and likely beyond.

Citizens Property Insurance Corporation
Management's Discussion & Analysis

Financial Analysis (Continued)

Liabilities (Continued)

Unpaid loss and LAE reserves not related to hurricanes decreased from \$1.33 billion as of December 31, 2012 to \$1.19 billion as of December 31, 2013. The decrease during 2013 is largely due to minimal development of sinkhole reserves from prior years along with a reduction in overall sinkhole claims.

Unearned premiums decreased \$193 million, or 13% during 2013, primarily due to a decrease in premium written. During 2012 unearned premiums increased \$51.1 million, or 4%, primarily due to an increase in premium written.

Reinsurance premiums payable decreased \$48.6 million, or 26%. This decrease is the result of an overall reduction in the cost of the 2013 risk transfer program. During 2012, reinsurance premiums payable increased \$133.9 million, or 240%. This increase was the result of an increase in the level of reinsurance coverage purchased during 2012.

Operating Revenue

A summary of Citizens Statements of Revenues, Expenses and Changes in Net Position and certain key financial ratios are presented below (*in thousands*):

	2013	2012	Change (%)
Operating revenue			
Premiums earned	\$ 1,880,761	\$ 2,248,095	-16%
Operating expenses			
Losses and loss adjustment expenses incurred	750,426	1,073,616	-30%
Other underwriting expenses	492,492	563,289	-13%
Total expenses	1,242,918	1,636,905	-24%
Operating income	637,843	611,190	4%
Non-operating (expenses) revenues	(63,449)	112,279	-157%
Change in net position	\$ 574,394	\$ 723,469	-21%
Policies in-force	1,021,694	1,314,811	-22%
Policies serviced	1,387,461	1,591,813	-13%
Underwriting ratios			
Loss and LAE ratio (calendar year)	40%	48%	-8%
Expense ratio	26%	25%	1%
Combined ratio	66%	73%	-7%

Citizens Property Insurance Corporation Management's Discussion & Analysis

Financial Analysis (Continued)

Operating Revenue (Continued)

Direct written premiums decreased approximately \$419.1 million, or 13%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This decrease is the result of a 22% decrease in policies in-force due to high depopulation during 2013, partially offset by the continued implementation of the glide path rate increase. Coverage reductions or removals implemented in mid-2012 have also contributed to an overall decrease in direct written premiums. Direct written premium increased 3% to \$3.2 billion as of December 31, 2012 compared to \$3.1 billion as of December 31, 2011. This increase was the result of the implementation of the glide path rate increase during 2012, partially offset by an 11% decrease in policies in-force. Net earned premiums decreased to \$2.2 billion at December 31, 2012 as compared to \$2.3 billion at December 31, 2011, a decrease of \$3.6 million. This decrease was primarily due to an increase in ceded premiums.

Premiums ceded to the FHCF totaled \$390.9 million and \$475.2 million during 2013 and 2012, respectively, and are included in net earned premiums. The decrease in FHCF premium is attributed primarily to a decrease in overall FHCF eligible exposure.

Ceded premiums to private reinsurers decreased \$53.0 million, or 16%, as of December 31, 2013. Citizens entered into catastrophe excess of loss reinsurance treaties with private reinsurers in both 2013 and 2012. The amount of risk transferred in 2012 was \$1.5 billion as compared to the amount of risk transferred in 2013 of \$1.9 billion, reflecting an overall decrease in the cost of reinsurance purchased during 2013. During 2012, ceded premiums to private reinsurers increased \$220.4 million, or 194%. The amount of risk transferred in 2011 was \$575 million as compared to the amount of risk transferred in 2012 of \$1.5 billion. As such, the premium ceded was substantially larger for the 2012 hurricane season due to the level of reinsurance coverage purchased.

Ceded written premiums to takeout companies increased \$125.5 million, or 48%, during 2013 compared to 2012, due to a heavy volume of take-out activity resulting from continued efforts to reduce Citizens' exposure. Ceded premiums to takeout companies as of December 31, 2012 increased \$217.6 million, or 489%, compared to 2011. This increase was the direct result of an increase in the number of policies assumed from takeout companies, most notably with regards to assumption activity in November and December 2012.

Operating Expenses

Losses and LAE incurred decreased \$323.2 million, or 30%, during 2013 compared to 2012. A reduction in the number of reported sinkhole claims, minimal development of prior year sinkhole reserves, and a relatively modest storm season all contributed to the reduction in losses and LAE incurred. Losses and LAE incurred decreased \$281.2 million, or 21%, in 2012 as compared to 2011. This decrease was primarily due to a reduction in the number of sinkhole claims reported in 2012.

Citizens Property Insurance Corporation Management's Discussion & Analysis

Financial Analysis (Continued)

Operating Expenses (Continued)

Other underwriting expenses decreased \$70.8 million, or 13%, during 2013. Certain underwriting expenses such as agent commissions and premium taxes, are incurred as a percentage of direct written premium and will increase or decrease proportionately. During 2013, commissions and premium and other tax expenses consisted of 48% and 9% of other underwriting expenses, respectively. During 2012, commission and premium and other tax expenses consisted of 47% and 14% of other underwriting expenses, respectively.

Non-operating Income (Expenses)

Non-operating income (expenses) consist mainly of assessment income, net investment income, and interest expense. Non-operating income decreased \$175.7 million, or 157% during 2013 compared to 2012. This decrease corresponds with a decrease in net investment income of \$166.1 million, or 60%. The decrease in net investment income is mainly attributed to unrealized losses resulting from the difference between book value and market value of certain long-term bonds. Non-operating income increased \$44.1 million, or 65% in 2012 as compared to 2011 which corresponds with the increase in net investment income of \$77.4 million, or 39%. The 2012 increase in net investment income was mainly attributed to the increase in allocations to external investment managers and an increase in total asset portfolio.

Economic Factors

Citizens' management performs an evaluation of pre-event liquidity needs in advance of each hurricane season. As a governmental entity, Citizens has the ability to issue municipal debt on a taxable or tax-exempt basis. Pre-event bond proceeds may be accessed as needed and as permitted by the bond documents. Bank credit lines may also be a component of the pre-event liquidity program. Subsequent to year end 2007, management determined that its 2004, 2006, and 2007 auction rate securities were no longer an appropriate venue to provide liquidity given the increased interest rates required to be paid as a result of the industry-wide market turmoil of late 2007 and early 2008. These securities were redeemed in 2008. As described in Notes 7 and 10 Citizens issued fixed rate tax-exempt debt in 2012, 2011, 2010, 2009, and 2008 to fulfill its liquidity needs. Bank credit lines were secured in 2009 and 2008 to provide pre-event liquidity for those hurricane seasons.

Citizens' bond ratings are A2 / A+ / A+ from Moody's / Standard & Poor's / Fitch. Citizens' Short-Term ratings are MIG1 / SP-1+ / F1+ from Moody's / Standard & Poor's / Fitch. In 2012, Moody's, Standard & Poor's and Fitch have Stable outlooks on Citizens' credit ratings for all business lines. The ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's, 55 Water Street, New York,

Citizens Property Insurance Corporation
Management's Discussion & Analysis

Financial Analysis (Continued)

Economic Factors (Continued)

New York, 10041; and Fitch, Inc., One State Street Plaza, New York, NY 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant.

During 2013, management continued to administer programs designed to reduce the number of policies written by Citizens. Citizens' statutory mission includes providing property insurance to applicants who are in good faith entitled to obtain affordable insurance through the voluntary market but are unable to do so. Citizens' depopulation program is designed to return policies to the voluntary market. The private market has responded by removing policies from the Personal Lines Account, the Commercial Lines Account and the Coastal Account; depopulation tends to be most significant for the Personal Lines Account. During the last five years, policy counts removed from the PLA and Coastal Account were as follows:

	PLA	Coastal Account
2013	301,383	64,384
2012	252,968	24,034
2011	45,827	7,750
2010	57,561	2,231
2009	132,803	16,842

Takeout activity increased in 2013 as compared to 2012 largely due to the continued elimination of the ceding commission as well as the clearinghouse implementation that will launch during 2014. During the first quarter of 2012, Citizens removed the hold back of ceding commissions on assumptions effective the fourth quarter of 2011.

Citizens' enabling legislation and Plan of operations established a process by which Citizens Board of Governors levies assessments to recover any deficits incurred in a given year. Citizens' determination of the amount of assessment is subject to the verification of the mathematical calculation by the Office of Insurance Regulation. Citizens' ability to assess provides some assurance of its financial stability.

Citizens Property Insurance Corporation
Statements of Net Position

	December 31,	
	2013	2012
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,180,598	\$ 1,282,987
Short-term investments	1,690,797	1,792,078
Restricted cash and cash equivalents	15,339	11,112
Deferred policy acquisition costs	113,371	144,181
Investment income due and accrued	81,873	88,286
Prepaid reinsurance premiums	201,275	215,563
Reinsurance recoverable on paid losses and LAE	2,351	(4,349)
Premiums receivable	147,567	178,231
Premiums receivable from assuming companies	27,133	18,407
Current portion of deferred financing costs	21,692	23,296
Current portion of assessment receivable	51,987	72,439
Total current assets	<u>3,533,983</u>	<u>3,822,231</u>
Noncurrent assets:		
Long-term investments	11,601,585	11,972,344
Capital assets	12,362	16,505
Deferred financing costs	45,740	67,432
Assessment receivable	113,194	254,089
Other assets	7,915	9,561
Total noncurrent assets	<u>11,780,796</u>	<u>12,319,931</u>
Total assets	<u><u>\$ 15,314,779</u></u>	<u><u>\$ 16,142,162</u></u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Net Position
(Continued)

	December 31,	
	2013	2012
	<i>(In Thousands)</i>	
Liabilities and net position		
Current liabilities:		
Loss reserves	\$ 951,703	\$ 1,140,377
Loss adjustment expense reserves	303,444	278,678
Unearned premiums	1,295,266	1,488,209
Current portion of unearned assessment income	31,453	40,396
Reinsurance premiums payable	140,985	189,534
Advance premiums and suspended cash	70,440	85,824
Interest payable	25,846	31,772
Taxes and fees payable	3,143	5,989
Current portion of long-term debt	574,402	871,530
Other current liabilities	128,323	189,577
Total current liabilities	<u>3,525,005</u>	<u>4,321,886</u>
Noncurrent liabilities:		
Unearned assessment income	35,860	67,313
Long-term debt	4,420,636	4,995,038
Total noncurrent liabilities	<u>4,456,496</u>	<u>5,062,351</u>
Total liabilities	<u>7,981,501</u>	<u>9,384,237</u>
Net position:		
Invested in capital assets	12,362	16,505
Restricted	15,339	11,112
Unrestricted	7,305,577	6,730,308
Total net position	<u>7,333,278</u>	<u>6,757,925</u>
Total liabilities and net position	<u>\$ 15,314,779</u>	<u>\$ 16,142,162</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,	
	2013	2012
	<i>(In Thousands)</i>	
Operating revenue:		
Premiums earned	\$ 1,880,761	\$ 2,248,095
Operating expenses:		
Losses incurred	502,376	815,507
Loss adjustment expenses incurred	248,050	258,109
Service company fees	9,401	10,566
Agent commissions	238,742	266,353
Taxes and fees	44,969	79,994
Processing and other fees	1,335	1,413
Other underwriting expenses	198,045	205,006
Takeout bonus income	-	(43)
	<u>1,242,918</u>	<u>1,636,905</u>
Operating income	637,843	611,190
Nonoperating revenues (expenses):		
Net investment income	112,333	278,446
Interest expense	(217,432)	(214,413)
Assessment income	56,442	48,880
Line of credit fees and note issuance costs	(6,575)	(7,464)
Other (expense) income	(8,217)	6,830
Total nonoperating revenues	<u>(63,449)</u>	<u>112,279</u>
Change in net position	574,394	723,469
Net position, beginning of year	6,757,925	6,034,792
Other changes in net position	959	(336)
Net position, end of year	<u>\$ 7,333,278</u>	<u>\$ 6,757,925</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Premiums collected, net of reinsurance	\$ 1,660,111	\$ 2,088,776
Net losses and loss adjustment expenses paid	(921,033)	(1,001,131)
Payments for underwriting expenses	(457,560)	(412,018)
Net cash provided by operating activities	<u>281,518</u>	<u>675,627</u>
Cash flows from noncapital financing activities		
Debt issuance	-	1,500,000
Debt redemption	(871,530)	(317,500)
Interest paid	(250,385)	(125,620)
Assessment income received	177,393	154,773
Financing costs paid	-	8,388
Net cash (used in) provided by noncapital financing activities	<u>(944,522)</u>	<u>1,220,041</u>
Cash flows from capital and related financing activities		
Capital assets acquired	(2,290)	(12,156)
Net cash used in capital and related financing activities	<u>(2,290)</u>	<u>(12,156)</u>
Cash flows from investing activities		
Proceeds from investments sold, matured or repaid	16,953,908	8,933,048
Investments acquired	(16,386,776)	(11,110,039)
Change in restricted cash	(4,227)	614
Net cash provided by (used in) investing activities	<u>562,905</u>	<u>(2,176,377)</u>
Net decrease in cash and cash equivalents	(102,389)	(292,865)
Cash and cash equivalents:		
Beginning of year	<u>1,282,987</u>	<u>1,575,852</u>
End of year	<u>\$ 1,180,598</u>	<u>\$ 1,282,987</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows
(Continued)

	Years Ended December 31,	
	2013	2012
	<i>(In Thousands)</i>	
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 637,843	\$ 611,190
Adjustments to reconcile net cash provided by operating activities:		
Depreciation expense	6,437	4,485
(Increase) decrease in operating assets:		
Deferred policy acquisition costs	30,810	766
Prepaid reinsurance premiums	14,288	(189,674)
Reinsurance recoverable	(6,700)	7,479
Premiums receivable	14,699	(14,746)
Other assets	1,643	6,107
Increase (decrease) in operating liabilities:		
Loss and loss adjustment expense reserves	(163,908)	72,485
Unearned premiums	(192,943)	51,089
Reinsurance premiums payable	(48,549)	133,850
Advance premiums and suspended cash	(15,384)	(13,467)
Taxes and fees payable	(2,846)	(488)
Other current liabilities	6,128	6,887
Other changes in net position	-	(336)
Net cash provided by operating activities	<u>\$ 281,518</u>	<u>\$ 675,627</u>

See accompanying notes to financial statements.

Citizens Property Insurance Corporation Notes to Financial Statements

NOTE 1 – GENERAL

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes (the Act), to provide certain residential and non-residential property insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The original intent of the legislation was that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residential Property and Casualty Joint Underwriting Association (the FRPCJUA) and the Florida Windstorm Underwriting Association (the FWUA). The FRPCJUA was renamed Citizens and the FWUA's rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. Unlike private insurers offering coverage through the admitted market, Citizens is not required to obtain or to hold a certificate of authority issued by the Florida Office of Insurance Regulation (the Office). For purposes of its tax-exempt status, Citizens is considered a political subdivision and an integral part of the State of Florida. As such, Citizens' operations may be affected by the legislative process. In 2007, the Act was amended to recognize Citizens' status as a governmental entity and to add affordability as an element of Citizens' statutory mission.

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State.

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the two members appointed by each appointing officer must have a demonstrated expertise in the insurance industry. The Chief Financial Officer designates one of the appointees as the Board's chair. All Board members serve at the pleasure of their appointing officers.

Citizens' President and Chief Executive Officer (Executive Director) and senior managers are engaged by and serve at the pleasure of the Board. The Executive Director is subject to confirmation by the Florida Senate.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. Application of these criteria determines potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, Citizens is a component unit of the State of Florida, and its financial activity is reported in the state's Comprehensive Annual Financial Report by discrete presentation.

Citizens Property Insurance Corporation Notes to Financial Statements

NOTE 1 – GENERAL (CONTINUED)

The financial statements presented herein relate solely to the financial position and results of operations of Citizens and are not intended to present the financial position of the State of Florida or the results of its operations or its cash flows.

Citizens has determined that it has no component units that should be included in its separately reported financial statements. However, the Florida Market Assistance Plan (FMAP) is a financially related entity. FMAP is a 501(c)(6) entity created by Section 627.3515, Florida Statutes. FMAP was created for the purpose of assisting in the placement of applicants who are unable to procure property or casualty insurance coverage from authorized insurers when such insurance is otherwise generally available. As provided in FMAP's enabling legislation, each person serving on the Board of Citizens also serves on the Board of FMAP. In addition, Citizens is required to fund any deficit incurred by FMAP in performing its statutory purpose.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the Coastal Account. A brief history of each account follows:

Personal Lines Account History – The Florida Residential Property and Casualty Joint Underwriting Association (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 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 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 Commercial Lines Account.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 1 – GENERAL (CONTINUED)

Coastal Account History – The Florida Windstorm Underwriting Association, which was a residual market mechanism for windstorm and hail coverage in select areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. 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. 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 under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the High-Risk Account. Pursuant to legislative changes during 2011, the High-Risk Account was renamed the Coastal Account.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies and practices of Citizens conform to accounting principles generally accepted in the United States applicable to a proprietary fund of a government unit. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Citizens applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements, interpretations and codification, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Citizens' has also elected to apply all FASB statements and interpretations issued after November 30, 1989 except for those that conflict with or contradict GASB pronouncements.

GASB Statement No. 34 established standards for financial reporting for all state and local governmental entities, which includes a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows. It requires net assets to be classified and reported in three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

net position component as the unspent proceeds. As of December 31, 2013 and 2012, Citizens did not have any outstanding debt that was attributable to capital assets.

- Restricted net position – This component of net position includes assets subject to external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position – This component of net position consists of assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles (GAAP) 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus

The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of Citizens are included in the statements of net position. The Statements of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. The Statements of Cash Flows provides information about how Citizens finances and meets the cash flow needs of its activities.

Cash, Cash Equivalents, and Investments

Cash consists of demand deposits held with financial institutions, various highly liquid money market funds, other short-term corporate obligations and agency discount notes. Highly liquid investments with original maturities of three months or less at the time of acquisition are considered to be cash.

Investments consist of fixed-income securities and amounts on deposit in the Florida State Board of Administration's Florida Prime (SBA Florida Prime), formerly known as the Florida State Board of Administration's Local Government Investment Pool. Such investments are recorded at fair value, which is generally based on independent quoted market prices. If quoted market prices are not available, broker quotes or an estimation of the current liquidation values is determined through a collaborative process among various pricing experts and sources in the

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents, and Investments (Continued)

marketplace. Changes in fair value are reflected as a component of net investment income. Citizens considers all investments with remaining maturities of one year or less to be short-term and all investments with remaining maturities of less than three months to be cash equivalents. Cash and short-term investments include amounts on deposit in excess of insured limits through the Federal Deposit Insurance Corporation. Management does not consider this to represent a significant credit risk to Citizens.

Deferred Policy Acquisition Costs

Costs that are directly related to the successful acquisition of new or renewal policies are deferred and recognized over the term of the related policy. Acquisition costs that are capitalized by Citizens consist of servicing carrier fees, producer commissions, premium taxes, and other underwriting expenses comprised largely of reinspection fees, geographical data services and ISO fees. Amortization of deferred policy acquisition costs recognized for the years ended December 31, 2013 and 2012 was \$315.1 million and \$388.2 million, respectively.

Capital Assets

Capital assets are stated at cost less related accumulated depreciation. The capitalization threshold for assets purchased is \$2,500. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Depreciation expense for capital assets was \$6.4 million and \$4.5 million for the years ended December 31, 2013 and 2012, respectively.

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, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. 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 loss adjustment expense reserves.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period are recorded as unearned premiums.

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. An allowance for doubtful accounts is recorded for the estimated uncollectible amounts, and amounted to \$2.1 million and \$3.9 million at December 31, 2013 and 2012, respectively.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from premiums charged to policyholders. Operating expenses include incurred losses, loss adjustment expenses and necessary costs incurred to provide and administer residential and commercial property insurance coverage and to carry out programs for the reduction of new and renewal writings.

Assessments

Citizens' assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as a receivable in the period approved by Citizens' Board and verified by the Office for mathematical accuracy. Assessment receivables are considered to be fully collectible. Unearned assessment income consists of the additional financing costs related to the HRA post-event bond issuance that is earned out over the period during which the bonds remain outstanding.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses are recorded as a reduction to loss and LAE reserves in accordance with GASB. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include both FHCF and private catastrophic reinsurance purchases and depopulation premiums.

Deferred Financing Costs

Note issuance costs incurred in connection with issuing notes payable are deferred and amortized over the life of the note agreements.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 55.6% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach at December 31, 2013. Approximately 13.8% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties at December 31, 2013. Severe storm activity in any of these counties, or throughout the State of Florida, could have a significant impact on Citizens' future financial position and results of operations. Unlike private insurers that are subject to liquidation in the event of insolvency, Citizens is able (and statutorily required) to levy surcharges and assessments in the event of a deficit in any or all of its accounts. See Note 16 for further information.

Concentration of Credit Risk

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. As of December 31, 2013, management believes Citizens had no significant concentrations of credit risk other than those disclosed in Note 4.

Subsequent Events

Citizens has evaluated subsequent events for disclosure and recognition through May 30, 2014, the date on which these financial statements were available to be issued.

NOTE 3 – 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. 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 Citizens' significant market assumptions. The three levels of the hierarchy are as follows:

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

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.

At December 31, 2013, financial assets measured and reported at fair value are as follows (*in thousands*). Citizens has no liability-based financial instruments.

Description	Total	Level 1	Level 2	Level 3
Financial Instruments - Assets				
U.S. Treasury	\$ 1,532,328	\$ 1,528,860	\$ 3,468	-
All Other Government	23,754	-	23,754	-
States, Territories & Possessions	1,079,076	-	1,079,076	-
Political Subdivisions	1,014,183	-	1,014,183	-
Special Revenue	5,032,776	41,186	4,991,590	-
Industrial & Miscellaneous	4,226,423	1,600	4,224,823	-
Asset backed securities:				
Residential & Commercial Mortgage				
Backed	187,008	-	187,008	-
Industrial & Miscellaneous (Legacy)	196,835	-	196,835	-
Total	\$ 13,292,382	\$ 1,571,646	\$ 11,720,737	-

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. During the current reporting period, no such transfers occurred.

Bonds carried at fair value categorized as Level 2 are valued using the market approach. The estimated fair values of some of these items were determined by independent pricing services and relevant market data observable inputs. Others were based on broker quotes from markets which were not considered actively traded. Some valuations were determined to be Level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 3 – FAIR VALUE MEASUREMENTS (CONTINUED)

Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features.

NOTE 4 – INVESTMENTS

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 will govern the investment of funds and surplus that, in addition to internally managed cash, will be the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- Liquidity Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.
- Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments will be deposited in this fund.
- Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.

The Liquidity Fund taxable policy requires a minimum of half of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining half may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P or Fitch, respectively, at the time of purchase. The Claims Paying Fund taxable policy requires a minimum of 40% of all securities in its portfolio to be U.S. Government or U.S. Government Agency fixed income securities while the remaining 60% may be corporate fixed income securities rated Baa1/BBB+/BBB+ or better by Moody's, S&P and/or Fitch at the time of purchase. The Liquidity Fund and Claims Paying Fund tax-exempt policies require all securities be invested in tax exempt fixed income securities not subject to the federal alternative minimum tax rated A3/A-/A- equivalent or better by Moody's, S&P or Fitch, at the time of purchase. The investment policies provide that a significant portion of Citizens' assets should be in relatively short duration instruments and the majority of Citizens' assets should have a weighted duration consistent with the objectives of maximizing return without exposure to interest rate risk.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

Citizens may invest in fixed or variable rate instruments that have minimum ratings as specified in the investment policy by one of the Rating Agencies. Investments in the Liquidity Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 39 months and the weighted average maturity cannot exceed 365 days. Investments in the Claims Paying Fund portfolios (taxable and tax-exempt) may have a maximum maturity of 61 months and the weighted average maturity cannot exceed 3 years 6 months. In accordance with Citizens' applicable taxable and tax-exempt investment policies the majority of Citizens' bond proceeds and operating cash are managed by independent investment management firms engaged by Citizens and in part by Citizens' staff. Permitted investments generally must be rated in one of the two or three highest rating categories of each of the Rating Agencies (Moody's, S&P or Fitch), depending on the type of investment.

Citizens' short-term investments include shares held in the SBA Florida Prime. The entire \$9.4 million (cost basis) invested in the SBA Florida Prime at December 31, 2013 is invested in Fund B, which has been frozen from investor withdrawals due to that portfolio's investment in distressed illiquid assets. As principal and interest payments are received, Citizens' allocable portion is eligible for withdrawal and such withdrawals have been consistently made. Fund B is accounted for as a fluctuating net asset value pool, which had a market value factor at December 31, 2013 of 1.21063. Fund B is not rated by any nationally recognized statistical rating agency. Citizens withdrew \$22.7 million and \$8.8 million, during 2013 and 2012, respectively. Full realization of the principal value of Pool B assets is not readily determinable.

Citizens investment policy for bond proceeds is at least or more restrictive than the bond documents require.

- **Credit Risk Disclosure** - Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. All long-term and short-term securities held in the investment portfolio are rated by two of the three nationally recognized rating agencies. The following table presents the fair value by rating classification as reported by Moody's at December 31, 2013. (See discussion of rating agencies in "Economic Factors" under "Management's Discussion & Analysis").

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

Rating	Fair Value (in thousands)
Aaa	\$ 4,844,880
Aa1	1,401,770
Aa2	1,771,877
Aa3	1,208,437
A1	1,660,647
A2	1,203,399
A3	725,638
Baa1	125,739
Baa2	48,743
MIG1	25,981
NR	31,726
P-1	46,710
Default	196,835
	<u>\$ 13,292,382</u>

- **Custodial Risk Credit** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, Citizens would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Citizens had no investments with custodial credit risk as of December 31, 2013 and 2012, respectively. All investments were held by Citizens or its agent in Citizens' name.
- **Concentration of Credit Risk** – An increased risk of loss occurs as more investments are acquired from one issuer or a group of insurers with 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.
- **Interest Rate Risk** – Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Citizens measures this risk by using the weighted average maturity method. Citizens' investment policy requires that the weighted average maturity of the Liquidity Fund and Claims Paying Fund portfolios not exceed 365 days and 3.5 years, respectively. This policy takes interest rate reset dates, primarily related to tax-exempt variable rate demand notes and floating rate notes, into consideration.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

The table that follows reflects the weighted average maturity, without consideration of resets, by security type at year-end (*in thousands*). By not considering interest rate reset dates, the weighted average maturity below appears longer in duration than it would if reset dates had been considered.

	Amortized Cost	Fair Value	Weighted Average Maturity (Days)
December 31, 2013			
U.S. Treasury & Agency	\$ 1,536,436	\$ 1,532,329	843
All Other Government	23,775	23,775	829
States, Territories & Possessions	1,070,691	1,079,076	911
Political Subdivisions	1,006,772	1,014,183	950
Special Revenue	5,016,339	5,032,776	1,354
Industrial & Miscellaneous	4,348,966	4,423,236	1,352
Mortgage-backed Securities	186,181	187,007	1,120
Total	<u>\$ 13,189,160</u>	<u>\$ 13,292,382</u>	1,223

	Amortized Cost	Fair Value	Weighted Average Maturity (Days)
December 31, 2012			
U.S. Treasury & Agency	\$ 1,169,186	\$ 1,172,565	765
All Other Government	27,488	27,672	752
States, Territories & Possessions	1,158,305	1,171,064	1,049
Political Subdivisions	1,197,715	1,208,278	1,166
Special Revenue	6,106,770	6,144,020	1,498
Industrial & Miscellaneous	3,827,038	3,933,407	955
Loan-Backed and Structured Securities:	-	-	
Mortgage-backed Securities	104,962	106,626	1,326
Other Loan-backed Securities	800	790	694
Total	<u>\$ 13,592,264</u>	<u>\$ 13,764,422</u>	1,210

No other types of investments or securities were held during the year that were sold before year-end.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 4 – INVESTMENTS (CONTINUED)

- **Foreign Currency Risk** – Citizens had no investments with foreign currency risk at December 31, 2013 and 2012, respectively. All investments are settled in U.S. dollars.

Sources and uses of investment income for the years ended December 31, 2013 and 2012 were as follows (*in thousands*):

	2013	2012
Income earned		
U.S. Government bonds	\$ 6,125	\$ 5,166
Bonds exempt from U.S. Tax	56,622	54,181
Other bonds	69,551	71,949
Cash, cash equivalents and short-term investments	2,809	4,967
Total gross investment income earned	<u>135,107</u>	<u>136,263</u>
Capital gains		
U.S. Government Bonds	677	3,578
Bonds exempt from U.S. Tax	12,024	7,064
Other bonds	19,814	26,284
Cash, cash equivalents and short-term investments	20,313	24,367
Total realized gain on sales	<u>52,828</u>	<u>61,293</u>
Market value adjustment	(68,934)	87,268
Investment expenses	(6,668)	(6,378)
Net investment income	<u>\$ 112,333</u>	<u>\$ 278,446</u>

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 5 – CAPITAL ASSETS

A summary of changes in capital assets and depreciation for the year ended December 31, 2013 follows (*in thousands*):

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
Leasehold improvements	\$ 7,941	\$ 14	\$ -	\$ 7,955
Furniture and equipment	48,236	1,988	(1)	50,223
Other capital assets	33,027	296	(34)	33,289
Totals at historical cost	<u>89,204</u>	<u>2,298</u>	<u>(35)</u>	<u>91,467</u>
Less accumulated depreciation for:				
Leasehold improvements	(4,724)	(759)	-	(5,483)
Furniture and equipment	(36,166)	(5,133)	-	(41,299)
Other capital assets	(31,809)	(544)	30	(32,323)
	<u>(72,699)</u>	<u>(6,436)</u>	<u>30</u>	<u>(79,105)</u>
	<u>\$ 16,505</u>	<u>\$ (4,138)</u>	<u>\$ (5)</u>	<u>\$ 12,362</u>

A summary of changes in capital assets and depreciation for the year ended December 31, 2012 follows (*in thousands*):

	Beginning Balance	Additions	Reductions/ Adjustments	Ending Balance
Leasehold improvements	\$ 7,843	\$ 98	\$ -	\$ 7,941
Furniture and equipment	37,532	10,706	(2)	48,236
Other capital assets	31,675	1,352	-	33,027
Totals at historical cost	<u>77,050</u>	<u>12,156</u>	<u>(2)</u>	<u>89,204</u>
Less accumulated depreciation for:				
Leasehold improvements	(3,969)	(755)	-	(4,724)
Furniture and equipment	(32,994)	(3,174)	2	(36,166)
Other capital assets	(31,253)	(556)	-	(31,809)
	<u>(68,216)</u>	<u>(4,485)</u>	<u>2</u>	<u>(72,699)</u>
	<u>\$ 8,834</u>	<u>\$ 7,671</u>	<u>\$ -</u>	<u>\$ 16,505</u>

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 6 – LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the net liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2013 and 2012 were as follows (*in thousands*):

	2013	2012
Direct loss and loss adjustment expense reserves, beginning of year	\$ 1,434,337	\$ 1,372,647
Less reinsurance recoverables on reserves	<u>(15,282)</u>	<u>(26,076)</u>
Net loss and loss adjustment expense reserves, beginning of year	1,419,055	1,346,571
Incurred related to:		
Current accident year	684,549	1,049,646
Prior accident years	<u>65,877</u>	<u>23,970</u>
	750,426	1,073,616
Paid related to:		
Current accident year	352,354	516,059
Prior accident years	<u>560,353</u>	<u>485,073</u>
	912,707	1,001,132
Retroactive reinsurance reserves ceded	<u>(1,627)</u>	<u>-</u>
Net loss and loss adjustment expense reserves, end of year	1,255,147	1,419,055
Add reinsurance recoverables on reserves	<u>12,155</u>	<u>15,282</u>
Direct loss and loss adjustment expense reserves, end of year	<u>\$ 1,267,302</u>	<u>\$ 1,434,337</u>

As a result of changes in estimates of insured events in prior years, primarily due to the re-estimation of costs relating to prior year litigated sinkhole claims, the provision for loss and LAE increased by approximately \$65.9 million and \$24.0 million, net of reinsurance, in 2013 and 2012, respectively. Increases or decreases of this nature occur as a result of claim settlements during the current year, and as additional information is received regarding individual claims, causing changes from the original estimates of the cost of these claims.

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 per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as loss adjustment expenses.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 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 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 considered as 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.

The effect of reinsurance on premiums written and earned is as follows (*in thousands*):

	2013		2012	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct premiums	\$ 2,761,638	\$ 2,954,580	\$ 3,180,755	\$ 3,129,666
Ceded premiums	<u>(1,059,530)</u>	<u>(1,073,819)</u>	<u>(1,071,246)</u>	<u>(881,571)</u>
Net premiums	<u>\$ 1,702,108</u>	<u>\$ 1,880,761</u>	<u>\$ 2,109,509</u>	<u>\$ 2,248,095</u>

Coverage and retention amounts, by layer of coverage, were as follows (*rounded, in thousands*):

	December 31, 2013			
	Coastal Account		PLA/CLA	
	<u>Coverage</u>	<u>Retention</u>	<u>Coverage</u>	<u>Retention</u>
Layer 1 (FHCF)	\$ 3,029,000	\$ 1,229,000	\$ 2,196,000	\$ 891,000
Layer 2	604,000	1,351,000	N/A	N/A
Layer 3	250,000	5,139,000	N/A	N/A
Layer 4	1,000,000	5,445,000	N/A	N/A
	<u>\$ 4,883,000</u>		<u>\$ 2,196,000</u>	

	December 31, 2012			
	Coastal Account		PLA/CLA	
	<u>Coverage</u>	<u>Retention</u>	<u>Coverage</u>	<u>Retention</u>
Layer 1 (FHCF)	\$ 3,619,000	\$ 1,510,000	\$ 2,941,000	\$ 1,227,000
Layer 2	1,000,000	6,350,000	N/A	N/A
Layer 3	500,000	7,350,000	N/A	N/A
	<u>\$ 5,119,000</u>		<u>\$ 2,941,000</u>	

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 7 – REINSURANCE AGREEMENTS (CONTINUED)

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (See Note 12), as well as premium ceded under 100% private quota share arrangements.

Ceded loss and LAE incurred were \$2.3 million and (\$12.3) million during 2013 and 2012, respectively.

Amounts recoverable from reinsurers on unpaid losses and loss adjustment expenses are estimated based on the allocation of estimated unpaid losses and loss adjustment expenses among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

NOTE 8 – LONG-TERM DEBT

Series 2007A Senior Secured Refunding Bonds – On February 26, 2007 Citizens issued \$1.06 billion of tax exempt post event High-Risk Account Senior Secured Refunding Bonds, Series 2007A for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the Florida Windstorm Underwriting Association ("FWUA"), a predecessor of Citizens. In order to refund these notes Citizens paid a make whole call premium at the time of refunding, amounting to \$181.1 million that was calculated on the current yield of a twelve year treasury note plus 30 basis points. The 2007A bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$111.5 million and \$106.1 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized premiums were \$513.6 million and \$629.8 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 4.11%.

Series 2009 Senior Secured Bonds – On May 7, 2009 Citizens issued \$1.02 billion of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-1 and \$625 million of High-Risk Account tax-exempt Senior Secured Bonds, Series 2009A-2 (short-term notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2009A-1 bonds bear interest ranging from 4.00% to 6.00% per annum, payable semi-annually on June 1st and December 1st. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$0 and \$106.4 million during 2013 and 2012, respectively. Outstanding maturities net of unamortized

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

premiums were \$917.7 million and \$919.4 million, respectively, as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 5.40%.

Series 2010 Senior Secured Bonds – On April 6, 2010 Citizens issued \$1.55 billion of High-Risk Account tax-exempt senior secured bonds, Series 2010A-1, \$500 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-2 (short-term notes) and \$350 million of High-Risk Account tax-exempt senior secured bonds, Series 2010A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2010A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2010A-3 bonds have a variable interest rate (SIFMA rate plus 1.75%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$560 million and \$0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$1.36 billion and \$1.94 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 3.75%.

Series 2011 Senior Secured Bonds – On July 14, 2011 Citizens issued \$645 million of Coastal Account tax-exempt senior secured bonds, Series 2011A-1, \$105 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-2 (short-term notes) and \$150 million of High-Risk Account tax-exempt senior secured bonds, Series 2011A-3 (SIFMA floating rate notes) for the purpose of funding losses in the event of a future catastrophe. The Series 2011A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable semi-annually on June 1st and December 1st. The Series 2011A-3 bonds have a variable interest rate (SIFMA rate plus 1.76%) per annum, payable monthly in arrears on the first day of each calendar month. The bonds are secured by pledged revenues which consist of monies and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$0 and \$105 million during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$809.1 million and \$813.1 million as of December 31, 2013 and 2012. The effective interest rate, calculated as the "All-in True Interest Cost", was 4.13%.

Series 2012 Senior Secured Bonds – On June 21, 2012 Citizens issued \$1.10 billion of PLA-CLA tax-exempt senior secured bonds, Series 2012A-1, \$200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-2 (short-term notes) and \$200 million of PLA-CLA tax-exempt senior secured bonds, Series 2012A-3 (SIFMA floating rate notes) for the purpose of funding policyholder claims obligations in the event of a future catastrophe. The Series 2012A-1 bonds bear interest ranging from 3.00% to 5.00% per annum, payable on December 1, 2012 and semi-annually on June 1st and December 1st thereafter. The Series 2012A-2 bonds bear interest of 2.50% per annum, payable at their maturity on June 1, 2013. The Series 2012A-3 bonds bear interest based on the SIFMA rate (initially 0.16%) plus 1.25% per annum, payable monthly in arrears on the first day of each calendar month commencing August 1, 2012. The bonds are secured by pledged revenues which consist of monies and investments held in accounts

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The principal reduction on these notes was \$200 million and \$0 during 2013 and 2012. Outstanding maturities net of unamortized premiums were \$1.39 billion and \$1.61 billion as of December 31, 2013 and 2012. The effective interest rate, calculated as the “All-in True Interest Cost”, was 3.10%.

A schedule of bond maturities is as follows (*in thousands*):

Years ending December 31	Series 2007 Bonds	Series 2009 Bonds	Series 2010 Bonds	Series 2011 Bonds	Series 2012 Bonds	Total
2014	\$ 117,220	\$ 168,055	\$ 100,000	\$ 150,000	\$ -	\$ 535,275
2015	123,225	-	410,000	80,000	275,000	888,225
2016	129,540	403,085	305,000	90,000	125,000	1,052,625
2017	136,165	343,500	525,000	-	130,000	1,134,665
2018	-	-	-	125,000	130,000	255,000
After	-	-	-	350,000	640,000	990,000
	<u>\$ 506,150</u>	<u>\$ 914,640</u>	<u>\$ 1,340,000</u>	<u>\$ 795,000</u>	<u>\$ 1,300,000</u>	<u>\$ 4,855,790</u>

A schedule of debt service requirements, including principal and interest, is as follows (*in thousands*):

Years ending December 31	Principal	Interest	Total
2014	\$ 535,275	\$ 220,436	\$ 755,711
2015	888,225	189,633	1,077,858
2016	1,052,625	141,663	1,194,288
2017	1,134,665	84,491	1,219,156
2018	255,000	54,483	309,483
After	990,000	\$ 76,902	1,066,902
	<u>\$ 4,855,790</u>	<u>\$ 767,607</u>	<u>\$ 5,623,397</u>

Total deferred issuance costs related to all notes was \$67.4 million and \$90.7 million at December 31, 2013 and 2012. Total bond premium related to all notes was \$139.3 million and \$183.0 million at December 31, 2013 and 2012 and is included in long-term debt balance.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 8 – LONG-TERM DEBT (CONTINUED)

A summary of changes in long-term liabilities for the year ended December 31, 2013 follows (*in thousands*):

	December 31, 2012	Additions	Reductions	December 31, 2013	Due within one year
Bonds payable - face	\$ 5,727,320	\$ -	\$ (871,530)	\$ 4,855,790	\$ 535,275
Premium, net	182,996	-	(43,748)	139,248	39,127
Bonds payable	<u>\$ 5,910,316</u>	<u>\$ -</u>	<u>\$ (915,278)</u>	<u>\$ 4,995,038</u>	<u>\$ 574,402</u>

Sources and uses of investment expense for the years ended December 31, were as follows (*in thousands*):

	2013	2012
Interest expense		
2007A Bond Series	\$ (21,494)	\$ (25,889)
2009A Bond Series	(49,827)	(51,832)
2010A Bond Series	(59,832)	(67,817)
2011A Bond Series	(30,184)	(30,723)
2012A Bond Series	(39,374)	(21,431)
Change in deferral - loss on refunding of 1999 bonds	(16,721)	(16,721)
Total interest expense	<u>\$ (217,432)</u>	<u>\$ (214,413)</u>

NOTE 9 – 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 were \$238.7 million and \$266.4 million during 2013 and 2012, respectively.

Additionally, Citizens renewed 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 \$50.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were \$9.4 million and \$10.6 million, during 2013 and 2012, respectively.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 10 – 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 in 2013 or 2012.

NOTE 11 – RETIREMENT PLAN

Deferred Compensation 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 \$3.8 million and \$3.4 million for the years ended December 31, 2013 and 2012, respectively.

NOTE 12 – 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 (Assumption Agreement). In an assumption, the 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 2013 and 2012, Citizens ceded \$387.6 million and \$262.1 million in premiums to Takeout Companies pursuant to Assumption Agreements.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. However, during

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 12 – DEPOPULATION (CONTINUED)

February 2012, Citizens Board of Governors eliminated the ceding commission for all assumption agreements effective after October 1, 2011. While Citizens is not liable to cover claims after the assumption (unless the assumed insured exercises its option to return to Citizens during the assumption period), Citizens continues to service policies for items such as policyholder endorsements or cancellation refunds. Should Citizens process and provide a refund to policyholders, such amount is subsequently collected from the Takeout Company. At December 31, 2013 and 2012, assumed premiums recoverable in the amount of \$27.1 million and \$18.4 million, respectively, were due from certain Takeout Companies.

NOTE 13 – OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$8.5 million and \$7.0 million for the years ended December 31, 2013 and 2012, 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. Future minimum payments under operating leases are as follows (*in thousands*):

2014	\$ 5,324
2015	3,452
2016	1,456
2017	913
Total	<u>\$11,145</u>

NOTE 14 – 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:

Schirmer v. Citizens. This case was presented as a putative class action where the potential class members are Citizens' policyholders who made wind damage claims. At issue is whether

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Citizens appropriately calculated and paid overhead and profit policy benefits. On February 15, 2012, the trial court declined to certify a class in this matter. While the 30 day timeframe for the Plaintiff to pursue an interlocutory appeal of the court's decision has passed, the underlying claim of the named Plaintiff is pending. Should the Plaintiff choose to litigate his remaining claim, he could seek appellate review at the conclusion of the matter in its entirety.

Davis & Hernandez v. Citizens. This is a putative class action. The court has not certified the class. Potential class members are Citizens' policyholders who presented a claim for damage to their residential property from April 2006 to present. At issue is whether Citizens appropriately calculated and paid overhead and profit policy benefits.

Citizens v. Perdido Sun. Citizens is currently involved in a case before the Florida Supreme Court, *Citizens v. Perdido Sun Condominium*, which raises the issue of whether Citizens has immunity against a cause of action asserting statutory bad faith pursuant to Section 624.155 Florida Statute. An appellate court in Florida recently ruled that a statutory bad faith claim can be brought against Citizens. In 2010, another Florida appellate court had concluded that Citizens has immunity from such claims. The Florida Supreme Court has accepted jurisdiction of the *Citizens v. Perdido Sun* case to resolve this conflict among the lower Florida appellate courts. A decision which rules that Citizens was subject to bad faith claims could have a material adverse impact on Citizens.

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. As of the end of 2013, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general 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.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 15 – RECONCILIATION OF SAP TO GAAP

Reconciliation of Citizens' 2013 and 2012 statutory basis net income and accumulated surplus to its GAAP basis (as determined by the Governmental Accounting Standards Board) net assets is as follows (*in thousands*):

	2013	2012
Net income - statutory basis	\$ 665,346	\$ 664,816
Adjustments:		
Deferred policy acquisition costs	(30,810)	(766)
Line of credit fees and note issuance costs	(23,295)	(15,852)
Allowance for doubtful accounts	1,814	(1,456)
Unearned assessment income	14,230	17,218
FIGA assessment income	16,046	(27,759)
Net unrealized (loss) gain on investments	(68,937)	87,268
Change in net assets - GAAP basis	<u>\$ 574,394</u>	<u>\$ 723,469</u>
	2013	2012
Accumulated surplus - statutory basis	\$ 7,008,208	\$ 6,295,157
Adjustments:		
Deferred policy acquisition costs	113,371	144,181
Nonadmitted assets	74,590	104,071
Provision for reinsurance	1,881	2,047
Deferred note issuance costs	67,432	90,728
Unearned assessment income	(23,712)	(22,658)
FIGA assessment recoverable	(11,714)	(27,759)
Net unrealized gain on investments	103,222	172,158
Change in net assets - GAAP basis	<u>\$ 7,333,278</u>	<u>\$ 6,757,925</u>

NOTE 16 – ASSESSMENTS

Citizens' enabling legislation and the Plan establish a process by which Citizens is required to levy assessments to recover deficits incurred in a given plan year for any of its three accounts. Deficits are calculated separately, and assessments are accordingly levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GAAP, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the "Citizens Policyholder Surcharge") in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge will be treated as failure to pay

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 16 – ASSESSMENTS (CONTINUED)

premium. If the Citizens Policyholder Surcharge is insufficient to eliminate the deficit in an Account, Citizens would then levy a Regular Assessment on Assessable Insurers and Assessable Insureds, each as defined herein. The Regular Assessment is applied as a uniform percentage of the premium of the policy up to 2% of such premium of the Coastal account only. Effective July 1, 2012, the Regular Assessment was eliminated for the PLA and CLA accounts and was reduced from 6% to 2% for the Coastal Account.

Regular Assessments are levied on Assessable Insurers, as defined in Section 627.351(6), Florida Statutes, based upon each Assessable Insurer's share of direct written premium for the subject lines of business in the State of Florida for the calendar year preceding the year in which the deficit occurred. Regular Assessments on Assessable Insureds, collectively, are based on the ratio of the amount being assessed for the Coastal Account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

If the deficit in any year in any Account is greater than the amount that may be recovered through Citizens' Policyholder Surcharges and Regular Assessments, Citizens is required to levy any remaining Plan Year Deficit as an Emergency Assessment. An Emergency Assessment is to be collected by all Assessable Insurers, Surplus Lines Agents and Citizens from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the Plan Year Deficit in the Account. The primary difference between the assessment base for Regular Assessments and Emergency Assessments is the inclusion of Citizens' direct written premium in the assessment base for Emergency Assessments.

For purposes of Regular Assessments and Emergency Assessments, the "Subject Lines of Business" are all lines of property and casualty insurance, including automobile lines, but excluding accident and health, workers' compensation, and medical malpractice insurance, and also excluding insurance under the National Flood and Federal Crop insurance programs. The Regular Assessment base excludes Citizens policies (while the Emergency Assessment base includes Citizens policies). Prior to the enactment of the 2007 Legislation, the Regular Assessment base for each Account included only property lines of business.

The Legislature, in Section 44 of 2006 SB 1980, appropriated \$715 million to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of \$87.2 million and \$4.6 million, respectively. The balance of \$623.2 million then partially reduced the High Risk Account deficit and Regular Assessment. The remaining \$163.1 million High Risk Account Regular Assessment and the \$887.5 million Emergency Assessment were approved in 2006. The Emergency Assessment is being collected over a ten year period, which commenced July 1, 2007.

In November 2012, Citizens received a notice of assessment from the Florida Insurance Guaranty Association (FIGA) amounting to \$27.8 million. In December 2012, Citizens remitted payment for this assessment and submitted an informational filing with the Office of Insurance Regulation for recoupment.

Citizens Property Insurance Corporation
Notes to Financial Statements

NOTE 17 - RESTRICTED CASH

This restriction of cash surplus represents assessments that were, in accordance with the Act, 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.

Citizens Property Insurance Corporation
Supplemental Combining Statement of Net Position

December 31, 2013

	Combined	Personal Lines Account <i>(In Thousands)</i>	Commercial Lines Account	Coastal Account
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,180,598	\$ 265,267	\$ 232,570	\$ 682,761
Short-term investments	1,690,797	346,344	69,222	1,275,231
Restricted cash and cash equivalents	15,339	-	-	15,339
Deferred policy acquisition costs	113,371	48,694	11,562	53,115
Investment income due and accrued	81,873	24,209	6,314	51,350
Prepaid reinsurance premiums	201,275	159,176	-	42,099
Reinsurance recoverable on paid losses and LAE	2,351	2,108	-	243
Premiums receivable	147,567	65,941	4,989	76,637
Premiums receivable from assuming companies	27,133	21,164	-	5,969
Current portion of deferred financing costs	21,692	1,237	148	20,307
Current portion of assessment receivables	51,987	81	4,540	47,366
Total current assets	<u>3,533,983</u>	<u>934,221</u>	<u>329,345</u>	<u>2,270,417</u>
Noncurrent assets:				
Long-term investments	11,601,585	4,407,702	1,565,106	5,628,777
Capital assets	12,362	12,362	-	-
Deferred financing costs	45,740	3,330	376	42,034
Assessment receivables	113,194	-	-	113,194
Other assets	7,915	7,905	-	10
Inter-account receivable (payable)	-	55,069	(26,898)	(28,171)
Total noncurrent assets	<u>11,780,796</u>	<u>4,486,368</u>	<u>1,538,584</u>	<u>5,755,844</u>
Total assets	<u>\$ 15,314,779</u>	<u>\$ 5,420,589</u>	<u>\$ 1,867,929</u>	<u>\$ 8,026,261</u>
Liabilities and net assets				
Current liabilities:				
Net loss reserves	\$ 951,703	\$ 723,809	\$ 106,237	\$ 121,657
Net loss adjustment expense reserves	303,444	225,939	29,650	47,855
Unearned premiums	1,295,266	664,285	89,146	541,835
Current portion of unearned assessment income	31,453	-	-	31,453
Reinsurance premiums payable	140,985	-	-	140,985
Advance premiums and suspended cash	70,440	30,864	6,272	33,304
Interest payable	25,846	4,294	493	21,059
Taxes and fees payable	3,143	2,711	586	(154)
Current portion of long-term debt	574,402	17,057	2,039	555,306
Other current liabilities	128,323	94,847	4,073	29,403
Total current liabilities	<u>3,525,005</u>	<u>1,763,806</u>	<u>238,496</u>	<u>1,522,703</u>
Noncurrent liabilities:				
Unearned assessment income	35,860	-	-	35,860
Long-term debt	4,420,636	1,231,157	141,290	3,048,189
Total noncurrent liabilities	<u>4,456,496</u>	<u>1,231,157</u>	<u>141,290</u>	<u>3,084,049</u>
Total liabilities	<u>7,981,501</u>	<u>2,994,963</u>	<u>379,786</u>	<u>4,606,752</u>
Net position:				
Invested in capital assets	12,362	12,362	-	-
Restricted	15,339	-	-	15,339
Unrestricted	7,305,577	2,413,264	1,488,143	3,404,170
Total net positions	<u>7,333,278</u>	<u>2,425,626</u>	<u>1,488,143</u>	<u>3,419,509</u>
Total liabilities and net position	<u>\$ 15,314,779</u>	<u>\$ 5,420,589</u>	<u>\$ 1,867,929</u>	<u>\$ 8,026,261</u>

See independent auditors report on supplementary information
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Citizens Property Insurance Corporation
Supplemental Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended December 31, 2013

	Combined	Personal Lines Account <i>(In Thousands)</i>	Commercial Lines Account	Coastal Account
Operating revenue:				
Premiums earned	\$ 1,880,761	\$ 1,142,449	\$ 162,457	\$ 575,855
Operating expenses:				
Losses incurred	502,376	414,386	14,892	73,098
Loss adjustment expenses incurred	248,050	187,182	8,988	51,880
Service company fees	9,401	6,502	-	2,899
Agent commissions	238,742	114,135	21,979	102,628
Taxes and fees	44,969	25,048	3,243	16,678
Processing and other fees	1,335	-	1,055	280
Other underwriting expenses	198,045	114,222	9,750	74,073
Total operating expenses	<u>1,242,918</u>	<u>861,475</u>	<u>59,907</u>	<u>321,536</u>
Operating income	637,843	280,974	102,550	254,319
Nonoperating revenues (expenses):				
Net investment income	112,333	31,383	7,706	73,244
Interest expense	(217,432)	(35,318)	(4,055)	(178,059)
Assessment income	56,442	7,871	1,389	47,182
Line of credit fees and note issuance costs	(6,575)	(1,635)	(217)	(4,723)
Other income	(8,217)	(7,674)	(45)	(498)
Total nonoperating revenues (expenses)	<u>(63,449)</u>	<u>(5,373)</u>	<u>4,778</u>	<u>(62,854)</u>
Change in net position	574,394	275,601	107,328	191,465
Net position, beginning of year	6,757,925	2,150,026	1,380,814	3,227,085
Other changes in net position	959	-	-	959
Net position, end of year	<u>\$ 7,333,278</u>	<u>\$ 2,425,627</u>	<u>\$ 1,488,142</u>	<u>\$ 3,419,509</u>

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Citizens Property Insurance Corporation
Supplemental Revenues, Expenses and Claim Development Information
(in Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net earned premiums and investment revenue	\$ 1,129,092	\$ 1,143,973	\$ 2,289,760	\$ 3,417,277	\$ 2,268,368	\$ 1,822,227	\$ 2,088,293	\$ 2,452,744	\$ 2,526,541	\$ 1,993,094
Unallocated expenses	191,333	227,795	321,522	569,661	442,570	342,840	293,047	366,109	507,579	444,267
Estimated incurred claims and expense, end of policy year	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549
Paid (cumulative) as of:										
End of policy year	1,145,602	1,005,020	157,640	353,312	413,175	307,072	330,603	501,310	516,059	352,354
One year later	2,952,024	2,114,174	291,045	555,540	622,104	472,476	553,965	799,332	785,930	
Two years later	3,234,575	2,227,283	326,997	625,868	675,168	532,779	643,424	965,456		
Three years later	3,377,401	2,286,765	341,906	661,758	698,220	553,356	702,357			
Four years later	3,459,449	2,328,746	350,721	677,041	709,550	566,641				
Five years later	3,515,881	2,350,722	355,658	683,229	732,381					
Six years later	3,548,759	2,373,190	357,534	688,043						
Seven years later	3,562,464	2,426,212	358,381							
Eight years later	3,566,951	2,446,868								
Nine years later	3,569,943									
Reestimated incurred claims and expense:										
End of policy year	2,721,512	2,138,004	339,770	692,583	839,708	674,431	786,223	1,236,012	1,049,647	684,549
One year later	3,285,721	2,205,877	354,194	678,130	753,244	651,058	876,415	1,237,713	1,068,384	
Two years later	3,539,287	2,374,726	359,950	693,332	750,380	624,955	886,308	1,259,076		
Three years later	3,546,902	2,406,456	358,122	697,792	738,966	622,057	893,876			
Four years later	3,615,254	2,413,674	360,230	701,651	738,733	622,963				
Five years later	3,588,748	2,406,633	360,996	700,302	747,942					
Six years later	3,593,577	2,476,606	360,694	702,670						
Seven years later	3,584,632	2,494,017	361,555							
Eight years later	3,585,054	2,497,925								
Nine years later	3,586,011									
Increase (decrease) in estimated incurred claims and expense from end of policy year	957	3,908	861	2,368	9,209	906	7,568	21,363	18,737	—

See independent auditors report on supplementary information
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Board of Governors
Citizens Property Insurance Corporation

We have audited the basic financial statements of Citizens Property Insurance Corporation (Citizens), a component unit of the State of Florida, as of and for the year ended December 31, 2013 and have issued our report thereon dated May 30, 2014. We conducted our audit in accordance with auditing standards generally accepted in the and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the .

Internal Control over Financial Reporting

Management of Citizens Property Insurance Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Citizens Property Insurance Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citizens Property Insurance Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Citizens Property Insurance Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Citizens Property Insurance Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Governors, others within the entity, and Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Johnson Lambert LLP'.

Jacksonville, Florida
May 30, 2014

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APPENDIX E

**CITIZENS PROPERTY INSURANCE CORPORATION
PLAN OF OPERATION**

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**CITIZENS PROPERTY INSURANCE CORPORATION
PLAN OF OPERATION**

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This Plan of Operation (the "Plan") is effective 8/01/2002 (the "Effective Date"). Certain amendments subsequent to the Effective Date of the Plan are denoted by specific references to the effective date of such amendments.

**CITIZENS PROPERTY INSURANCE CORPORATION
PLAN OF OPERATION**

SECTION 1

NAME

The organization shall be known as the Citizens Property Insurance Corporation, hereafter referred to as the "Corporation", with its headquarters in Tallahassee, Florida, or such other place within the State of Florida as the Board of Governors may determine.

SECTION 2

PURPOSE

The Corporation has been established in accordance with the provisions of §627.351(6), F. S., as amended (the "Statute") to provide certain personal and commercial coverages to qualified risks under circumstances specified in the Statute. The Corporation is a governmental entity that is an integral part of the State, and is not a private insurance company.

This Plan of Operation (the "Plan") is adopted to set forth and establish the structure, function, procedures and powers of the Corporation.

SECTION 3

POLICYHOLDER DECLARATION OF RIGHTS

There is created a Declaration of Rights for Citizens Property Insurance Corporation so that policyholders and applicants receive quality customer service and are treated with the utmost respect, courtesy, and professionalism. Policyholders and applicants of Citizens should expect:

(A) The Right to Courteous, Prompt, and Professional Customer Service Citizens will implement this right by the following:

- (1) Providing quality customer service to policyholders, applicants and agents, and will communicate and emphasize this expectation to our employees, agents, and vendors.
- (2) Providing telephonic, electronic and written means for consumers to contact Citizens directly with inquiries, questions, or complaints.
- (3) Answering telephone calls, emails and letters with knowledgeable and professional responses in a timely manner.

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- (4) Developing, implementing and maintaining specific methods for responding to and resolving consumer complaints, including a method for escalation of unresolved complaints to supervisors and other decision makers.
 - (5) Maintaining a unit responsible for receiving and responding to consumer complaints, which unit or division is the sole responsibility of a Senior Manager of Citizens.
 - (6) Tracking and monitoring consumer complaints and issues, and report any trends or problems to the Senior Manager.
 - (7) Continuing to provide customer service education for employees.
 - (8) Developing and implementing customer service measures with respect to timeliness, responsiveness, accuracy of information, and customer courtesy, and we will monitor, evaluate and enforce employee performance of such service.
 - (9) Refunding return premiums due to policyholders promptly.
- (B) The Right to Fair, Prompt and Professional Claims Service Citizens will implement this right by the following:**
- (1) Providing quality claims service to our policyholders and will communicate and emphasize this expectation to adjusters and employees.
 - (2) Providing consumers with directions on how to report claims in case of a loss.
 - (3) Ensuring our insurance adjusters are licensed under Florida law.
 - (4) Providing fast, fair, honest and accurate claims service.
 - (5) Providing a method for a consumer to contact us regarding issues with their claim.
 - (6) Monitoring the service levels of our adjusters and claims professionals.
 - (7) Ensuring there are sufficient personnel to accomplish processing customer claims and achieve other corporate responsibilities.
- (C) The Right to Prompt, Professional Service from our Citizens' Insurance Agent Citizens will implement this right by the following:**
- (1) Appointing only agents that are licensed under Florida law.
 - (2) Educating our agents so they can provide knowledgeable and professional service about our products.

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- (3) Providing a method for consumers to report problems with an agent.
 - (4) Investigating and responding to complaints about an agent in a timely manner.
 - (5) Allowing consumers the right to choose among Citizens' appointed insurance agents.
 - (6) Developing and monitoring customer service standards for agents who provide service to policyholders and applicants.
 - (7) Auditing our agents' performance, and if violations are discovered, disciplining such agents as necessary to ensure that agents perform according to Citizens' underwriting guidelines and customer service expectations.
 - (8) Instructing our agents to provide a customized quote if requested by a consumer.
 - (9) Instructing our agents to explain the coverage offered by our policies.
- (D) The Right to Know about Citizens, our Products, and our Services Citizens will implement this right by the following:**
- (1) Working cooperatively with the Department's Division of Consumer Services, the Office of Insurance Regulation, and the Insurance Consumer Advocate to communicate and educate consumers on Citizens' procedures and major issues of concern, such as upcoming rate increases or changes in underwriting rules.
 - (2) Developing education and communication tools to inform policyholders and applicants about our products and services and methods to lower their premiums, including information about windstorm mitigation credits and deductibles.
 - (3) Including a checklist of coverage with our policies.
 - (4) Providing policyholders statutorily compliant notice of renewal provisions.
 - (5) Providing policyholders statutorily compliant notice of cancellation or nonrenewal.

SECTION 4

DEFINITIONS

As used in this Plan:

- (A) "Account" or "Accounts" shall mean either the Personal Lines Account, the Commercial Lines Account, or the Coastal Account or collectively all of such Accounts, as the context may require, established pursuant to Section 18.

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- (B) "Agent" means a licensed agent appointed by the Corporation in accordance with the requirements set forth in Section 7(l)(16).
- (C) "Assessable Insureds" means insureds who procure one or more of the Subject Lines of Business in the State from an insurer writing such coverage pursuant to the Surplus Lines Law and are subject to Assessment by the Corporation, as otherwise provided in Section 5. An individual insured may sometimes herein be referred to as an "Assessable Insured."
- (D) "Assessable Insurers" means insurers holding a Florida certificate of authority permitting such insurer to write one or more of the Subject Lines of Business in the State, as otherwise provided in Section 5. An individual insurer may sometimes herein be referred to as an "Assessable Insurer."
- (E) "Assessments" means Interim Assessments, Regular Assessments and Emergency Assessments authorized hereunder, or any one or more of them as the context may require.
- (F) "Board" means the Board of Governors of the Corporation as determined and constituted under the Statute.
- (G) "Bond" or "Bonds" means bonds, notes, certificates, and any other instrument evidencing financial indebtedness or other borrowing, any one of such instruments, or an issue of such instruments, as appropriate in the context authorized to be issued pursuant to the Statute and the Plan.
- (H) "Citizens Policyholder Surcharge" means the surcharge levied or to be levied upon Corporation policyholders for plan year deficits incurred in calendar year 2008 or any subsequent calendar year, pursuant to §627.351(6)(c)11., F. S., and Section 16(F).
- (I) "Clearinghouse" means the organizational unit established pursuant to s. 627.3518, F. S. for the purpose of confirming eligibility with the Corporation and to enhance access of new applicants for coverage and existing policyholders of the corporation to offers of coverage from authorized insurers.
- (J) "Coastal Account" means all revenues, assets, liabilities, losses and expenses of the Corporation attributable to the writing of personal residential, commercial residential, commercial non-residential and Quota Share Primary Insurance policies specified in Section 10. The removal of any territory from the Eligible Areas for wind-only or Quota Share Primary Insurance policies does not alter the assignment of wind coverage written by the Corporation in such territory to the Coastal Account.
- (K) "Commercial Lines Account" means all revenues, assets, liabilities, losses and expenses of the Corporation attributable to the writing of the commercial lines residential and nonresidential insurance policies specified in subparagraph 3 of Section 10 A. for risks

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- (V) "Financial Products" means agreements or arrangements for interest rate exchanges, interest rate swaps, interest rate caps, floors or collars, or other hedge arrangements, forward sales or purchases, put options, call options, currency exchanges, other derivatives or synthetic transactions, or any one or combination of them, or any other product or transaction permitted by the Corporation's investment policy, used by or on behalf of the Corporation as a hedge in connection with any loans made to or Bonds issued by or on behalf of the Corporation or in connection with investment of proceeds of or funds related to such loans or Bonds.
- (W) "FRPCJUA" means the Florida Residential Property and Casualty Joint Underwriting Association.
- (X) "FSLSO" means the Florida Surplus Lines Service Office established and functioning pursuant to the provisions of Chapter 626, F. S.
- (Y) "FWUA" means the Florida Windstorm Underwriting Association.
- (Z) "General Expenses" for any Plan Year means operating expenses and any other expenses of an Account not already included or excluded by this Plan in the calculation of Operating Result incurred by the Corporation. Where expenses under a multi-year contract are not finally determined until the contract has expired, the accrual of expense in each year shall be subject to adjustment after expiration or termination of the contract.
- (AA) "Incurred Losses" in an Account for any Plan Year means the sum of (1) losses paid, (2) change in reserves for all known losses, (3) change in reserves for losses incurred but not reported, and (4) paid and reserved loss adjustment expenses and less (5) Reimbursables with respect to such Plan Year.
- (BB) "Interim Assessments" means the assessment or assessments levied pursuant to §627.351(6)(q), F. S., and the Plan at any time prior to the final determination of the Corporation's Plan Year Deficit for a Plan Year.
- (CC) "Investment Income or Loss" for any Plan Year means for an Account the sum of (1) interest income on investments, (2) dividends declared, paid and received, (3) realized gains or losses, as the case may be, from sales and maturities of investments, and (4) income, gain or loss on Financial Products, and less (5) expenses allocated to such activities set forth in (1) through (4) above.
- (DD) "Investment Policy" means the policy adopted by the Corporation pursuant to Section 21 of the Plan.
- (EE) "Limited Apportionment Company" means, with respect to the Coastal-Risk Account, any Assessable Insurer with a surplus as to policyholders of \$25 million or less writing twenty-five percent (25%) or more of its total countrywide property insurance premiums in the State, which petitions the Office to qualify as a Limited Apportionment Company

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- not located in the Eligible Areas and for such policies that exclude the peril of wind on risks located in Eligible Areas.
- (L) "Corporation" means the Citizens Property Insurance Corporation established pursuant to the Statute.
- (M) "Coverage" means insurance as required pursuant to the Statute to be offered by the Corporation.
- (N) "Debt Service Expense" means all interest expense incurred or projected to be incurred in an Account in the current Plan Year by the Corporation on existing or anticipated borrowings or other indebtedness, and all fees, commissions, required reserves, expenses and costs incurred or projected to be incurred in respect of such borrowings or other indebtedness for the current Plan Year.
- (O) "Department" means the Department of Financial Services. Prior to January 7, 2003, Department referred to the Florida Department of Insurance.
- (P) "Direct Written Premium" for determining Participation Ratios and Assessments for any Plan Year means gross direct premiums written and reported in Florida on property and casualty insurance for the Subject Lines of Business (including gross direct premiums written by Assessable Insurers, Special Purpose Homeowner Insurance Companies, Limited Apportionment Companies, Minority Owned Insurers, and Surplus Lines Agents) less returned premiums upon canceled policies and dividends paid or credited to policyholders.
- (Q) "Earned Premium" for any Plan Year means the total premium earned by the Corporation in an Account for that Plan Year computed in accordance with the Corporation's rules, rates and rating plans.
- (R) "Eligible Areas" means the geographical areas that, pursuant to applicable laws of the State, were eligible for coverage by the FWUA on January 1, 2002 or as were, or may hereafter be, added by the Statute.
- (S) "Eligible Risks" means, for purposes of the Quota Share Primary Insurance Program, personal lines residential and commercial lines residential risks that meet the underwriting criteria of the Corporation and are located in Eligible Areas.
- (T) "Emergency Assessments" means all Assessments which the Board is authorized to levy under §627.351(6)(b)3.d., Florida Statutes, to be collected by Assessable Insurers, Special Purpose Homeowner Insurance Companies, Limited Apportionment Companies, Minority Owned Insurers and the Corporation, and collected from Assessable Insureds, upon the issuance or renewal of policies for Subject Lines of Business in accordance with Section 17.
- (U) "FHCF" means the Florida Hurricane Catastrophe Fund.

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- within the first ninety (90) days of each calendar year and whose petition to qualify has been approved by the Office.
- (FF) "Minority Owned Insurer" means a minority owned property and casualty insurer, as defined in §624.4072(1), F. S., subject to the limitations, restrictions and requirements set forth in §624.4072 (2), (3) and (4), F. S.
- (GG) "Office of Insurance Regulation" or "Office" means the State of Florida Office of Insurance Regulation.
- (HH) "Operating Result" of an Account for any Plan Year means the result obtained by applying the total of all General Expenses, Debt Service Expenses (other than Debt Service Expenses associated with the financing of prior Plan Year Deficits), and Incurred Losses of that Account for that Plan Year against the Total Revenue of that Account for that Plan Year all as determined in accordance with generally accepted accounting principles (GAAP) or the provisions of this Plan.
- (II) "Participation Ratio" for any Plan Year means the proportionate participation of each Assessable Insurer individually and all Assessable Insureds collectively as calculated pursuant to Section 15 of the Plan in any Assessment or Assessments for an Account levied as to that Plan Year.
- (JJ) "Personal Lines Residential Account" or "Personal Lines Account" means all revenues, assets, liabilities, losses and expenses of the Corporation attributable to the writing of the personal lines insurance policies specified in subparagraphs 1 and 2 of Section 10(A) for risks not located in the Eligible Areas and for such policies that exclude the peril of wind on risks located in Eligible Areas.
- (KK) "Plan" or "the Plan" means the Plan of Operation for the Corporation.
- (LL) "Plan Year" means the twelve (12) month period beginning 12:01 a.m., January 1, of one year and ending 12:01 a.m., January 1, of the following year.
- (MM) "Plan Year Deficit" in an Account for any Plan Year means the amount by which the negative Operating Result of the Account for that Plan Year exceeds the Surplus as adjusted pursuant to Section 16(L). After determining the amount of a Plan Year Deficit for any Plan Year, all Assessments, and the Citizens Policyholder Surcharge, received by the Corporation as a consequence of such Plan Year Deficit shall be applied to reduce the unrecovered balance of the Plan Year Deficit for that Plan Year.
- (NN) "Policyholder Surcharge" means the Citizens Policyholder Surcharge.
- (OO) "Regular Assessments" means an assessment levied, pursuant to Section 16, on Assessable Insurers, Assessable Insureds and any other insurer authorized to do business for Subject Lines of Business in the State which has not been granted an exemption from Regular Assessments by statute or by the Corporation pursuant to the Plan.

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- (PP) "Reimbursables" means the sum of (1) recoveries actually received by the Corporation and allocated to the applicable Account from the FHCF and other reinsurance counterparties and (2) any other amounts owed but not yet received which are accrued by the Corporation from the FHCF and other reinsurance counterparties and allocated to the incurred losses in the applicable account; provided, however, that for purposes of determining whether a Plan Year Deficit exists in connection with the drawing of proceeds of Bonds or other indebtedness under financing documents that condition or otherwise restrict the ability to draw on existence of a Plan Year Deficit, "Reimbursables" shall not include amounts owed but not yet received which are accrued by the Corporation from the FHCF; provided, further, however that upon receipt by or on behalf of the Corporation of any such recoveries from the FHCF, amount thereof equal to the amount of proceeds actually drawn by the Corporation in anticipation of receipt of such FHCF recoveries shall be immediately reimbursed to the appropriate account or subaccount established under the corresponding financing document or used to repay the amount drawn, as applicable.
- (QQ) "Reinsurance Surcharge" means the surcharge collected on policies issued by the FWUA in the High-Risk Account pursuant to Order of the Department (#83-Rate-101B) dated August 18, 1983, as modified by Order of the Department dated May 23, 1996 in Case No: 15131-95-C and such similar surcharge that the Office of Insurance Regulation may subsequently approve for the Coastal-Risk Account or any other Account.
- (RR) "Section" means a Section of this Plan.
- (SS) "Senior Manager" of the Corporation, for purposes of the Statute and this Plan, means a person employed as an executive who directly reports to the Executive Director. Senior Manager will also include the Chief Internal Auditor, the Inspector General and any other person designated by Florida law to be a Senior Manager of the Corporation .
- The President is the senior officer referred to in the Statute as the "Executive Director" and may also be referred to by that title in this Plan and elsewhere. "Senior Management" means the team of Senior Managers designated by the President whose collective responsibility is to act as the Corporation's senior management team.
- The person whose sole responsibility is the unit or division responsible for receiving and responding to consumer complaints also is a "Senior Manager" as provided by s. 627.351 (6) (k), F. S.
- (TT) "Special Purpose Homeowner Insurance Company" means an insurance company issued a certificate of authority by the Office of Insurance Regulation and operating pursuant to §624.4071, F. S.
- (UU) "State" means the State of Florida.
- (VV) "Statute" means §627.351(6), F. S., as amended.

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- Insurer if a provision of law specifically excludes the insurer from the Corporation's Assessments.
- (B) An insurer writing one or more of the Subject Lines of Business in the State pursuant to the Surplus Lines Law is not an Assessable Insurer, but the insureds who procure one or more Subject Lines of Business in the State pursuant to the Surplus Lines Law through Surplus Lines Agents are subject to Assessment by the Corporation and shall collectively and individually be referred to as "Assessable Insureds". An insured is not an Assessable Insured if a provision of law specifically excludes the insured from the Corporation's Assessments.
- (C) An Assessable Insurer ceasing to meet the criteria as specified in §627.351(6)(b)1., or §624.4071, F. S., shall automatically cease to be an Assessable Insurer effective one (1) year after the end of the first calendar year during which the Assessable Insurer no longer holds a Certificate of Authority to transact insurance for Subject Lines of Business in the State. Such Assessable Insurer shall no longer be bound by this Plan thereafter; provided, however, such Assessable Insurer shall remain liable for any past, present or future Assessments by the Corporation with respect to the Plan Years during which the Assessable Insurer reports Direct Written Premium for the Subject Lines of Business, and therefore develops a Participation Ratio pursuant to Section 15.
- (D) If an Assessable Insurer fails to pay an Interim or Regular Assessment after written notice from the Corporation and reasonable collection efforts by the Corporation, the unpaid Assessment shall be paid by the remaining Assessable Insurers, each contributing its proportionate share of the unpaid Assessment in accordance with the applicable provisions of the Plan.
- (E) Each Assessable Insurer shall have a claim in any liquidation proceeding or action against the insolvent or defaulting Assessable Insurer and shall have full authority to exercise such rights in any action or proceeding, for its pro-rata share of contributions resulting from (D) above.

SECTION 6

BOARD OF GOVERNORS

- (A) The Corporation shall be governed by the Board which shall administer this Plan.
- (B) Effective July 1, 2013, the Governor shall appoint three individuals as members of the Board and the Chief Financial Officer, Speaker of the House, and the President of the Senate shall each appoint two (2) individuals as members of the Board, which Board shall consist of the nine (9) individuals so appointed. At least one of the two members appointed by each appointing officer must have demonstrated expertise in insurance. The members of the Board shall be residents of the State of Florida and be from different geographical areas of the State. One of the Governor's appointments must be a consumer representative.

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- (WW) "Subject Lines of Business" means insurance written by Assessable Insurers or procured by Assessable Insureds for all property and casualty lines of business in this state, but not including workers' compensation or medical malpractice. As used in this paragraph, the term "property and casualty lines of business" includes all lines of business identified on Form 2, Exhibit of Premiums and Losses, in the annual statement required of authorized insurers by s. 624.424, F. S. and any rule adopted under this section, except for those lines identified as accident and health insurance and except for policies written under the National Flood Insurance program or the Federal Crop Insurance Program. For purposes of this paragraph, the term "workers' compensation" includes both workers' compensation insurance and excess workers' compensation insurance.
- (XX) "Surplus" means surplus for an Account determined in accordance with generally accepted accounting principles or the Plan.
- (YY) "Surplus Lines Agent" means a person licensed under the State's Surplus Lines Law to handle the placement of risks located in this State with eligible surplus lines insurers.
- (ZZ) "Surplus Lines Law" means Part VIII of Chapter 626, F. S.
- (AAA) "Total Revenue" for an Account means Earned Premium, other surcharges, Investment Income or Loss, and fees and miscellaneous income, but not including the proceeds of any, Policyholder Surcharges or Assessments levied and collected pursuant to Sections 16 or 17, related to any prior Plan Year Deficit, or the proceeds from any indebtedness incurred to finance or refinance a Plan Year Deficit.
- (BBB) "Treasurer" means the Treasurer of the State of Florida. Effective January 7, 2003, any references in this Plan to the Treasurer shall be deemed to be a reference to the Chief Financial Officer of the State of Florida.
- (CCC) "Voluntary Credits" means adjustments to the calculation of Participation Ratios that may be adopted by the Board and available to Assessable Insurers voluntarily providing windstorm insurance to risks located in Eligible Areas.

THE ABOVE DEFINITIONS ARE IN ADDITION TO ANY OTHER DEFINED TERMS CONTAINED IN THIS PLAN.

SECTION 5

ASSESSABLE INSURERS AND ASSESSABLE INSURED

- (A) Every insurer that meets the criteria as set forth in §627.351(6)(b)1., F. S., shall automatically be an Assessable Insurer. A Special Purpose Homeowner Insurance Company shall be an Assessable Insurer for the limited purposes set forth in §624.4071(2)(d)2., F. S. A Minority Owned Insurer shall be an Assessable Insurer for the limited purposes set forth in §624.4072(1)(b), F. S. An insurer is not an Assessable

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- (C) The term of office for an individual Board member shall be three years. . Terms of the initial Board members' commence on the date of their appointment. Members of the Board may be appointed for subsequent terms. Each Board member serves at the pleasure of his or her appointing officer and all members of the Board are subject to removal at will by the officers who appointed them. A vacancy created by the resignation, removal or inability to serve shall be filled for the unexpired term of the Board member by the appointing officer in accordance with (B) above.
- (D) The Chief Financial Officer shall designate an appointed member of the Board to serve as Chair. The Board shall, at least annually, elect one of its members to serve as Vice Chair of the Board.
- (E) The Chair shall appoint an executive committee (the "Executive Committee") of three (3) Board members consisting of the Chair, the Vice Chair and one other Board member.
- (F) The Chair shall appoint a finance and investment committee (the "Finance and Investment Committee") and an audit committee (the "Audit Committee") of at least three (3) Board members each. These committees shall be operated pursuant to a charter approved by the Board.
- (G) The Chair shall preside at and call all meetings of the Board, upon reasonable notice, which may be waived. However, a meeting of the Board shall also be noticed and held within fourteen (14) days after receipt of written requests delivered to the Chair by any three (3) members of the Board. Except for emergency meetings, at least seven days' notice will be given for public meetings, hearings, and workshops in the Administrative Register and on Citizens' website.
- (H) The Vice Chair shall serve as Chair when the Chair is unavailable or unable to serve as Chair.
- (I) At any meeting of the Board, each Board member shall have one (1) vote.
- (J) Six (6) members of the Board shall constitute a quorum for the transaction of business, and acts of a majority of the Board members present and voting at a meeting at which a quorum is present shall be the acts of the Board.
- (K) At any Board meeting voting by proxy shall not be permitted.
- (L) Members of the Board or any Committee members shall receive reimbursement from the Corporation for their actual and necessary expenses incurred in attending Board meetings and in performing Corporation business in accordance with the Corporation's adopted Travel and Reimbursement Policy which follows the State of Florida Travel and Reimbursement provision identified in s. 112.061, F. S.
- (M) The Board may conduct Board meetings by telephonic conference call so long as said conference call permits the general public to be included as parties to the conference

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call and to hear all Board members in attendance and other speakers at the meeting. A Board member may participate telephonically in any Board meeting.

- (N) Members of the Board must meet the requirements of applicable Florida law when a voting conflict occurs.
- (O) Establish an Office of Internal Audit pursuant to s. 627.351 (6) (i), F. S. and approve an Office of Internal Audit charter.
- (P) Establish an Office of Inspector General pursuant to s. 627.351 (6) (gg), F. S.

SECTION 7

DUTIES AND POWERS OF THE BOARD, CHAIR AND EXECUTIVE DIRECTOR

- (A) In addition to the duties and responsibilities provided by Florida law, the Board shall :
 - (1) Undertake all actions as authorized, required or otherwise permitted by the Statute and this Plan.
 - (2) Engage in any and all corporate actions or undertakings permitted for corporations in the State of Florida and that are not prohibited by, or contrary to, the provisions of the Statute.
 - (3) Pursuant to the provisions of the Statute and this Plan, make and levy Assessments and Policyholder Surcharges.
 - (4) Pursuant to §627.351(6)(e), F. S., this Plan and the Corporation's policies and procedures, contract with one or more individuals or entities able and willing to provide policy service or claim service on behalf of the Corporation. Alternatively, the Corporation is authorized to perform any or all such services itself or through duly constituted subsidiaries or affiliates.
 - (5) Review and approve audited financial statements of the Corporation.
 - (6) Authorize the filing of recommended rates and policy forms with the Office.
 - (7) Adopt policies, procedures and standards of conduct designed to prevent conflict of interest for members of the Board, the Executive Director, Senior Managers, and employees of the Corporation consistent with §627.351(6)(d), F. S. Copies of the policies, procedures, and standards of conduct, and any amendments thereto shall be provided to the Office of Insurance Regulation prior to adoption.
 - (8) Approve the budget of the Corporation.
 - (9) Retain an independent auditing firm for the Corporation.

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Insurers qualifying pursuant to the Statute or this Plan for such credits or exemptions.

- (17) Create and maintain a Market Accountability Advisory Committee in accordance with the provision of §627.351(6)(c)4.b, F. S.
- (18) Pursuant to §627.351(6)(i), F. S., appoint and supervise the Internal Auditor. The Internal Auditor shall not be subject to supervision by any employee of the Corporation.
- (19) Adopt a procurement protest procedure to resolve any bid protest dispute or the terms, conditions and specifications contained in a solicitation.
- (20) Adopt a procedure for public comment before the Board and Board meeting notice.
- (21) Act as the agency head for purposes of resolution of a protest made pursuant to s. 627.351 (6) (e), F. S.
- (B) Except as otherwise provided herein or in the Statute, the Corporation shall have all powers reserved for or available to corporations and authorized insurers in the State.
- (C) The Board shall use its best efforts to procure catastrophe reinsurance at reasonable rates to cover its projected 100-year probable maximum loss, as determined by the Board, from reinsurers determined to be qualified by the Board.
- (D) The Chair shall establish all committees and subcommittees and appoint the members of such committees and subcommittees, including a chair. A majority of the committee members present will constitute a quorum. A quorum is not required when the committee or subcommittee is acting in an advisory capacity.
- (E) With the exception of the Executive, Audit and Finance and Investment Committees, the Chair may appoint non-Board members to committees, which non-Board appointees shall serve at the pleasure of the Chair.
- (F) In addition to the other powers and functions of the Chair as herein provided, the Chair shall supervise and review the performance of the Executive Director and establish annually the compensation of the Executive Director. The Executive Director will establish the compensation for all Senior Managers who directly report to the Executive Director with the written concurrence of the Chair.
- (G) The Executive Director and Senior Management of the Corporation shall be engaged for the Corporation by the Board, and such individuals shall serve at the pleasure of the Board and may be removed by the Board at any time. The Executive Director, is subject to confirmation by the Senate as provided by statute. The Executive Director and Senior Management of the Corporation are subject to the background investigation provisions of §627.351(6)(d)1., F. S. The Executive Director, Senior Management and business

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- (10) Implement such powers and functions as may be specifically reserved, or delegated, to the Corporation under this Plan or the Statute for the operation and administration of the Corporation.
- (11) Authorize the filing of an Underwriting Manual, and all amendments thereto with the Office. The Board may delegate the decision to file amendments to an Underwriting Manual which are solely procedural, and do not impact eligibility for coverage or classification of risks, to a Senior Manager.
- (12) Adopt procurement policies and procedures that comply with §627.351(6)(e), F. S. To the extent provided in the procurement policies and procedures of the Corporation, all contracts and purchase orders with a total value of \$35,000 or more shall be accompanied by a disclosure form requiring the vendor to disclose any relationships, financial or otherwise, with any employee or Board member of the Corporation, and placing the vendor on notice of the conflict of interest policy applicable to the employees of the Corporation, including the limitation on gifts.
- (13) Approve contracts for goods and services valued at or over \$100,000 in accordance with the Purchasing Policy and Procedures; and for an approved contract, the Executive Director, or its designee(s) shall have the authority to negotiate the terms and execute such contracts.
- (14) Approval of all loan, credit, trust indenture, Financial Products or other financing agreements and related documentation as are necessary in connection with indebtedness to be incurred by or on behalf of the Corporation; provided however, that the selection, review or approval of all contracts for Financial Products or financing agreements may be delegated by the Board, within the parameters established by the Board, only to the Executive Director, the Executive Committee or the Chairman. Any such financing agreements, and supporting documentation thereto, shall be executed and delivered on behalf of the Corporation by the Chair, the Vice Chair or the Executive Director or by any other officer of the Corporation authorized by resolution of the Board.
- (15) Annually, on or before February 1, provide a report to the President of the Senate and the Speaker of the House of Representatives setting forth the reduction or increase in the Corporation's 100-year probable maximum loss attributable to the Corporation's wind-only coverages and the Quota Share Primary Insurance Program as compared to the 100-year probable maximum loss of the FWUA as calculated on February 2001 based on November 26, 2000 exposure of the FWUA and, as a result of such filings, undertake any appropriate actions as required by the Statute.
- (16) Develop and establish (i) programs for the removal of policies from the Corporation; and (ii) the criteria, guidelines, and procedures for computing and determining Voluntary Credits, Board adopted take-out credits and other statutory credits as exemptions from Regular Assessments for Assessable

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managers and purchasing agents having the power to make any purchase that requires a competitive solicitation, finance and accounting directors and personnel officers of the Corporation must file the financial disclosure form substantially in the form required pursuant to §627.351(6)(d)3., F. S. Such financial disclosure forms shall be provided to Citizens' Inspector General.

- (H) The Executive Director shall be responsible for the day to day operation of the Corporation and for carrying out the purpose and objectives of the Corporation consistent with the directions and delegations of the Board and the provisions of this Plan and the Statute.
- (I) Subject to Sub-Section (A), in addition to the duties and responsibilities provided by Florida law, the Executive Director shall directly or by delegation to the Corporation's staff:
 - (1) Establish a headquarters in Tallahassee, Florida, and take such measures as are necessary to establish and assure the efficient operation of such facilities.
 - (2) Consistent with the Statute and this Plan, determine and recommend to the Board such Assessments as may be necessary to carry out the duties delegated to the Corporation by the Statute, other applicable laws and the Plan.
 - (3) Open and maintain Corporation bank account(s).
 - (4) Hire the staff of the Corporation, subject to the review and concurrence by the Board through approval of the budget or other process; and retain independent contractors and other vendors, as necessary, to carry out the business of the Corporation as set forth in the Statute and this Plan, subject to any directives, guidelines or procedures as may be adopted by the Board.
 - (5) Negotiate the terms of and execute contracts.
 - (6) Consistent with the Statute and this Plan, locate and employ or retain individuals or entities to provide administrative or professional services to effectuate the Plan and provide services for the operation of the Corporation's business, subject to any directions, guidelines or procedures as may be adopted by the Executive Committee.
 - (7) Promulgate and administer policies and procedures for the operation of the Corporation, conduct and activities of the Corporation's employees, or rendering of services to the Corporation by staff, providers, vendors and Agents of the Corporation, including policies for employees regarding conflicts of interest, dual employment, and post-employment restrictions, and report the status of operations of such individuals or entities to the Board on a regular basis. Any breach of conflict of interest, dual employment, post-employment or other ethics policies by employees or members of the Board shall be reported by the Executive Director to the Chair of the Board immediately upon discovery. If such

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breach constitutes potential criminal or fraudulent activity, the full circumstances shall also be reported in accordance with the Statute and other applicable law.

- (8) Enter into contracts for the leasing of office space, subject to the approval of the Board, and for the purchase and/or lease of furnishings and equipment for the operation of the Corporation and its facilities.
- (9) Incur on behalf of the Corporation and approve office expenses to conduct the Corporation's business, including, but not being limited to, expenses for salaries, insurance, rent, office equipment, postage, facsimile transmittals, maintenance contracts for office equipment, stationery and any other similar expenses necessary to operate the office and facilities of the Corporation.
- (10) Approve and prepare the payroll.
- (11) Arrange for proper and timely notice of all meetings of the Board, the Executive Committee and all other Corporation committees.
- (12) Timely prepare the agenda with the approval of the Chair for each Board meeting and provide a copy of the same to each Board member as soon as practicable prior to each meeting. Board members desiring to place an item on the agenda shall do so through the Executive Director subject to the approval of the Chair.
- (13) Approve all staff travel, lodging, and other travel related expenses pursuant to appropriate guidelines and forms for presenting the same for reimbursement.
- (14) Prepare budgets for the operation of the Corporation to be approved by the Board.
- (15) Maintain the books and records of the Corporation and arrange for the auditing and review of the Corporation's operations and investments, and preparation of all necessary or required financial statements. Such audits and audited financial statements shall be submitted to the Board for review as expeditiously as possible.
- (16) Appoint as the Corporation's licensed agents only Agents who are in good standing with the Department and who hold an appointment as defined in §626.015, F. S., with an insurer, which insurer at the time of the Agent's appointment by the Corporation is authorized to write and is actually writing personal lines residential property coverage, commercial residential property coverage or commercial non-residential property coverage in the State.
- (17) Prepare and deliver to the Office quarterly statements of financial condition, an annual statement of financial condition, and audited financial statements in the manner prescribed by law. In addition, the corporation shall file monthly reports on the type, premium, exposure and distribution by county of in force policies and such other reports as the Office may require to carry out its oversight of the

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Corporation. The Quarterly report shall include a summary of operating results and significant events for the quarter and year-to-date, and such other information required by the Office. Copies of all reports shall be furnished in electronic format and delivered by e-mail.

- (18) Undertake such other functions as may be delegated by the Board or Chair.
- (19) Act as agency head for all procedural matters relating to a procurement protest, pursuant to s. 627.351 (6) (e), F.S.

SECTION 8

ELIGIBILITY

In order for a risk to be eligible for coverage in the Corporation, it must meet the requirements set forth in this Section.

- (A) For new applicants and renewal policies who are provided an offer of coverage from an authorized insurer through the Clearinghouse program:

- (1) Notwithstanding s. 627.3517, F. S.:

(a) an applicant for new personal residential coverage from the corporation is not eligible for coverage from the Corporation if they are provided an offer of coverage from an authorized insurer through the Clearinghouse at a premium that is at or below the eligibility threshold established in s. 627.351 (6) (c) 5.a., F.S.

(b) for an offer of coverage for a renewal policyholder from an authorized insurer through the Clearinghouse if the offer is equal to or less than the Corporation's renewal premium for comparable coverage, the risk is not eligible for coverage with the Corporation.

(c) for (a) and (b) above, a risk is not eligible with Citizens until participating insurers have been given two business days to make an offer of coverage.

(d) an applicant for coverage from the Corporation who was previously declared ineligible for coverage at renewal by the Corporation in the previous 36 months due to an offer of coverage pursuant to the Clearinghouse shall be considered a renewal under the Clearinghouse if the Corporation determines that the authorized insurer making the offer of coverage under the Clearinghouse continues to insure the applicant and increased the rate on the policy in excess of the increase allowed for the Corporation under s. 627.351 (6) (n) 6., F.S.

- (B) For policies removed from the corporation pursuant to an assumption agreement

- (1) with respect to personal lines residential risk, if a new applicant to the Corporation for coverage is offered coverage from an authorized insurer at the insurer's approved

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rate under either a standard policy including wind coverage or, if consistent with the insurer's underwriting rules as filed with the Office, a basic policy including wind coverage, the applicant is not eligible for a policy issued by the Corporation unless the premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from the Corporation. However, if the risk is not able to obtain any such offer, the risk is eligible for either a standard policy including wind coverage or a basic policy including wind coverage issued by the Corporation, however, if the risk could not be insured under a standard policy including wind coverage regardless of market conditions, the risk shall be eligible for a basic policy including wind coverage unless rejected pursuant to paragraph (C). However, with regard to a policyholder of the Corporation, or a policyholder removed from the Corporation through an assumption agreement until the end of the assumption period, the policyholder remains eligible for coverage from the Corporation. The Corporation shall determine the type of policy to be provided on the basis of objective standards specified in its Underwriting Manual and based on generally accepted underwriting practices.

- (2) with respect to commercial lines residential risks, if a new applicant to the Corporation for coverage is able to obtain an offer to insure the risk under a policy from an authorized insurer at its approved rate, the risk is not eligible for any policy issued by the Corporation, unless the premium for coverage from the authorized insurer is more than 15 percent greater than the premium for comparable coverage from the Corporation. If the risk is not able to obtain any such offer, the risk is eligible for a policy by the Corporation. However, with regard to a policyholder of the Corporation, or a policyholder removed from the Corporation through an assumption agreement until the end of the assumption period, the policyholder remains eligible for coverage from the Corporation regardless of any offer of coverage from an authorized insurer or surplus lines insurer.

- (C) For purposes of determining comparable coverage under paragraphs (A) and (B), the comparison shall be based on those forms and coverages that are reasonably comparable. The Corporation may rely on a determination of comparable coverage and premium made by the producing agent who submits the application to the Corporation, made in the agent's capacity as the Corporation's agent. A comparison may be made solely of the premium with respect to the main building or structure only on the following basis: the same coverage A or other building limits; the same percentage hurricane deductible that applies on an annual basis or that applies to each hurricane for commercial residential property; the same percentage of ordinance and law coverage, if the same limit is offered by both the Corporation and the authorized insurer; the same mitigation credits, to the extent the same types of credits are offered both by the Corporation and the authorized insurer; the same method for loss payment, such as replacement cost or actual cash value, if the same method is offered both by the Corporation and the authorized insurer in accordance with underwriting rules; and any other form or coverage that is reasonably comparable as determined by the board. If an application is submitted to the Corporation for wind-only coverage in the coastal account, the premium for the Corporation's wind-only policy plus the premium for the ex-wind policy that is offered by an authorized insurer to the applicant shall be compared to the

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premium for multiperil coverage offered by an authorized insurer, subject to the standards for comparison specified in this subparagraph. If the Corporation or the applicant requests from the authorized insurer a breakdown of the premium of the offer by types of coverage so that a comparison may be made by the Corporation or its agent and the authorized insurer refuses or is unable to provide such information, the Corporation may treat the offer as not being an offer of coverage from an authorized insurer at the insurer's approved rate.

- (D) A risk shall be deemed ineligible for Coverage in the Corporation if determined to be uninsurable by the Corporation pursuant to the Corporation's Underwriting Manual or Section 12.
- (E) The Board may establish, subject to approval by the Office, different eligibility requirements and operational procedures for any line or type of Coverage for any specified county or area if the Board determines at a duly noticed public meeting that such changes to the eligibility requirements and operational procedures are justified due to the voluntary market being sufficiently stable and competitive in such area for such line or type of Coverage and that consumers who, in good faith, are unable to obtain insurance through the voluntary market through ordinary methods would continue to have access to Coverage from the Corporation. When Coverage is sought in connection with a real property transfer, such requirements and procedures shall not provide for an effective date of Coverage later than the date of the closing of the transfer as established by the transferor, the transferee, and, if applicable, the lender.
- (F) Commercial property may be required to meet specified hurricane mitigation construction features as a condition of eligibility.
- (G) Effective July 1, 2014, a risk is deemed ineligible if a permit is applied for on any new construction or substantial improvement as defined in s. 161.54 (12), F. S., if the structure is seaward of the coastal construction control line established pursuant to s. 161.053, F. S. or is within the Coastal Barrier Resources System as designated by 16 U.S.C. ss. 3501-3510.

SECTION 9

RATES, RATE FILINGS AND RATING PLANS

- (A) Rates for coverage provided by the Corporation shall be actuarially sound and subject to the requirements of §627.062, F. S., except as otherwise provided by §627.351(6)(n)6., F. S. The Corporation shall file its recommended rates with the Office at least annually. The Corporation shall provide any additional information regarding the rates which the Office requires. The Office shall consider the recommendations of the Board and issue a final order establishing the rates for the Corporation within 45 days after the recommended rates are filed. The Corporation may not pursue an administrative challenge or judicial review of the final order of the Office.

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Pursuant to s. 627.351 (6)(n)6., F. S., beginning on or after January 1, 2010, and notwithstanding the Board's recommended rates and the Office's final order regarding the Corporation's filed rates under s. 627.351 (6) (n) 1., F. S., the Corporation shall annually implement a rate increase which, except for sinkhole coverage, does not exceed 10 percent for any single policy issued by the Corporation, excluding coverage changes and surcharges.

- (B) No portion of any rate or rating plan which has been determined by Order of the Office or by the Legislature of the State to constitute a surcharge or assessment, including without limitation Policyholder Surcharges and Assessments, for the purpose of providing or obtaining financing for catastrophic reinsurance coverage for the Corporation shall be included in any rate filing of the Corporation as premium of the Corporation subject to fees or commissions of the Corporation's Agents or providers.
- (C) For as long as the three Accounts shall be maintained separately, the Corporation shall collect the Reinsurance Surcharge solely for the benefit of the Account to which such Reinsurance Surcharge applies.
- (D) The Board may provide, subject to the approval of the Office, that a rate filing, or any portion thereof, is not subject to the payment of commissions, fees, or other charges of the Corporation payable to Agents or other persons or entities who are compensated by the Corporation on the basis of a percentage of premium.
- (E) Any rating plan may establish such premium payment plans as are determined by the Corporation to be appropriate. The Corporation must provide a premium payment plan option to its policyholders which allows for quarterly and semiannual payment of premiums.
- (F) The Corporation shall allocate collected premium first to payment of Policyholder Surcharges and Assessments and then to the remainder of the premium, provided that upon cancellation of a policy, Policyholder Surcharges and Assessments shall be returned on a pro-rata or short-rata basis as provided in Section 13.
- (G) The rules for the determination and classification of risks and establishment of rates are as set forth in this Plan or promulgated pursuant to the provisions of this Plan.

SECTION 10

POLICY FORMS AND QUOTA SHARE PRIMARY INSURANCE AGREEMENTS

- (A) The Corporation shall adopt the following policy forms:
 - (1) Standard personal lines property policy forms that are comprehensive multi-peril policies providing full coverage of a residential property equivalent to the coverage provided in the private insurance market under an HO-3, HO-4 or HO-6 policy.

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- (2) Basic personal lines property policy forms that are policies similar to an HO-8 policy or a dwelling fire policy that provide Coverage meeting the requirements of the secondary mortgage market, but which Coverage is more limited than the Coverage under a standard policy.
- (3) Commercial lines residential and nonresidential property policy forms that are generally similar to policies providing coverage for basic perils of full coverage obtainable for commercial residential structures and commercial nonresidential structures in the admitted voluntary market.
- (4) Personal lines and Commercial lines residential property policy forms that cover the peril of wind-only. Such forms shall be applicable only to personal residential properties and commercial residential properties located in Eligible Areas.
- (5) Commercial lines non-residential property insurance forms that cover the peril of wind-only. Such forms shall be applicable only to non-residential properties located in Eligible Areas.
- (6) Basic personal lines policy similar to an HO-8 policy with dwelling repair based on common construction materials and methods.
- (B) The Corporation may adopt variations of the policy forms listed in Sub-Section (A) that contain more restrictive coverage.
- (C) The Corporation shall adopt a program for quota share primary insurance pursuant to §627.351(6)(c)2., F.S. and in that regard:

(1) The Corporation shall adopt quota share primary insurance policy forms ("Quota Share Primary Insurance") issued pursuant to the Quota Share Primary Insurance Agreements. Such forms shall clearly and conspicuously provide that: (i) the Corporation and the authorized insurer shall each be solely responsible for a specified percentage of hurricane coverage of an Eligible Risk as set forth in a Quota Share Primary Insurance Agreement executed between the Corporation and an authorized insurer and the insurance contract; (ii) the responsibility of the Corporation or authorized insurer to pay its specified percentage of hurricane losses of an Eligible Risk, as set forth in the Quota Share Primary Insurance Agreement, which responsibility shall not be altered by the inability of the other party to the Agreement to pay its specified percentage of hurricane losses; (iii) the specific obligations of the Corporation and authorized insurer under the arrangement; (iv) the percentages of Quota Share Primary Insurance provided by the Corporation and authorized insurer; (v) that neither the authorized insurer nor the Corporation may be held responsible beyond its specified percentage of coverage of hurricane losses as set forth in the policy; and (vi) such other provisions that are customary, or otherwise necessary, to effectuate and administer such Quota Share Primary Insurance coverage of an Eligible Risk.

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(2) The Corporation may enter into Quota Share Primary Insurance agreements (the "Quota Share Primary Insurance Agreement") with authorized insurers at Corporation quota share coverage levels of 90 percent and 50 percent for Eligible Risks. If the Board determines that additional quota share coverage levels are necessary to maximize participation in Quota Share Primary Insurance Agreements by authorized insurers, the Corporation may establish additional quota share coverage levels; however, the Corporation's quota share coverage level shall not exceed 90 percent. Quota Share Primary Insurance Agreements of the Corporation shall be subject to the following provisions:

- (a) Any Quota Share Primary Insurance Agreement entered into between an authorized insurer and the Corporation must provide for a uniform and specified percentage of coverage of hurricane losses, by county or territory as set forth by the Board, for all Eligible Risks of the authorized insurer covered under the Quota Share Primary Insurance Agreement.
- (b) Any Quota Share Primary Insurance Agreement entered into between an authorized insurer and the Corporation is subject to review and approval by the Office. However, such Agreement shall be authorized only as to insurance contracts entered into between an authorized insurer and an insured who is already insured by the Corporation for wind coverage.
- (c) For all Eligible Risks covered under Quota Share Primary Insurance Agreements, the exposure and coverage levels for both the Corporation and authorized insurers shall be reported by the Corporation to the FHCF.
- (d) For all policies of Eligible Risks covered under Quota Share Primary Insurance Agreements, the Corporation and the authorized insurer shall maintain complete and accurate records for the purpose of exposure and loss reimbursement audits as required by FHCF rules.
- (e) The Corporation and the authorized insurer shall each maintain duplicate copies of policy declaration pages and supporting claims documents.
- (f) The terms and provisions of the Quota Share Primary Insurance Agreement between the Corporation and an authorized insurer must set forth the: (i) specific terms under which coverage is provided; (ii) provisions as to the sale and servicing of policies issued under the Agreement by the Agent of the authorized insurer producing the business; (iii) the reporting of information concerning Eligible Risks; (iv) the payment of premiums to the Corporation; (v) arrangements for the adjustment and payment of hurricane claims incurred on Eligible Risks by the claims

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adjuster and personnel of the authorized insurer; and (vi) such other terms and provisions agreed to by the parties.

- (g) The entering into a Quota Share Primary Insurance Agreement between the Corporation and an authorized insurer shall be voluntary and at the discretion of the authorized insurer.
- (h) The Corporation's operation standards and administration of such Quota Share Primary Insurance shall be as uniform as is reasonably possible. Such operation standards and the Corporation's administration of Quota Share Primary Insurance Agreements shall not permit any discriminatory application, or materially different standards or provisions, among insurers as to: (i) the terms, (ii) administration, or (iii) the percentages of coverage in Quota Share Primary Insurance Agreements in the same geographical areas. In addition, the pricing of Quota Share Primary Insurance Agreements and the provisions governing incentive provisions, if any, as well as the consideration paid for servicing policies or adjusting claims shall be as uniform as is reasonably possible for Quota Share Primary Insurance Agreements in the same geographical area.
- (D) No policy, policy form, or endorsement shall be used by the Corporation unless it has been filed with, and approved by, the Office. All coverages, policies, policy forms or endorsements of the Corporation shall comply with applicable law and rules and orders of the Office.
- (E) The Corporation may establish, subject to the approval of the Office and all other applicable provisions of the Plan, additional policy forms needed to fulfill the public purposes of the Corporation.

SECTION 11

POLICY LIMITS AND SCOPE OF COVERAGE

- (A) Policies of the Corporation may be for single lines of Coverage or such combination of lines of Coverage for which the applicant has established eligibility.
- (B) Insurance contracts shall not cover real property located outside the State.
- (C) The limits of property insurance and liability Coverages shall be written in accordance with standards and policies adopted by the Board and incorporated in the Corporation's Underwriting Manual.
- (D) Corporation insurance contracts must limit Coverage on mobile homes or manufactured homes built prior to 1994 to actual cash value of the dwelling rather than replacement costs of the dwelling.

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- (E) Reasonable efforts shall be made to ensure that coverage limits information provided to Corporation policyholders shall be in plain English and clearly displayed.
- (F) The corporation must provide coverage for manufactured or mobile home dwellings. Such coverage must also include attached structures including certain screened enclosures, carports and patios that have a roof covering for manufactured or mobile homes for a minimum insured valued of at least \$3,000.

SECTION 12

HAZARDOUS AND UNINSURABLE RISKS

- (A) The Corporation shall consider, and uniformly apply to all applicants by Coverage, the provisions of the Corporation's Underwriting Manual which are deemed incorporated herein, and the following factors in determining whether an individual risk is so hazardous as to be uninsurable:
 - (1) Whether the likelihood of a loss for the individual risk is substantially higher than for other risks of the same class.
 - (2) Whether the uncertainty associated with the individual risk is such that an appropriate premium cannot be determined.
 - (3) Other factors pertinent to insurability as established by the Board and approved by the Office.
- (B) The acceptance or rejection of a risk by the Corporation shall be construed as the private placement of insurance and the provisions of Chapter 120, Florida Statutes, shall not apply.

SECTION 13

POLICY CANCELLATIONS

- (A) Policies shall be canceled by the Corporation in accordance with s. 627.4133, F.S. for the nonpayment of premium, including for this purpose policy fees, Policyholder Surcharges, other surcharges of the Corporation on its Policyholders, and Assessments. The Corporation may cancel or rescind coverage void ab initio on policies for a material misstatement or misrepresentation of any fact, either before or after a loss. The Corporation may cancel a policy for failure to comply with underwriting guidelines; in instances where there has been a substantial and material change in the nature of a risk which renders it uninsurable or otherwise ineligible for Coverage in the Corporation and for any other reason permitted by applicable law. .

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- (B) Policies may be canceled by the policyholder upon the submission of a written request to cancel the policy to the Agent or the Corporation which includes a specific cancellation date.
- (C) Return premium shall be calculated on a pro-rata basis whether the policy is canceled by the Corporation or the insured; however, return premium for wind-only policies may be calculated on a short rate basis if coverage is effective during the period of June 1st to November 30th or any portion of such period.
- (D) All policy cancellations shall be in accordance with applicable law and the rules and orders of the Office.

SECTION 14

COMMISSIONS AND SERVICE FEES

The commissions and fees payable by the Corporation to Agents and vendors or other entities compensated on the basis of a percentage of the Corporation's premium shall be determined by the Board and set forth in the Corporation's rating plans. No commission or fee shall be paid by the Corporation on any portion of an approved rating plan designated by the Corporation, as a surcharge or assessment to which commissions and fees are not applicable. In the event that there is an ongoing violation of the binding requirements and criteria, the Corporation has the authority to suspend payment of commissions.

SECTION 15

PARTICIPATION RATIOS

- (A) The Participation Ratios of Assessable Insurers shall be determined annually in accordance with this Section. A separate Participation Ratio for each Assessable Insurer shall be computed annually only for the Coastal Account. The Participation Ratio shall establish each Assessable Insurer's share of the amount being levied by the Corporation pursuant to Section 16 of this Plan.
- (B) An Assessable Insurer's Participation Ratio for the Coastal Account in any Plan Year shall be in the proportion that the Direct Written Premium of such Assessable Insurer for the Subject Lines of Business during the preceding calendar year bears to the aggregate statewide Direct Written Premium for the Subject Lines of Business for the preceding calendar year. The calculation of a Participation Ratio of an Assessable Insurer for the Coastal Account shall be adjusted to reflect, where applicable: (i) the eligibility of one or more Assessable Insurers for Regular Assessment credits or exemptions, as permitted under §627.3511, F. S., or other applicable law and/or otherwise pursuant to this Plan; (ii) the eligibility of one or more Assessable Insurers for Regular Assessment credits or exemptions under incentive plans adopted by the Board

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pursuant to §627.351(6)(q)3., F. S.; (iii) the Regular Assessment credits and exemption of Special Purpose Homeowner Insurance Companies; (iv) the Regular Assessment credits and exemptions of Minority Owned Insurers; (v) Regular Assessment credits and exemptions of Limited Apportionment Companies; and (vi) Voluntary Credits, if any. Voluntary Credits, and adjustments to a Participation Ratio as a result of Voluntary Credits, shall be calculated on an individual company basis not on a group basis.

- (C) The Assessable Insurers annually shall report to the Corporation their Direct Written Premium in the preceding year for the Subject Lines of Business. All premium reports shall be on such form and shall be delivered at such time as specified by the Corporation. An Assessable Insurer that fails to submit the required report by the specific time shall have its Participation Ratio calculated by the Corporation, using such figures as are available to the Corporation and without the benefit of any credits or adjustments allowed by B. above, or as otherwise set forth on the Corporation's Direct Written Premium report form.
- (D) The Corporation shall establish schedules, forms and reports pursuant to which FLSO will annually report to the Corporation the aggregate statewide written premium in the Subject Lines of Business procured by Assessable Insureds. Such written premium information shall be used by the Corporation to determine the Participation Ratio of all Assessable Insureds collectively, which shall be in the proportion that the Direct Written Premium on policies procured by Assessable Insureds for the Subject Lines of Business during the preceding calendar year bears to the aggregate statewide Direct Written Premium for the Subject Lines of Business for the preceding calendar year.
- (E) The Corporation annually shall advise each Assessable Insurer, in writing, of its Participation Ratio in the Coastal Account. The notice to each Assessable Insurer shall include a calculation of that Assessable Insurer's Participation Ratio. In addition, the Corporation annually shall advise the FLSO, in writing, of the Participation Ratio in the Coastal Account applicable to Assessable Insureds collectively and show the calculation of such Participation Ratio.
- (F) If an Assessable Insurer, Assessable Insured, or the FLSO wishes to contest the Corporation's determination of a Participation Ratio in the Coastal Account, it must file an appeal as provided in Section 25.
- (G) Whether or not an appeal is pending, the Corporation reserves the right to revise Participation Ratios in the Coastal Account if (1) errors or omissions in the calculations are discovered subsequent to the promulgation of Participation Ratios for Assessable Insurers individually and Assessable Insureds collectively in the Account; (2) the Corporation is informed by the Office of its finding that payment of the assessment by an insurer would endanger or impair the solvency of that insurer; or (3) the Corporation is informed by the Office that the insolvency of an insurer precludes payment by that insurer of an Assessment. When the Corporation revises Participation Ratios because it is unable to collect an assessment from an insurer, nothing in this Sub-Section is intended to impact the right of another Assessable Insurer, which is required to pay an

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additional assessment as a result of such failure to pay, to bring a cause of action against such nonpaying insurer.

- (H) The Board may adopt other rules and procedures not inconsistent with this Plan and the Statute for the determination of participation ratios.

SECTION 16

ASSESSMENTS AND POLICYHOLDER SURCHARGES

- (A) The levying of Assessments and Policyholder Surcharges shall be the duty of the Board, and the Executive Director shall administer the implementation and collection of all such Assessments and Policyholder Surcharges.
- (B) The Board shall levy Assessments as authorized by the Statute. Such Assessments shall be levied separately for the Personal Lines Account, the Commercial Lines Account and the Coastal Account.
- (C) Assessment computations for any Plan Year shall include the expenses of making such Assessments; uncollected amounts from prior Regular Assessments for that year; and items of revenue, expense or additions to reserves required by any loan agreement, trust indenture or other financing agreement which in the opinion of the Board will affect the need for or results of the Regular Assessments.
- (D) No Policyholder Surcharge or Assessment pursuant to this Section, other than Interim Assessments as hereinafter provided for, shall be made by the Corporation for either the Personal Lines Account, the Commercial Lines Account or the Coastal Account unless a Plan Year Deficit exists, and:
 - (1) the Incurred Losses used in the computation of such Plan Year Deficit are supported by a projection by the Corporation's independent actuary;
 - (2) Investment Income or Loss projections used in the computation of such Plan Year Deficit are based on advice of the Corporation's financial advisors;
 - (3) the Board has determined at a properly noticed meeting that the Policyholder Surcharge or Assessment is required by the Statute;
 - (4) the Policyholder Surcharge or Assessment is specifically recommended by the Board;
 - (5) the Board has certified to the Office the Corporation's need for the Policyholder Surcharge or Assessment and that the Board has satisfied the conditions specified in Items 1 through 4 above; and
 - (6) the Office has received the certification from the Board referred to in Item 5

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above, has reviewed the arithmetic calculation used to determine the amount to be levied, and has verified and approved the certification by Order.

(E) Policyholder Surcharge and Assessment Computation Formula for deficits incurred in calendar year 2008 and after:

(1) Calculate and project the Operating Result of the Account for the Plan Year;

(2) Add the Surplus for that Account as adjusted pursuant to Section 16 L from prior Plan Years to the Operating Result of the Account derived from (1) above;

(3) If the computations made in (1) and (2) above do not produce a Plan Year Deficit in the Account for the Plan Year, no Policyholder Surcharge or Assessment shall be levied.

(4) If such computations produce a Plan Year Deficit, the Board shall levy a Citizens Policyholder Surcharge against the premium of each policyholder in all accounts of the Corporation for a 12-month period, as a uniform percentage of the premium of the policy of up to fifteen (15) percent of such premium. The aggregate amount of the deficit incurred shall be reduced by the amount of the Citizens Policyholder Surcharge collected or estimated to be collected.

(5) After accounting for the Citizens Policyholder Surcharge, if any remaining deficit is projected to exist, a Regular Assessment shall be levied pursuant to, and subject to the limitations of, this Section for the Coastal Account only in an amount equal to the remaining Deficit less any Interim Assessments already levied by the Corporation.

(6) Regular Assessments levied on Assessable Insurers shall be made in accordance with the Participation Ratios calculated under Section 15 B for the Plan Year in which the net Plan Year Deficit occurred determined under (6) above, regardless of the calendar year in which the Assessment is levied. If the Assessable Insurer's Participation Ratios for a Plan Year in which a Plan Year Deficit occurs has not been computed at the time such Plan Year Deficit has been calculated, each Assessable Insurer's Regular Assessment shall be based on the Participation Ratio for the Coastal Account in the preceding Plan Year and shall be subsequently adjusted when the applicable Plan Year's ratios are calculated;

(7) The Regular Assessment percentage levied on Assessable Insureds shall be the ratio of the amount being assessed for The Coastal Account under (9) below to the aggregate statewide Direct Written Premium for the Subject Lines of Business for the preceding year;

(8) Pursuant to the Statute and this Section, after accounting for the Citizens

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through 4 above;

(6) The Office has received the certification from the Board referred to in item 5 above, has reviewed the arithmetic calculation involved in the Board's determination, and has verified and approved the certification by Order.

All Interim Assessments collected from Assessable Insurers pursuant to this subsection for an Account shall be credited against such Assessable Insurer's Plan Year Assessment obligations for such Account as may otherwise be levied pursuant to this Section. All other provisions of this Section concerning Assessable Insurer's Assessments, not in conflict with this subsection, shall be applicable to the imposition, levying and collection of Interim Assessments.

(G) All Interim Assessments and Regular Assessments, and provided for in this Section shall be paid within thirty (30) days from the date notice of Assessment is received. A penalty, or late charge, or interest, as adopted by the Board, shall be applied to the Assessment of any Assessable Insurer or Assessable Insured in the event that the Assessment of the Assessable Insurer's or Assessable Insured is not paid in full within thirty (30) days.

(H) A Regular Assessment levied on a Limited Apportionment Company for a deficit occurring in the Coastal-Risk Account in calendar year 2006 and thereafter, may be paid on a monthly basis as the assessments are collected by the Limited Apportionment Company from its insureds. However, the Regular Assessment must be paid in full within 12 months after being levied.

(I) An Assessable Insurer may, within 21 days from the date the Notice of Assessment is mailed by Citizens, petition the Office, with a copy to Citizens, for a deferral. Upon approval by the Office, an Assessable Insurer may defer payment of the Regular Assessment if the Office finds that payment of the Assessment would endanger or impair the solvency of the insurer.

(J) If the Corporation is unable to collect all amounts assessed against Assessable Insurers within ninety (90) days of the Assessments being levied, the uncollected or deferred Assessment amounts shall be levied as an additional Regular Assessment against the other Assessable Insurers.

(K) If there is a positive Operating Result attributable to an Account in a Plan Year, such amount shall be held as Surplus in that Account. The Surplus available to offset a negative Operating Result in either the Personal Lines Account, the Commercial Lines Account, or the Coastal Account shall be reduced by unamortized bonuses, amounts appropriated for contingent catastrophic reserves, deferred financing costs, and net assets related to pre-event financing. Such Surplus as adjusted shall be used to offset any negative Operating Result of an Account for that purpose prior to assessing Assessable Insurers and Assessable Insureds as to any Plan Year for that Account.

Notwithstanding the foregoing, for the purpose of drawing moneys from the Note

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Policyholder Surcharge, the aggregate of all Regular and Interim Assessments on Assessable Insurers and Assessable Insureds for a Plan Year Deficit in the Coastal Account incurred in a particular Plan Year may not exceed the greater of:

(i) two percent (2%) of the aggregate statewide Direct Written Premium for the Subject Lines of Business for the preceding calendar year, or

(ii) two percent (2%) of the Plan Year Deficit for the Coastal Account; and

(9) After accounting for the Citizens Policyholder Surcharge, when the Plan Year Deficit incurred in an Account in a particular Plan Year exceeds the amount specified by (8)(i), the Board shall levy Interim and Regular Assessments in the aggregate on Assessable Insurers and Assessable Insureds equal to the greater of (8)(i) or (8)(ii) for the Coastal Account. All remaining portions of the Plan Year Deficit for the Coastal Account shall be recovered through Emergency Assessments levied by the Board pursuant to Section 17 of this Plan.

After accounting for the Citizens Policyholder Surcharge, when such Plan Year Deficit does not exceed the amount specified in (9)(i), the Board shall levy Interim and Regular Assessments in the aggregate on Assessable Insurers and Assessable Insureds equal to the amount of such Plan Year Deficit for the Coastal Account only.

(F) The Board may levy Interim Assessments on Assessable Insurers as necessary for the Coastal Account. Such Interim Assessments shall be based upon the projected cash requirements of the Account for the six month period immediately following the levying of such an Interim Assessment, and shall be subsequently adjusted when the Plan Year Deficit for the Account is credibly projected. The aggregate of all Interim Assessments levied for an Account as to any Plan Year shall not exceed the limits provided therefore in Section 16(E)(7) above. No Interim Assessments as provided for in this subsection shall be made by the Corporation for the Coastal Account unless:

(1) The Incurred Losses used in the computation of the projected cash requirements of the Account for the six-month period immediately following the levy of the Interim Assessment are supported by reasonable projections by the Corporation;

(2) Investment Income or Loss projections used in the computation of the projected cash requirements are based on advice of the Corporation's financial advisors;

(3) The Board has determined at a properly noticed meeting that the Interim Assessment is in the best interest of the Corporation and is consistent with the Statute;

(4) The Interim Assessment is specifically recommended by the Board;

(5) The Board has certified to the Office the Corporation's need for such Interim Assessment and that the Board has satisfied the conditions specified in items 1

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Proceeds Account established under the Trust Indenture for the Coastal Account to pay policyholder claims, the Surplus available to offset a negative Operating Result for the Coastal Account shall be reduced by unamortized bonuses, amounts appropriated for contingent catastrophe reserves, deferred financing costs, net assets related to pre-event notes, and amounts in defeasance accounts.

(L) All Assessments levied by the Corporation on Assessable Insureds shall be collected pursuant to the Statute from such Assessable Insureds at the time the Surplus Lines Agent collects the surplus lines tax required by the Surplus Lines Law. The appropriate amount collected by Surplus Lines Agents for any Assessment on Assessable Insureds shall be paid to FLSO by the Surplus Lines Agent at the time such agent pays the applicable surplus lines tax to FLSO.

The Corporation shall establish a periodic remittance schedule for payment by FLSO to the Corporation of all Assessments received by FLSO.

(M) The Board may adopt other rules and procedures not inconsistent with this Plan and the Statute for the collection of Assessments and Policyholder Surcharges.

(N) If an Assessable Insurer, an Assessable Insured, a Corporation's policyholder, or the FLSO wishes to contest the Corporation's determination of an Assessment or Policyholder Surcharge, it must do so as provided in Section 25.

(O) If the amount of any Policyholder Surcharges collected by the Corporation from its policyholders exceeds the amount of the Plan Year Deficit for which it was collected, the Corporation shall retain such excess amounts. After accounting for the Citizens Policyholder Surcharge, if the amounts of any Assessment collected by the Corporation from Assessable Insurers, collected by the FLSO from Assessable Insureds, and recouped by an Assessable Insurer from its policyholders exceed the remaining amount of the Plan Year Deficit for which such amounts were collected, such excess amounts shall be remitted to and retained by the Corporation in a reserve to be used by the Corporation, as determined by the Board and approved by the Office, to pay any past, present and future claims or reduce any past, present, or future plan-year deficits or to reduce outstanding debt.

SECTION 17

EMERGENCY ASSESSMENTS

(A) The levying of Emergency Assessments shall be the duty of the Board, and the Executive Director shall administer the implementation and collection of Emergency Assessments.

(B) Upon a determination by the Board that a Plan Year Deficit in an Account has been incurred, or is projected to be incurred, in a particular Plan Year in an amount which exceeds the maximum aggregate Regular Assessment on Assessable Insurers and

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Assessable Insureds specified in Sub-Section 16(E)(7) of this Plan, plus the amount that is expected to be recovered through the Citizens Policyholder Surcharge, the Board shall levy any remaining projected Plan Year Deficit as an Emergency Assessment to be collected by all Assessable Insurers, Surplus Lines Agents, the Corporation, Special Purpose Homeowner Insurance Companies, Limited Apportionment Companies, and Minority Owned Insurers from policyholders upon the issuance or renewal of policies for Subject Lines of Business for as many years as necessary to cover the deficit in the Account.

- (C) The amount of an Emergency Assessment levied in a particular year shall be a uniform percentage of that year's Direct Written Premium for the Subject Lines of Business and that year's direct written premium for all Accounts of the Corporation as determined by the Board and verified by the Office pursuant to Sub-Section F. below. In setting the uniform percentage to be levied in a particular Plan Year, the Board shall take into consideration the amounts of any Reimbursables, the actual or projected amount of uncollected Assessments, and Regular or Emergency Assessments that are collected but become unavailable as a result of having been pledged as security for, or for application in respect of, indebtedness of the Corporation imposed in a prior year with respect to the Plan Year Deficit.

- (D) The aggregate amount of Emergency Assessments levied in any calendar year as a result of a Plan Year Deficit incurred in an Account in a particular Plan Year may, at the discretion of the Board, be less than but may not exceed the greater of:

- (1) ten percent (10%) of the amount needed to cover the Plan Year Deficit, plus interest, fees, commissions, required reserves, and other costs associated with financing of the Plan Year Deficit, or
- (2) ten percent (10%) of the aggregate statewide Direct Written Premium for the prior calendar year for the Subject Lines of Business and the direct written premium for all Accounts of the Corporation for the prior calendar year, plus interest, fees, commissions, required reserves, and other costs associated with financing of the Plan Year Deficit.

To the extent the aggregate amount of Emergency Assessments will not exceed the greater of (1) or (2) above, the Board shall impose Emergency Assessments in the amount required by any applicable loan agreement, trust indenture or other financing agreement.

- (E) The following rules and procedures apply to the collection and remittance of Emergency Assessments:

- (1) An Assessable Insurer shall collect the Emergency Assessment from a policyholder with a policy that is issued or renewed at the same time it collects a premium payment. Emergency assessment remittances are due from Assessable Insurers on the full amount of the direct written premiums attributable to policies issued or renewed, even if the Assessable Insurer delays collection of

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the entire premium through billing plans or other similar mechanisms.

- (2) Unless otherwise provided by the Board, Assessable Insurers shall remit Emergency Assessments to the Corporation monthly and the FLSO shall remit Emergency Assessments to the Corporation quarterly.
- (3) When an Assessable Insurer or the FLSO is required to return unearned premium to a policyholder or an Assessable Insured, it shall also return a pro-rata amount equivalent to collected Emergency Assessment attributable to the unearned premium, which it shall offset against the payment of Emergency Assessments due the Corporation.
- (4) With respect to Corporation policyholders, the Corporation shall collect and return Emergency Assessments as provided in Sections 9 and 13.
- (5) A penalty, late charge, or interest, as adopted by the Board, shall be applied to the Emergency Assessment of an Assessable Insurer, Assessable Insured, or a Corporation policyholder in the event that the Assessment is not paid in full within thirty (30) days.
- (6) The Board may adopt other rules and procedures not inconsistent with this Plan and the Statute for the collection of Emergency Assessments from Assessable Insurers, Assessable Insureds, and Corporation policyholders.

- (F) No Emergency Assessment pursuant to this Section shall be made by the Corporation for any Account unless:

- (1) The amount of an Emergency Assessment, and the remittance schedule for Assessable Insurers and the FLSO has been determined by the Board at a properly noticed meeting.
- (2) The Board has advised the Office in writing of its determination of the amount of the Emergency Assessment and that such determination satisfied the conditions specified in Item (i) above.
- (3) The Office has received the determination from the Board referred to in Item (ii) above, has reviewed the arithmetic calculation of the Assessment, and has, within thirty (30) days after the receipt of the information on which the determination was made, verified the Emergency Assessment by Order. Whereupon, the Corporation shall advise all Assessable Insurers and the FLSO on behalf of all Surplus Lines Agents and all other insurers required by law to collect Emergency Assessments, in writing, of the Board's action regarding the levying of an Emergency Assessment and the remittance schedule.

- (G) Emergency Assessments levied under this section shall not be subject to premium tax, fees, or commissions paid by the Corporation.

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- (H) In accordance with §627.351(6)(c)15., F.S., Emergency Assessments levied under this section may not be deferred.

- (I) If an Assessable Insurer, an Assessable Insured, a Corporation's policyholder, or the FLSO wishes to contest the Corporation's determination of an Assessment, it must do so as provided in Section 25.

- (J) After accounting for the Citizens Policyholder Surcharge and the Regular Assessment, if the amount of any Emergency Assessment exceeds the amount of the Plan Year Deficit for which it was collected, such excess amounts shall be remitted to and retained by the Corporation in a reserve to be used by the Corporation, as determined by the Board and approved by the office, to pay any past, present or future claims or reduce any past, present, or future plan-year deficits or to reduce outstanding debt.

SECTION 18

ESTABLISHMENT AND ADMINISTRATION OF ACCOUNTS

- (A) The Executive Director shall establish a Commercial Lines Account, a Personal Lines Account and a Coastal Account and shall maintain such Accounts in accordance with the Statute, Plan and any applicable loan agreements, trust indentures or other financing agreements. The Accounts as herein provided for shall be accounted for separately by the Corporation to assure the accuracy of the Accounts for each Plan Year. Each Account shall be maintained separately as to all revenues, assets, liabilities, losses and expenses. Subject to the limitations of B below, the Corporation may pledge its revenues, assets or other property to secure indebtedness or other obligations owed to lenders, holders of Bonds, or providers of Financial Products, regardless of the Account or Plan Year Deficit for which levied or attributable. Pledged revenues, property or assets of the Personal Lines Account and Commercial Lines Account may be commingled when in the custody of any authorized trustee, escrow agent or other custodian for the lenders, holders of Bonds or providers of Financial Products in respect of such Accounts so that the granting of party interests to such various lenders, holders and providers in such security may be effectuated.
- (B) The three Accounts shall be maintained separately by the Corporation, as provided by the statute, in accordance with the terms, if any, of the financing documents. When the financing obligations in accordance with such financing documents are no longer outstanding, the Corporation may use a single account for all revenues, assets, liabilities, losses and expenses of the Corporation.

During such time as the three Accounts exist, creditors of the Coastal Account shall have a claim and recourse to the Coastal Account and shall have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account, and creditors of the Personal Lines Account and the Commercial Lines Account may have a claim and recourse to the Personal Line Residential Account and the Commercial Lines Account and shall have no claim against, or recourse to, the Coastal Account.

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- (C) Revenues, assets, liabilities, losses and expenses not directly attributable to a particular Account shall be pro rated by the Corporation among the Accounts in such proportion as the Board shall determine either (i) according to a formula using such measures as the Board may determine are reasonable and equitable such as (by way of example only) number of staff, number of policies in force, loss exposure or written premium, or (ii) on the basis of other equitable criteria as the Board may determine are reasonable and equitable, such as (by way of example only) the relative benefit received by each Account and/or the relative burden incurred by each Account in respect of such revenues, assets, liabilities, losses and expenses.

- (D) Any indenture trustee and each co-indenture trustee and separate indenture trustee (if any) appointed under a trust indenture, and each collateral trustee, co-collateral trustee and separate collateral trustee, if any, appointed under a security agreement, and each bank agent, co-bank agent and separate bank agent, if any, appointed under a bank collateral agreement, which trust indenture, security agreement or bank collateral agreement, as applicable, has been approved by the Office under the Plan, shall constitute an "authorized trustee, escrow agent or other custodian" for purposes of this Section 18.

SECTION 19

BORROWING POWERS

- (A) The Board is authorized to arrange for and consummate a taxable or tax-exempt borrowing or borrowings of money for the Corporation to meet its anticipated financial obligations or to fund a Plan Year Deficit or an anticipated Plan Year Deficit upon a finding by the Board that the funds derived, or to be derived, from the borrowing are reasonably necessary for the Corporation to currently meet, or in the future be able to meet, its mandated purposes or financial obligations as set forth in the Plan or the Statute.
- (B) Any loan agreement or trust indenture shall be subject to the approval of the Board and the Office. The Corporation shall, in advance of execution of any loan agreement or trust indenture, file with the Office a statement of the purpose of the indebtedness to be incurred thereby, and a copy of such loan agreement or trust indenture (or a substantial final form thereof) and an estimate of the costs to be incurred by the Corporation in the procurement of any such indebtedness.
- (C) Any indebtedness incurred, and the costs incurred by the Corporation in processing and procuring such indebtedness, shall be properly reflected on the books and records and financial statements of the Corporation in accordance with applicable accounting principles.
- (D) In effectuating and implementing the provisions of this Section, the Corporation shall have all power, right and authority, subject to the limitations in Section 18 above, to

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pledge, or grant security interests in any income, Assessments levied, or to be levied under Sections 16 or 17, surcharges, premiums, investment income, projected revenue from the FHCF and other reinsurance receivables, other funds available to the Corporation, assets, proceeds of Bonds authorized under Section 20 of this Plan, and any other interest, right, title or expectation available to the Corporation as collateral or security for any such loan, line of credit, or other obligation or indebtedness, and shall have all other power reasonable and necessary to effectuate the requirements of this Section and Section 20 below. Without limiting the foregoing authority, the Corporation is authorized to take all actions needed to facilitate tax-free status for any such Bonds or other indebtedness, including the formation of trusts or other affiliated entities. Any pledge or security interest granted pursuant to this Section 19, may be on a parity with any pledge or security interest granted in connection with any bonded indebtedness issued by, or on behalf of the Corporation.

SECTION 20

BONDING POWER

- (A) Bonding in Conjunction with a Unit of Local Government. The governing body of any unit of local government, any resident of which is insured by the Corporation, may issue Bonds as defined in §125.013 or §166.101, F. S., from time to time to fund an assistance program in conjunction with the Corporation for the purpose of defraying or refinancing Plan Year Deficits of the Corporation. Revenue Bonds may not be issued under this Section 20(A) until validated pursuant to Chapter 75, Florida Statutes, unless a state of emergency is declared by executive order or proclamation of the Governor pursuant to §252.36, F. S., making such findings as are necessary to determine that it is in the best interests of, and necessary for, the protection of the public health, safety, and general welfare of the residents of the State and declaring it an essential public purpose to permit certain municipalities or counties to issue such Bonds as will permit relief to claimants and policyholders of the Corporation. The unit of local government shall enter into such contracts with the Corporation as are necessary to carry out this paragraph. Any Bonds issued under §627.351(6)(q)2., F. S., shall be payable from and secured by monies received by the Corporation from Emergency Assessments under §627.351(6)(b)3.d., F. S., and, to the extent permitted by law, Regular Assessments and other funds available to the Corporation, and assigned and pledged to or on behalf of the unit of local government for the benefit of the holders of such Bonds. The funds, credit, property and taxing power of the state or of the unit of local government shall not be pledged for the payment of such Bonds.
- (1) The Corporation may incur reasonable expenses in conjunction with the issuance or proposed issuance of a Bond issue or other borrowing. Such reasonable expenses shall include, but are not limited to, obtaining a rating for the Bond or other obligations; obtaining legal opinions; appearing before a body of investors for promotional purposes to encourage investing in Corporation Bonds; registering the Bond issue, and other expenses reasonably related to the Bond issue.

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- (C) In effectuating and implementing the provisions of this Section, the Corporation shall have, subject to the limitations in Section 18 above, all power, right and authority to pledge, or grant security interests in any income, Assessments levied, or to be levied under Sections 16 or 17 of this Plan, or surcharge, premiums, investment income, projected revenues from the FHCF, other reinsurance receivables and other funds available to the Corporation, assets, and any other interest, right, title or expectation available to the Corporation as security for any such Bonds, or Bonding, and shall have all other power reasonable and necessary to effectuate the requirements of this Section. Without limiting the foregoing authority, the Corporation is authorized to take all actions needed to facilitate tax-free status for any such Bonds or other indebtedness, including the formation of trusts or other affiliated entities.
- (D) It being necessary that the Corporation, in advance of the occurrence of a hurricane or other weather-related event, be in position to immediately pay claims, and also in order to develop in advance a record in the financial markets by one or more representative Bond issues that will facilitate ready access to the financial markets for additional amounts immediately after a hurricane or other weather-related event and prior to the occurrence of a Plan Year Deficit, the Corporation is authorized to provide for the issuance of Bonds through a unit of local government, as provided in subsection A of this Section 20, or issue Bonds directly without the assistance of any unit of local government, as provided in subsection B of this Section 20, in the absence of a hurricane or other weather-related event. The Board hereby determines that such advance financings will constitute financing mechanisms under subparagraph (c)3. of the Statute that will efficiently meet the financial obligations of the Corporation and that such financings are reasonably necessary to effectuate the requirements of the Statute.

SECTION 21

CORPORATION INVESTMENT POLICY

- (A) The Corporation shall adopt an investment policy and procedures that is consistent with Florida Statutes, prudent financial management, and restrictions found in applicable investment documents.
- (B) The Assets of the Corporation may be invested and managed by the State Board of Administration.

SECTION 22

DEPOPULATION, INCENTIVE, AND CREDIT PROGRAMS

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- (2) Bonds issued on behalf of the Corporation by a unit of local government shall be issued with such terms and conditions as the Corporation may deem proper.
- (3) The Corporation may, subject to the limitations in Section 18 above, pledge or offer as security for a Bond issue, in conjunction with a unit of local government, any income, asset or expectation of the Corporation. The Corporation may pledge or encumber the income which is, or may be, receivable under Emergency Assessments as security for Bonds issued in conjunction with a unit of local government. However, the Corporation may not transfer to a third party the power, right or duty to impose Assessments or Policyholder Surcharges.
- (B) Bonds issued by the Corporation without the assistance of any unit of local government. The Corporation may incur taxable or tax exempt debt in any form legally cognizable, including debt evidenced by a Bond or Bonds issued directly by the Corporation, and may use the proceeds of such Bond issue to defray expenses, fund Plan Year Deficits, purchase reinsurance, repay principal and interest of other debt incurred to defray a Plan Year Deficit or any portion thereof, or fund any other Corporation expense or liability.
- (1) The Corporation also may incur reasonable expenses in connection with Bonds issued without the cooperation of a unit of local government to enhance, encourage or increase the sale or placement of such Bonds among voluntary investors. Such reasonable expenses shall include, but are not limited to obtaining a rating for the Bond issue, obtaining legal opinions, appearing before a body of investors for promotional purposes to encourage private investing in Corporation Bonds, registering the Bond issue or such other steps reasonably calculated to enhance, encourage or increase the sale or placement of such Bonds among voluntary investors, and other expenses reasonably related to the Bond issue, which expenses may be funded by the Bonds.
- (2) The Corporation may, subject to the limitations in Section 18 above, pledge or offer as security for a Bond issue, not in conjunction with a unit of local government, any income, asset or expectation of the Corporation. The Corporation may pledge or encumber the income which is, or may be, receivable as Assessments and surcharges imposed under the Statute, projected revenues from the FHCF, other reinsurance receivables and surcharges and other funds available to the Corporation as security for Bonds issued not in conjunction with a unit of local government. However, the Corporation may not transfer to a third party the power, right or duty to impose a Assessment or Policyholder Surcharge.
- (3) The Corporation shall offer any Bonds not issued in conjunction with a unit of local government with such terms and conditions as the Corporation may deem proper.
- (4) The Corporation may, but is not required to, seek judicial validation under Chapter 75, Florida Statutes, of its Bonds or other indebtedness issued without the assistance of any unit of local government.

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- (A) The Board shall develop and adopt programs and criteria for the implementation of the credits, bonuses and exemptions as provided under the Statute, as well as programs and procedures seeking to reduce both new and renewal writings in the Corporation pursuant to applicable provisions of the Statute and this Plan.
- (B) The Board shall develop and promulgate the criteria and policies for the application of Regular Assessment credits and exemptions for Assessable Insurers qualifying as a Limited Apportionment Company.
- (C) Further, the Board may promulgate policies in accordance with 627.351 (6) (q) 3. A., F.S. which provide credits to Assessable Insurers against Assessment or other liability as an incentive for Assessable Insurers to take risks out of the Corporation and keep risks out of the Corporation by maintaining or increasing said Assessable Insured's voluntary writings. However, no Assessable Insured, policyholder of the Assessable Insurers or of the Corporation shall be exempt from Emergency Assessments imposed pursuant to Section 17 above.
- (D) In implementing any programs, policies or criteria for the removal or keeping out of risks from the Corporation pursuant to the Statute or this Plan, the Corporation shall contractually acknowledge §627.3517, F. S., and the provisions of the Statute concerning the obligation of such Assessable Insurers and the Corporation to the Agents of such policy sought to be removed or kept out of the Corporation.

SECTION 23

IMMUNITY

Except as provided by law, there shall be no liability on the part of, and no cause of action of any nature shall arise against, any Assessable Insurer or its agents or employees, the Corporation or its agents or employees, members of the Board or their designees at a board meeting, Corporation committee members, or the Office or its representatives, for any action taken by them in the performance of their duties pursuant to § 627.351(6), F. S.

SECTION 24

INDEMNIFICATION OF OFFICERS, EMPLOYEES AND OTHERS

- (A) Extent of Indemnification. The Corporation shall indemnify: (i) its Board members; (ii) Board Committee members; (iii) employees of the Corporation; and (iv) employees of the Department or Office; (v) former or current Board or Committee members, or former or current Corporation or Department or Office employees; (vi) whether a natural or legal person; (vii) whether individually or as a group; (viii) where applicable, the estate, executor, administrator, heirs, legatees, devisees, trustees, assigns, or successors in interest of any such person; (ix) all persons formally employed by, or previously acting

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in, any of the aforementioned capacities for the FRPCJUA and FWUA, including all individuals having served as members of the Board of the FRPCJUA or FWUA and all members of standing or appointive committees of each; and (x) Technical Advisory Committee members. Such individuals are hereinafter individually referred to as the "Indemnified Person" and collectively referred to as the "Indemnified Persons". Indemnification shall be made, subject to, and to the fullest extent permitted by, this Section 24 and applicable Federal and State law, where claims, proceedings, or causes of action are based upon allegations as to the conduct of any person contemplated by this Plan in the performance of its/his/her duties, or in the exercise of its/his/her discretion in the performance of duties, owed to the Corporation or the FRPCJUA and FWUA.

- (B) Right of Indemnification. Such indemnification shall not depend upon whether or not the Indemnified Person is a member of the Board, or any committee or subcommittee thereof, Board member, Corporation employee, Department or Office employee, or the estate, executor, administrator, heir, legatee, devisee, trustee, assign, or successor in interest of any such person at the time any claim, action, suit or proceeding is begun, prosecuted or threatened, nor on whether the liability to be indemnified was incurred, or the act or omission occurred, prior to the adoption of this Plan; provided however, that the Corporation's duty to indemnify any Indemnified Person shall arise only where claims, proceedings, or causes of action are based upon allegations as to the conduct of such Indemnified Person in the performance of its/his/her duties, or in the exercise of its/his/her discretion in the performance of duties owed to the Corporation.
- (C) Effect on Other Rights and limitations. The right of indemnification hereunder shall not be exclusive of other rights the Indemnified Person may have as a matter of law or otherwise. Nothing in this Section should be construed to indemnify any person when such indemnification is prohibited by State or Federal law.
- (D) Apportioning Expenses of Indemnification. The indemnification provided for in this Section shall be deemed to be an expense of the Corporation.
- (E) Corporation's Duty to Defend Indemnified Persons. The Corporation shall defend any Indemnified Person from all claims, proceedings, and actions, whether in contract, regulatory, administrative, or tort, or whether arising in law or equity, where such claims, proceedings, or actions are based upon allegations as to the conduct of such persons in the performance of its/his/her duties, or in the exercise of its/his/her discretion in the performance of duties owed to the Corporation. Subject to this Section, the Corporation shall advance reasonable litigation costs and attorneys fees to any Indemnified Person upon proper demand.
- (F) Limitations on the Corporation's Duty to Defend Indemnified Persons. The Corporation shall have no duty to oversee the conduct of any litigation or proceeding or otherwise assure the competence of any counsel retained by any Indemnified Person. However, if the Corporation, in its sole discretion, determines that any interest or obligation (including, without limitation, any obligation under this Section 24) of the Corporation is actually or potentially affected or implicated in any litigation or proceeding brought by or

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the matter should be referred to the Board for a decision.

- (L) Retroactive application. Changes to this Section of this Plan of Operation adopted by the Board on January 25, 2007 are intended to have retroactive application to the fullest extent permitted by law.
- (M) Contractual indemnification. Nothing in this Section 24 is intended to prevent the Corporation from entering into contractual agreements providing for the Corporation to indemnify and hold harmless individuals or entities retained by the Corporation.
- (N) Immunity Not Waived. Nothing in this section is intended to waive the immunity provided to the Corporation or an Indemnified Person under the Statute or other law.

SECTION 25

PROCUREMENT PROTEST AND APPEAL

- (A) The Board will adopt a Procurement Protest procedure as required by s. 627.351 (6) (e), F. S.
- (B) As provided in Sections 15, 16, and 17 if an Assessable Insurer, an Assessable Insured, or the FLSO wishes to contest the Corporation's determination of a Participation Ratio in an Account, or if an Assessable Insurer, an Assessable Insured, a Corporation policyholder, or the FLSO wishes to contest the Corporation's determination of an Assessment or Surcharge applicable to it, the following provisions apply:
 - (1) The Assessable Insurer, the Assessable Insured, the Corporation policyholder, or the FLSO must submit a letter of appeal by certified mail to the Corporation's Executive Director within twenty-one (21) days after the date the Corporation mailed the notice of the Participation Ratio, Assessment or Surcharge, as the case may be.
 - (2) If a letter of appeal is submitted to the Corporation's Executive Director within the time frame specified in sub-paragraph (1), the Board shall meet within thirty (30) days from the Executive Director's receipt of the appeal. The Board shall notify the protesting Assessable Insurer, Assessable Insured, the Corporation policyholder, or the FLSO of its decision on or before fifteen (15) days after such Board meeting. As provided in §627.351(6)(t), F. S., the policies and decisions of the corporation relating to levying of assessments are not subject to the provisions of chapter 120, F. S.
 - (3) The failure of an Assessable Insurer, Assessable Insured, a Corporation policyholder, or the FLSO to file a letter of appeal within the time frame specified in this Sub-Section shall constitute approval of and consent to its Participation Ratio or the Assessment or Surcharge, as the case may be, and such Participation Ratio, Assessment or Surcharge shall become final and

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against any Indemnified Person, the Indemnified Person shall have a duty, as a condition to any rights under this Section, to cooperate with the Corporation and its counsel, in order to advance and protect the interests or obligations of the Corporation and to lower the costs of litigation.

- (G) Limited Hold Harmless Provision. The Corporation shall hold harmless an Indemnified Person who makes a request for payment, otherwise proper under this Section, for reimbursement of final judgments or assessments of money damages, restitution, or Federal, State or local administrative penalties, fines or other monetary sanctions made against them, including interest accrued prior to judgment or assessment, of all reasonable amounts paid or agreed to be paid upon settlement, or reasonable attorney's fees and costs incurred. All settlements shall be subject to the final approval of the Corporation, which shall not be unreasonably withheld so long as such settlements are reasonable under the circumstances and proper under the provisions of this Section. The Corporation has no obligation to pay for any settlement it has not approved. This right to request payment of such amounts is not subject to alienation or assignment, and no Indemnified Person shall have the right to create a contingent liability on the part of the Corporation for such payments by attempting any such assignment or alienation to any other person, including any attorney representing such Indemnified Person. Where, in its sole discretion, the Corporation determines that such requests or payments are proper, reasonable and promote the purposes of this Section, the Corporation may authorize payment for arbitration awards, costs of arbitration or mediation, or similar expenses or awards arising from alternative dispute resolution procedures.
- (H) Criminal or Unlawful Conduct. Notwithstanding the foregoing, the Corporation, in its sole discretion, may determine whether to hold harmless, indemnify, or advance costs of defense to any Indemnified Person subject to a criminal charge, publicly disclosed criminal investigation, or internal investigation by the Corporation, which charge or investigation is based upon or arises out of alleged or possible criminal or unlawful conduct by such Indemnified Person that is related to the conduct, claim, proceeding, or cause of action for which indemnification is sought.
- (I) Reimbursement. If the Indemnified Person is convicted or pleads nolo contendere to a criminal charge or is found to be liable or agrees as to liability to the Corporation based on unlawful conduct, that is related to the conduct, claim, proceeding, or cause of action for which indemnification is sought, the Indemnified Person shall reimburse the Corporation for all amounts advanced by or paid for by the Corporation under this Section.
- (J) Condition Precedent. As a condition precedent to indemnification under Section 24, the Corporation, in its sole discretion, may require anyone eligible for indemnification to enter into a written agreement implementing the terms of this Section.
- (K) Decisions of the Corporation. All decisions of the Corporation under this Section shall be made by the President, with the advice of legal counsel, and communicated to the Board prior to any decision being made; except that the decision may be made by the Board if the President, Chairman of the Board, or the General Counsel determines that

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binding on such Assessable Insurer, Assessable Insureds, Corporation policyholders, and the FLSO, as the case may be.

- (4) If an Assessable Insurer, Assessable Insured, a Corporation policyholder, or FLSO files an appeal under this Section and there has been no final determination as to the merit of said appeal, the Assessable Insurer, Assessable Insured, or Corporation policyholder shall be obligated hereunder to pay all applicable Assessments levied by the Corporation in full pending the final determination of the appeal. The institution and filing of an appeal shall not diminish or stay the obligations of the Assessable Insurer, Assessable Insured, or the Corporation's policyholder to timely pay said Assessment obligations.
- (5) The appeals procedure in this Plan shall control any dispute involving an Assessable Insurer, an Assessable Insured, the Corporation's policyholders, and the Corporation concerning the need for, the amount of, or the calculations and assumptions used to determine any Assessment, including calculation of Participation Ratios.
- (6) If a final determination is made that the appealing Assessable Insurer, an Assessable Insured, or a Corporation policyholder is entitled to a refund of a paid Assessment or Surcharge, or any portion thereof, the Corporation shall return to the Assessable Insurer, to FLSO on behalf of the Assessable Insured, or the Corporation policyholder those sums due it together with interest thereon equal to the weighted average interest as paid by the Florida State Treasurer's Special Purpose Investment Account calculated from the date of said Assessable Insurer's, Corporation policyholder's, or FLSO payment of the Assessment or Surcharge to the date of refund.
- (C) A transcript of any appeal hearing or procurement protest hearing shall be made at the time of hearing and supplied to any party upon request subject to the requested party paying the reasonable costs of transcription.
- (D) Nothing in this Section 25 is intended to waive the immunity provided in Section 23 and §627.351(6)(s), F. S.

SECTION 26

RESIDENT AGENT FOR SERVICE OF PROCESS

The Chief Financial Officer of the State of Florida, and his or her successor in office, is designated the Corporation's attorney for service of process of all legal process issued against it in any civil action or proceeding in this state. Service of process upon the Chief Financial Officer of the State of Florida shall be the sole method of service of process upon the Corporation. In any suit arising under the Statute, this Plan, or any agreement (pertaining to the issuance or payment of debt) authorized by the Statute or this Plan, the Circuit Court in and for

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Leon County, Florida shall be deemed the Court of Competent Jurisdiction for such actions unless otherwise agreed to in writing by the Corporation.

SECTION 27

PLAN AMENDMENTS

The Board may propose and adopt amendments to the Plan upon a determination, by a majority of the members of the Board. Any amendment adopted by the Board shall be adopted at a duly noticed meeting and shall be effective only upon approval by the Financial Services Commission, before or after such action by the board.

SECTION 28

DISSOLUTION AND DEACTIVATION

- (A) Upon a determination by the Office that the conditions giving rise to the establishment and activation of the Corporation no longer exist, and upon the consent and approval thereto by Order of the Office, the Corporation may be dissolved. Upon dissolution, the assets of the Corporation shall be applied first to pay all debts, liabilities and obligations of the Corporation, including the establishment of reasonable reserves for any contingent liabilities or obligations, and all remaining assets of the Corporation shall become property of the state and deposited in the Florida Hurricane Catastrophic Fund created under §215.555, F. S., or as otherwise directed by Statute. No dissolution shall take effect as long as the Corporation has Bonds or other financial obligations outstanding unless adequate provision has been made for the payment of the Bonds or other financial obligations pursuant to the documents authorizing the issuance of the Bonds or other financial obligations.
- (B) The activation and coverages of the Corporation shall be reviewed at least annually by the Board. Should the Board find that the conditions giving rise to the activation by the Corporation of certain coverages no longer exist, the Board may, subject to the approval of the Office, deactivate the Corporation's writing of such coverage.

SECTION 29

CONSTRUCTION

This Plan shall be construed to conform with, and when necessary, shall be amended to conform to the provisions of the Statute or orders of the Financial Services Commission.

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- (6) The name and address of each financial advisor or managing underwriter, if any, connected with the bond issue.
- (7) Any other disclosure which the Corporation may require.
- (E) No underwriter, commercial bank, investment banker, or financial consultant or adviser shall pay any finder any bonus, fee, or gratuity in connection with the sale of bonds issued by the Corporation unless full disclosure is made in writing to the Corporation prior to or concurrently with the submission of a purchase proposal for bonds by the underwriter, commercial bank, investment banker, or financial consultant or adviser, providing the name and address of any finder and the amount of bonus, fee, or gratuity paid to such finder.
- (F) As used in this Section, "finder" shall mean a person who is neither regularly employed by, nor a partner or officer of, an underwriter, bank, banker, or financial consultant or adviser and who enters into an understanding with either the issuer or the managing underwriter, or both, for any paid or promised compensation or valuable consideration, directly or indirectly, expressed or implied, to act solely as an intermediary between such issuer and managing underwriter for the purpose of influencing any transaction in the purchase of such bonds.
- (G) Nothing contained in this Section is intended to restrict or prohibit the employment of professional services relating to bonds issued under §627.351(6), F. S., or the issuance of any other bonds permitted to be issued by the Corporation.
- (H) The failure of the Corporation to comply with any provision of this Section shall not affect the validity of the bond issue; however, the failure of the Corporation to comply in good faith with this Section shall constitute a violation of this Plan and a violation of the Insurance Code.

SECTION 31

CLEARINGHOUSE

- (A) Effective January 1, 2014, the Corporation shall establish a clearinghouse program as an organizational unit within the Corporation pursuant to section 627.3518, F. S.
- (B) The Corporation shall establish a program for personal residential risks in order to facilitate the diversion of ineligible applicants and existing policyholders from the Corporation into the voluntary insurance market.
- (C) The program shall have all the rights and responsibilities in carrying out its duties as a licensed general lines agent.
- (D) The Corporation may:

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SECTION 30

SELECTION OF FINANCIAL SERVICES PROVIDERS AND UNDERWRITERS

- (A) If and when the Corporation undertakes to select financial service providers or underwriters, the Corporation shall provide reasonable notice by publishing such notice in at least two (2) newspapers of general circulation in the State of Florida and at least in one (1) financial trade journal. The notice in such publications shall appear once a week for two (2) consecutive weeks. The notice shall include specific information about the procedure for submission of proposals. Furthermore, the notice shall provide appropriate information on whom to contact at the Corporation regarding information about the bond issuance. In the event of an emergency, as reasonably determined by the Board, the Corporation is not bound to the notice provisions herein, but rather shall use reasonable notice based on the existing situation and circumstances.
- (B) The Corporation shall not engage the services of any person or firm as a securities broker or bond underwriter that is not eligible to be engaged by the State under the provisions of §215.684, F. S.
- (C) The Corporation shall make all selections of any financial service providers and/or managing underwriters at a noticed public meeting, noticed in the same way as other publicly noticed meetings held by the Board of the Corporation.
- (D) Before any managing underwriter or financial advisor may be chosen by the Corporation to participate in any way in any bond or other security issuance allowed pursuant to §621.351(2)(g)(2), F. S., the managing underwriter or financial advisor must provide to the Corporation a disclosure statement required by §627.3513, F. S., containing at least the following information:
- (1) An itemized list setting forth the nature and estimated amounts of expenses to be incurred by the managing underwriter in connection with the issuance of such bonds. Notwithstanding the foregoing, any such list may include an item for miscellaneous expenses, provided such item includes only minor items of expense which cannot be easily categorized elsewhere in the statement.
 - (2) The names, addresses, and estimated amounts of compensation of any finders connected with the issuance of the bonds.
 - (3) The amount of underwriting spread expected to be realized and the amount of fees and expenses expected to be paid to the financial adviser.
 - (4) Any management fee charged by the managing underwriter.
 - (5) Any other fee, bonus, or compensation estimated to be paid by the managing underwriter in connection with the bond issue to any person not regularly employed or retained by it.

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- (1) Require all new applicants and all policyholders whose policies are due for renewal to submit an application for coverage.
 - (2) Employ or otherwise contract for administrative and professional services.
 - (3) Enter into contracts with participating insurers.
 - (4) Provide funds to operate the program.
 - (5) Develop an enhanced application.
 - (6) Provide a waiting period of two days for participating insurers to make offers to applicants.
- (E) An applicant for new coverage from the Corporation is not eligible for such coverage, if provided an offer of coverage from an authorized insurer through the program at a premium that is at or below the eligibility threshold in Section 8.
- (F) When an offer of coverage for a personal lines risk is received for a policyholder of the Corporation at renewal from an authorized insurer through the program, if the offer is equal to or less than the Corporation's renewal premium for comparable coverage, the risk is not eligible for coverage with the Corporation.
- (G) An applicant for coverage from the Corporation who was previously insured by the Corporation and declared ineligible for coverage at renewal by the Corporation in the previous thirty-six (36) months due to an offer of coverage through the Clearhouse shall, upon obtaining coverage with the Corporation be considered a renewal if the Corporation determines that the authorized insurer who made the offer of coverage rendering the policyholder ineligible continued to insure the applicant and increased the rate on the policy in excess of the increase allowed for the Corporation under s. 627.351 (6) (n) 6., F.S.
- (H) Submission of an application for coverage by the Corporation to the program does not constitute the binding of coverage by the Corporation, and failure of the program to obtain an offer of coverage by an insurer may not be considered acceptance of coverage of the risk by the Corporation.
- (I) The 45-day notice of nonrenewal requirement set forth in s. 627.4133 (2) (b) 4. b., F. S., applies when a policy is nonrenewed by the Corporation because the risk has received an offer of coverage pursuant to s. 627.3518, F. S. which renders the risk ineligible for coverage by the Corporation.

(J) Ownership of policies:

- (1) Independent insurance agents submitting new applications for coverage or that are the agent of record on a renewal policy submitted to the program are granted and must maintain ownership and the exclusive use of expirations, records, or other written or electronic information directly related to such applications or renewals written through the Corporation or through an insurer participating in the program, notwithstanding s. 627.351 (6) (c) 5. a. (I)(B) or (II)(B), F.S. Such ownership is granted for as long as the insured remains with the agency or until sold or surrendered in writing by the agent. Contracts with the Corporation or required by the

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Corporation must not amend, modify, interfere with, or limit such rights of ownership. Such expirations, records, or other written or electronic information may be used to review an application, issue a policy, or for any other purpose necessary for placing such business through the program.

- (2) Exclusive agents submitting new applications for coverage or that are the agent of record on a renewal policy submitted to the program must maintain ownership and the exclusive use of expirations, records, or other written or electronic information directly related to such applications or renewals written through the Corporation or through an insurer participating in the program, notwithstanding s. 627.351 (6) (c) 5. a.. (I)(B) or (II)(B), F.S. Contracts with the Corporation or required by the Corporation must not amend, modify, interfere with, or limit such rights of ownership. Such expirations, records, or other written or electronic information may be used to review an application, issue a policy, or for any other purpose necessary for placing such business through the program.

(K) The program may not include commercial nonresidential policies.

(L) The Corporation shall also develop appropriate procedures for facilitating the diversion of ineligible applicants and existing policyholders for commercial residential coverage into the private insurance market and shall report such procedures to the President of the Senate and the Speaker of the House of Representatives by January 1, 2014.

SECTION 32

EFFECTIVE DATE

The Plan, as amended shall become effective, upon approval by the Financial Services Commission (the "Effective Date").

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

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APPENDIX F
PROPOSED FORM OF BOND COUNSEL OPINION

Upon delivery of the Series 2015A Bonds, Greenberg Traurig, P.A. is prepared to render its approving opinion with respect to the Series 2015A Bonds in substantially the following form:

June ____, 2015

Citizens Property Insurance Corporation
Tallahassee, Florida

Dear Ladies and Gentlemen:

We have served as Bond Counsel to our client Citizens Property Insurance Corporation ("Citizens") in connection with its issuance of the Series 2015A Bonds described below. In our capacity as Bond Counsel, we have examined the Constitution and the laws of the State of Florida, particularly Section 627.351(6), Florida Statutes, as amended (the "Act"), a resolution adopted by the Board of Governors of Citizens (the "Board") on April 7, 2015 (the "Bond Resolution"), a Trust Indenture dated as of August 6, 1997 (the "Original Indenture"), as supplemented and amended to date, particularly as supplemented and amended by that certain Tenth Supplemental Indenture dated as of June 1, 2015 (the "Tenth Supplemental Indenture" and, together with the Original Indenture, hereinafter referred to as the "Indenture"), each by and between Citizens (successor to Florida Windstorm Underwriting Association) and Regions Bank, as successor Indenture Trustee, Citizens' Plan of Operation, the Order of the Office of Insurance Regulation of the State of Florida, dated April 9, 2015, entered in Case No. 171229-15, and other legal proceedings and proofs submitted, relative to the issuance and sale by Citizens of its

\$700,000,000

Citizens Property Insurance Corporation
Coastal Account Senior Secured Bonds, Series 2015A-1

and

\$300,000,000

Citizens Property Insurance Corporation
Coastal Account Senior Secured Bonds, Series 2015A-2

(collectively, the "Series 2015A Bonds")

issued on the date hereof and maturing in such amounts and at such times, bearing interest and subject to redemption, all as provided in the Indenture. Capitalized terms used herein without definitions have the meanings ascribed to them in the Indenture, unless the context clearly indicates otherwise.

As to questions of fact material to our opinion, we have relied upon such certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have also examined the Series 2015A Bonds as executed and authenticated.

Based on the foregoing examination and subject to the limitations stated herein, we are of the opinion that under existing law:

1. Citizens is a statutorily created corporation duly organized and validly existing under the Act, with full power and authority to adopt the Bond Resolution, to execute and deliver the Indenture and to issue and sell the Series 2015A Bonds.
2. The Bond Resolution has been duly adopted by the Board, remains in full force and effect and has not been amended.
3. The Series 2015A Bonds and the Indenture are valid and binding obligations of Citizens, enforceable in accordance with their respective terms.
4. The Series 2015A Bonds constitute special obligations of Citizens' Coastal Account, and the principal of and interest on the Series 2015A Bonds, together with the principal of and interest on any other obligations issued and outstanding on a parity with the Series 2015A Bonds as provided in the Indenture, are payable from and secured solely by the Pledged Revenues. The Series 2015A Bonds do not constitute a debt or liability of the State of Florida or any political subdivision thereof or of the Personal Lines Account or Commercial Lines Account of Citizens. Neither the faith and credit nor the taxing power of the State of Florida or of any political subdivision thereof is pledged to the payment of the principal of and interest on the Series 2015A Bonds. Citizens has no taxing power.
5. The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which Citizens must continue to meet after the issuance of the Series 2015A Bonds in order that interest on the Series 2015A Bonds not be included in gross income for federal income tax purposes. The failure by Citizens to meet these requirements may cause interest on the Series 2015A Bonds to be included in gross income for federal income tax purposes retroactive to their date of issuance. Citizens has covenanted in the Indenture to comply with the requirements of the Code in order to maintain the

exclusion from gross income for federal income tax purposes of interest on the Series 2015A Bonds.

Under existing statutes, regulations, rulings and court decisions, subject to compliance by Citizens with the covenants described in the preceding paragraph, interest on the Series 2015A Bonds is excludable from the gross income of the owners thereof for federal income tax purposes. Furthermore, interest on the Series 2015A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, interest on the Series 2015A Bonds is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on certain corporations.

6. The Series 2015A Bonds and the income thereon are not subject to taxation under the laws of the State of Florida, except as to estate taxes imposed by Chapter 198, Florida Statutes, as amended, and taxes under Chapter 220, Florida Statutes, as amended, on interest, income or profits on debt obligations owned by corporations as defined therein.

It is to be understood that the rights of the holders of the Series 2015A Bonds and the enforceability thereof and of the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, and that their enforcement may be subject to general principles of equity, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public entities.

Except as stated in paragraphs 5 and 6 above, we express no opinion as to any other tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Series 2015A Bonds.

In rendering the foregoing opinions we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings.

We express no opinion herein with respect to any other document or agreement entered into by Citizens or by any other person in connection with the Series 2015A Bonds, other than as expressly set forth herein.

Our opinions expressed herein are predicated upon present laws, facts and circumstances, and we assume no affirmative obligation to update the opinions expressed herein if such laws, facts or circumstances change after the date hereof.

Respectfully submitted,

[To be signed "Greenberg Traurig, P.A."]

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE ("Disclosure Certificate") is executed and delivered by Citizens Property Insurance Corporation (the "Issuer") in connection with the issuance of its Coastal Account Senior Secured Bonds, Series 2015A-1, and the Coastal Account Senior Secured Bonds, Series 2015A-2 (SIFMA Floating Rate Notes) (collectively, the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of August 6, 1997, as amended and supplemented, and particularly as supplemented by the Tenth Supplemental Indenture dated as of May 1, 2015, between the Issuer and Regions Bank, as Trustee (the "Indenture").

SECTION 1. PURPOSE OF THE DISCLOSURE CERTIFICATE. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the continuing disclosure requirements of Securities and Exchange Commission ("SEC") Rule 15c2-12.

SECTION 2. DEFINITIONS. In addition to the definitions set forth in the Indenture which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding the Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any of the Bonds for federal income tax purposes.

"Dissemination Agent" shall mean Digital Assurance Certification, L.L.C., or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Event of Bankruptcy" shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"Obligated Person" shall mean any person, including the Issuer, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities).

"Participating Underwriters" shall mean the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each entity authorized and approved by the Securities and Exchange Commission from time to time to act as a repository for purposes of complying with the Rule. The Repositories currently approved by the Securities and Exchange Commission may be found by visiting the Securities and Exchange Commission's website at <http://www.sec.gov/info/municipal/nrmsir.htm>. As of the date hereof, the Repository recognized by the Securities and Exchange Commission for such purpose is the Municipal Securities Rulemaking Board, which currently accepts continuing disclosure submissions through its Electronic Municipal Market Access ("EMMA") web portal at "http://emma.msrb.org."

"Rule" shall mean the continuing disclosure requirements of Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Florida.

SECTION 3. PROVISION OF ANNUAL REPORTS

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than each June 30th commencing June 30, 2015, with respect to the report for the 2014 fiscal year, provide to each Repository in electronic format as prescribed by such Repository, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date provided, further, in such event unaudited financial statements are required to be delivered as part of the Annual Report in accordance with Section 4(a) below. If the Issuer's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date set forth in (a) above, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide each Repository an Annual Report as required in subsection

(a), the Issuer shall send a notice to any Repository, in electronic format as prescribed by such Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each Repository; and

(ii) if the Dissemination Agent is other than the Issuer, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing any Repository to which it was provided.

SECTION 4. CONTENT OF ANNUAL REPORTS. The Issuer's Annual Report shall contain or include by reference the following:

(a) the audited financial statements of the Issuer prepared in accordance with accounting practices prescribed or permitted by the Office of Insurance Regulation, which practices may differ from accounting principles generally accepted in the United States. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement dated May ___, 2015 (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(b) updates to the following historical financial information and operating data in tabular or written form in the Official Statement entitled:

1. Total Coastal Account Policies in Force, DWP and Total Insured Value;
2. Policy Type, Policies In-Force, Total Exposure;
3. Coastal Account Regular Assessment Base;
4. Coastal Account Emergency Assessment Base;
5. Citizens Coastal Account Liquidity Sources;
6. Probable Maximum Losses (as of the latest date in the prior fiscal year such information was prepared for the Issuer);
7. Selected Financial Information – Statutory Accounting Principles;
8. Statement of Financial Position for the Coastal Account – Generally Accepted Accounting Principles;

9. Reconciliation of SAP to GAAP for Coastal Account;
10. Adjusted GAAP Surplus (or Deficiency) for the Coastal Account; and
11. Investments.

This information provided under Section 4(b) may be included by specific reference to documents, including official statements of debt issues of the Issuer or related public entities, which are available to the public on the Repository's internet web site or filed with the SEC.

The Issuer reserves the right to modify from time to time the specific types of information provided in its Annual Report or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

SECTION 5. REPORTING OF SIGNIFICANT EVENTS.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds. Such notice shall be given in a timely manner not in excess of ten (10) business days after the occurrence of the event, with the exception of the event described in number 15 below, which notice shall be given in a timely manner:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of the holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;

9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. ratings changes;
12. an Event of Bankruptcy or similar event of an Obligated Person;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. notice of any failure on the part of the Issuer to meet the requirements of Section 3 hereof.

(b) The notice required to be given in paragraph 5(a) above shall be filed with any Repository, in electronic format as prescribed by such Repository.

SECTION 6. IDENTIFYING INFORMATION. In accordance with the Rule, all disclosure filings submitted pursuant to this Disclosure Certificate to each Repository must be accompanied by identifying information as prescribed by the Repository. Such information may include, but not be limited to:

- (a) the category of information being provided;
- (b) the period covered by any annual financial information, financial statement or other financial information or operation data;
- (c) the issues or specific securities to which such documents are related (including CUSIPs, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate);
- (d) the name of any Obligated Person other than the Issuer;
- (e) the name and date of the document being submitted; and
- (f) contact information for the submitter.

SECTION 7. TERMINATION OF REPORTING OBLIGATION. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or if the Rule is repealed or no longer in effect.

If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. DISSEMINATION AGENT. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may, in its discretion and without cause, discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Digital Assurance Certification, L.L.C.

SECTION 9. AMENDMENT; WAIVER. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders or Beneficial Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders or Beneficial Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

Notwithstanding the foregoing, the Issuer shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the SEC from time to time.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the

financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. ADDITIONAL INFORMATION. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. DEFAULT. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate; provided, however, the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with the provisions of this Disclosure Certificate shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture.

SECTION 12. DUTIES, IMMUNITIES AND LIABILITIES OF DISSEMINATION AGENT. The Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent, payment of the Bonds and release of the Indenture.

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SECTION 13. BENEFICIARIES. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of May ____, 2015.

(SEAL)

CITIZENS PROPERTY INSURANCE
CORPORATION

Chairman

ATTEST:

President/CEO and Executive Director

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Citizens Property Insurance Corporation

Name of Series Bond Issue: Coastal Account Senior Secured Bonds, Series 2015A-1, and Coastal Account Senior Secured Bonds, Series 2015-2 (SIFMA Floating Rate Notes) (collectively, the "Bonds").

Date of Issuance: May __, 2015

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 and 4(b) of the Continuing Disclosure Certificate dated as of May __, 2015. The Issuer anticipates that the Annual Report will be filed by ____, 20__.

Dated: ____, 20__.

CITIZENS PROPERTY INSURANCE CORPORATION

By: _____
Name: _____
Title: _____

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The information included in this appendix, which Citizens believes to be reliable, has been compiled from publicly available sources, and the consent of the State of Florida or the Division of Bond Finance has not been requested. The information has been obtained from the website www.sbafla.com/bond/sales.asp.

APPENDIX H

GENERAL INFORMATION FOR THE

STATE OF FLORIDA

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The information included in this appendix, which Citizens believes to be reliable, has been compiled from publicly available sources, and the consent of the State of Florida or the Division of Bond Finance has not been requested. Certain information has been obtained from the website www.sbafla.com/bond/sales.asp.

APPENDIX H -- GENERAL INFORMATION

STATE OF FLORIDA

General History and Geography

Juan Ponce de Leon made the first recorded landing in Florida in 1513, and subsequently claimed the territory for Spain. The Spaniards founded the first permanent settlement, St. Augustine, in 1565. Florida was acquired by the United States from Spain in 1821, became a territory of the United States in 1822, and was admitted to statehood in 1845 as the 27th state. The State capital is the city of Tallahassee.

Florida is the 26th largest state with land area of 54,252 square miles and a water area of 4,308 square miles, with tidal shoreline in excess of 2,200 miles.

Florida has 67 counties and approximately 405 municipalities.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

Florida ranks as the fourth most populous state, with a population of 19.3 million as of April 1, 2013. This represents nearly a 1.0% increase from April 1, 2012.

While the State's population grew by 20.5% between 2000 and 2013, annual population growth has slowed considerably in recent years. Florida's average annual population growth rate was 1.7% from 2000 to 2010, which exceeded the nation's average annual population growth rate of 0.9% over the same period. However, Florida's average annual population growth rate decreased to 0.8% between 2011 and 2013, which was on pace with the US average annual growth rate of 0.8% for the same time period. Typically there are two drivers of population growth – natural increases (births minus deaths) and net migration (people moving into the state minus people moving out of the State). Historically, Florida's population growth has been driven by positive net migration, but the State has experienced record low levels of net migration in recent years, resulting in the slowed population growth.

The age distribution of Florida's population differs from that of the nation because Florida has a somewhat larger elderly population and a slightly smaller working age population than the nation. Florida's 2010 population aged 65 or older is 17.3% of the State's population and is projected to increase to 20.4% by 2020. Whereas the nation's population aged 65 or older is approximately 12.9% and is expected to increase to 16.0% by 2020. Florida's working age population (18-64) is currently 61.4% of total population and is expected to decline to 59.3% in 2020, and by comparison, the working age population (18-64) in the US is 62.7% of total population currently and projected to decline to 60.0%.

Population Change Florida and U.S., 1980-2020 (April 1, census day figures)

Year	Florida		U.S.	
	(in thousands)	% change	(in thousands)	% change
1980	9,747	-	226,546	-
1990	12,938	32.7%	248,710	9.8%
2000	15,983	23.5	281,422	13.2
2010	18,801	17.6	308,746	9.7
2020 (projected)	21,185	12.7	336,836	9.1

Source: Office of Economic and Demographic Research, The Florida Legislature (July, 2014), and U.S. Census Bureau.

Florida Population Age Trends, 2010-2030

Age	2010		2020		2030	
	Population	% of total	Population	% of total	Population	% of total
0 to 4	1,073,506	5.7%	1,169,790	5.5%	1,291,884	5.5%
5 to 17	2,928,585	15.6	3,130,654	14.8	3,383,376	14.3
18-24	1,739,657	9.3	1,812,788	8.6	1,962,225	8.3
25-44	4,720,799	25.1	5,230,883	24.7	5,880,264	24.9
45-64	5,079,161	27.6	5,496,343	26.0	5,420,972	23.0
65 +	<u>3,259,602</u>	17.3	<u>4,309,239</u>	20.4	<u>5,670,251</u>	24.0
Total	18,801,310		21,149,697		23,608,972	

Source: Office of Economic and Demographic Research, The Florida Legislature. (Demographic Estimating Conference, February, 2014)

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Gross Domestic Product

Florida's Gross Domestic Product ("GDP") represents the value of goods and services produced by the State, and serves as a broad measure of the State's economy. The State's GDP for 2013 is estimated at \$800 billion, which is about 3% higher than 2012 GDP of \$777 billion.

Florida's GDP has increased 6.3% over the past five years from \$753 billion in 2008 to \$800 billion in 2013. Private industry accounted for 88% of the State's 2013 GDP and government accounted for the remaining 12%. Real estate was the largest single industry, accounting for 17% of Florida's 2013 GDP.

The following table compares the components of the State's GDP over the most recent five-year period available.

Florida's Gross Domestic Product by Major Industry
2008 and 2013
(millions of chained 2005 dollars) ⁽¹⁾

<u>Industry</u>	<u>2008</u>	<u>% of Total</u>	<u>2013</u>	<u>% of Total</u>
Agriculture, forestry, fishing and hunting	\$5,732	0.8%	\$9,086	1.1%
Mining	1,930	0.3	2,478	0.3
Utilities	14,482	1.9	15,173	1.9
Construction	46,291	6.1	34,705	4.3
Manufacturing	39,949	5.3	39,616	4.9
Wholesale trade	51,335	6.8	56,490	7.1
Retail trade	55,576	7.4	61,580	7.7
Transportation and warehousing, excluding Postal Services	22,266	3.0	24,540	3.1
Information	32,063	4.3	30,927	3.9
Finance and insurance	36,645	4.9	44,522	5.6
Real estate and rental and leasing	130,389	17.3	133,153	16.6
Professional and technical services	50,707	6.7	54,603	6.8
Management of companies and enterprises	10,162	1.3	12,568	1.6
Administrative and waste services	30,595	4.1	31,635	4.0
Educational services	6,787	0.9	8,232	1.0
Health care and social assistance	58,298	7.7	69,331	8.7
Arts, entertainment and recreation	13,065	1.7	15,328	1.9
Accommodation and food services	30,219	4.0	35,170	4.4
Other services, except government	20,325	2.7	21,284	2.7
Government	<u>96,197</u>	12.8	<u>100,069</u>	12.5
Total ²	\$753,013		\$800,490	

Source: U.S. Department of Commerce, Bureau of Economic Analysis (June, 2014).

⁽¹⁾ A measure of real output and prices using 2005 as the base year and applying annual – weighted indexes to allow for changes in relative prices and associated purchasing patterns over time, as developed by the Bureau of Economic Analysis.

⁽²⁾ May not add, due to chaining formula and rounding.

Tourism is not treated as a separate industry sector, but remains an important aspect of the Florida economy. Its financial impact is reflected in a broad range of market sectors, such as transportation, communications, retail trade and services, and in State tax revenues generated by business activities which cater to visitors, such as hotels, restaurants, admissions and gift shops. According to *Visit Florida*, the direct support organization for the Florida Commission on Tourism, approximately 93.7 million people visited the State in 2013, a 4.3% increase over the final 2012 total. Leisure and hospitality services accounted for 13.5% of the State's non-farm employment in 2012. According to the Florida Department of Business and Professional Regulation, as of August 1, 2012, 47,511 food service establishments were licensed with seating capacity of 3,720,745 and 37,175 lodging establishments were licensed with 1,551,225 total units. According to the Florida Department of Environmental Protection, visitors to the State's public parks and recreation areas totaled 25.5 million for Fiscal Year 2013, a 2% increase from the prior year. In 2013, accommodation and food services contributed 4.0% of the State's GDP, and arts, entertainment and recreation contributed 1.7%.

Transportation of goods and passengers is facilitated by Florida's integrated transportation system. The State has approximately 122,000 miles of roads, 15 freight railroads with 2,796 miles of track, and AMTRAK passenger train service. There are 29 fixed route transit systems. There are 800 aviation facilities, of which 131 are available for public use; 20 provide scheduled commercial service and 14 provide international service. According to Federal Aviation Administration figures, based on calendar year 2012 enplanements, four Florida airports were among the top 50 in the U.S. based on passenger boardings and three were among the top 50 based on cargo weight. In that year, Miami International Airport ranked 12th in North America in passenger traffic and ranked 4th in North America in cargo volume. Florida also has 14 deep water ports, 9 major shallow water ports, and four significant river ports, many of which are interconnected by the State's inland waterway system.

In 2013, agriculture, forestry and fishing constituted only about 0.8% of GDP. In 2012, Florida ranked 19th for all crop production according to the U.S. Department of Agriculture. The State ranked 1st in production of oranges and sugar cane and ranked 2nd for production of vegetables and melons, tomatoes, and strawberries.

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Construction activity, which constituted approximately 6.1% of Florida's 2013 GDP, is another factor to consider in analyzing the State's economy. The following table shows housing starts and construction values from 2003 through 2013.

Florida Housing Starts and Construction Value: 2003-2013⁽¹⁾

Housing Starts (thousands)			Construction Value (millions of current dollars)			
<u>Year</u>	<u>Single Family</u>	<u>Multi-Family</u>	<u>Single Family</u>	<u>Multi-Family</u>	<u>Non-Residential</u>	<u>Total</u>
2003	146.7	68.8	\$25,615.4	\$7,052.4	\$17,111.1	\$49,778.8
2004	172.4	81.6	31,956.0	9,404.6	17,450.3	58,810.9
2005	193.1	93.6	39,349.7	13,249.4	19,111.5	71,710.6
2006	132.6	84.1	30,251.0	11,472.8	22,002.9	63,726.6
2007	63.8	53.9	15,484.4	6,406.7	28,431.6	50,322.8
2008	34.5	25.3	9,110.1	3,000.8	20,267.5	32,378.4
2009	24.6	7.7	6,513.0	943.7	17,590.7	25,047.4
2010	29.0	10.2	7,708.0	1,124.4	15,871.7	24,704.1
2011	29.3	12.2	8,180.6	1,473.6	13,123.0	22,777.2
2012	40.0	20.3	11,806.2	2,675.8	14,107.0	28,589.1
2013	53.2	29.3	16,528.3	3,706.9	12,408.6	32,643.7

Source: Office of Economic and Demographic Research, The Florida Legislature (April, 2014).

⁽¹⁾ Data is subject to revision on a monthly basis for up to five years.

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Employment

The following tables provide employment information for Florida and the U.S. As shown below, total employment in Florida increased from 8.7 million in Fiscal Year 2013 to nearly 8.9 million in Fiscal Year 2014. The unemployment rate decreased for a fourth, consecutive year to 6.4% in Fiscal Year 2014. Florida's unemployment rate continues to trend in line with the nation's unemployment rate.

The total number of non-agricultural jobs in Florida has decreased 5.4% since 2007 to 7.6 million in 2013. However, year-over-year, total non-agricultural jobs in Florida have increased from 7.4 million in 2012 to 7.6 million in 2013. At the same time, total US non-agricultural jobs have increased 3% since 2007 to 141.8 million in 2013.

**Unemployment Rate, Florida vs. U.S.
Fiscal Years 2003-2013**

Fiscal Year	Total Civilian Labor Force (in thousands)		Total Employment (in thousands)		Annual Average Unemployment Rate (percent)	
	<u>Florida</u>	<u>U.S.</u>	<u>Florida</u>	<u>U.S.</u>	<u>Florida</u>	<u>U.S.</u>
2003-04	8,337.4	146,800.0	7,924.5	138,300.0	5.0%	5.8%
2004-05	8,572.4	148,200.0	8,203.1	140,400.0	4.3	5.3
2005-06	8,806.6	150,400.0	8,499.6	143,100.0	3.5	4.8
2006-07	9,055.5	152,500.0	8,727.1	145,500.0	3.6	4.5
2007-08	9,220.9	153,700.0	8,790.2	146,100.0	4.7	4.9
2008-09	9,183.0	154,600.0	8,420.6	142,800.0	8.3	7.6
2009-10	9,159.4	153,900.0	8,143.6	138,900.0	11.1	9.7
2010-11	9,195.1	153,600.0	8,186.6	139,400.0	11.0	9.3
2011-12	9,319.9	154,300.0	8,441.0	141,200.0	9.4	8.5
2012-13	9,409.8	155,300.0	8,670.6	143,200.0	7.9	7.8
2013-14	9,476.1	155,694.0	8,868.8	146,221.0	6.4	6.1

Source: Office of Economic and Demographic Research, The Florida Legislature (July, 2014)

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**Composition of Nonagricultural Employment
Florida and the Nation
2007 and 2013⁽¹⁾
(thousands)**

	2007				2013			
	Florida		United States		Florida		United States	
	# of	% of	# of	% of	# of	% of	# of	% of
	<u>Jobs</u>	<u>Total</u>	<u>Jobs</u>	<u>Total</u>	<u>Jobs</u>	<u>Total</u>	<u>Jobs</u>	<u>Total</u>
Natural Resources & Mining	6.7	0.1	724.0	0.5	5.7	0.1	1,062.0	0.7
Construction	622.9	7.8	7,630.0	5.5	368.3	4.9	8,864.0	6.3
Manufacturing	399.0	5.0	13,879.0	10.1	321.9	4.2	14,763.0	10.4
Transportation & Warehousing	229.8	2.9	4,540.9	3.3	252.6	3.3	5,200.0	3.7
Utilities	23.7	0.3	553.4	0.4	22.6	0.3	870.0	0.6
Wholesale Trade	361.2	4.5	6,015.2	4.4	317.7	4.2	3,630.0	2.6
Retail Trade	1,028.5	12.8	15,520.0	11.3	979.0	12.9	15,912.0	11.2
Information	162.7	2.0	3,032.0	2.2	133.9	1.8	2,792.0	2.0
Financial Activities	551.2	6.9	8,348.0	6.1	512.6	6.8	9,613.0	6.8
Professional & Business Services	1,156.2	14.4	17,942.0	13.0	1,116.8	14.7	16,338.0	11.5
Education & Health Services	1,016.5	12.7	18,322.0	13.3	1,128.1	14.9	22,303.0	15.7
Leisure & Hospitality Services	983.5	12.3	13,427.0	9.8	1,036.9	13.7	13,111.0	9.2
Other Services	345.6	4.3	5,494.0	4.0	306.5	4.0	7,095.0	5.0
Government	<u>1,122.6</u>	<u>14.0</u>	<u>22,218.0</u>	<u>16.1</u>	<u>1,076.6</u>	<u>14.2</u>	<u>20,247.0</u>	<u>14.3</u>
Total Non-farm	8,009.8		137,645.0		7,579.2		141,800.0	

Source: U.S. Department of Labor, Bureau of Labor Statistics. (April, 2014)

⁽¹⁾ Not Seasonally adjusted.

Income

Historically, Florida's total personal income has grown at rates similar to those of the U.S. and the other southeastern states. From 2004 to 2013, Florida's total personal income grew by 42% and per capita income increased approximately 25%. For the nation and the Southeast, total personal income increased by 41% and 44%, while per capita income grew 34% and 29%, respectively, over the same time period. With the exception of 2009, personal income and per capita income have increased annually for the past ten years.

Florida per capita income remains above the Southeast region, but below the nation. The table on the following page shows total and per capita personal income for the U.S., the Southeast, and Florida for the past ten calendar years.

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**Total and Per Capita Personal Income
U.S., Southeast and Florida**

Year	Total Personal Income (In millions of Current Dollars)						Per Capita Personal Income (In Current Dollars)					
	U.S.		S.E.		Florida		U.S.		S.E.		Florida	
	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change
2004	\$10,048,300	7.2%	\$2,249,054	6.9%	\$582,766	9.7%	\$33,909	5.0%	\$30,801	5.4%	\$33,463	7.1%
2005	10,609,300	5.6	2,403,753	6.9	633,193	8.7	35,452	4.6	32,418	5.2	35,489	6.1
2006	11,389,000	7.3	2,580,723	7.4	690,268	9.0	37,725	6.4	34,379	6.0	37,996	7.1
2007	11,994,900	5.3	2,728,855	5.7	721,052	4.5	39,506	4.7	35,848	4.3	39,256	3.3
2008	12,429,600	3.6	2,843,864	4.2	740,676	2.7	40,947	3.6	36,906	3.0	39,978	1.8
2009	12,087,500	(2.8)	2,722,901	(4.3)	687,337	(7.2)	38,637	(5.6)	34,992	(5.2)	36,849	(7.8)
2010	12,429,300	2.8	2,831,622	4.0	722,368	5.1	39,791	3.0	36,047	3.0	38,345	4.1
2011	13,202,000	6.2	2,968,900	4.8	755,358	4.6	41,560	4.4	37,473	4.0	39,636	3.4
2012	13,887,700	5.2	3,068,647	3.4	779,339	3.2	42,693	2.7	38,382	2.4	40,344	1.8
2013	14,166,900	2.0	3,236,336	5.5	828,438	6.3	45,543	6.7	39,746	3.6	41,692	3.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis (May, 2014).

The table on the following page shows Florida personal income and earnings by major source for calendar years 2008 and 2013. Total income in Florida has increased approximately 10.7% over the five year time period. Increases and decreases in income varied across industries, with health care realizing the largest increase and construction seeing the biggest decrease.

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Florida Personal Income and Earnings by Major Source: 2008 vs. 2013
(thousands of current dollars)

	<u>2008</u>	<u>% Total</u>	<u>2013</u>	<u>% Total</u>
Earnings				
Wages and Salaries:				
Farm	\$2,075,776	0.2%	\$2,562,865	0.3%
Non Farm	453,173,468	53.2	485,718,748	51.5
Private:				
Forestry, fishing and other	1,458,293	0.2	1,827,378	0.2
Mining	774,358	0.1	702,440	0.1
Utilities	2,754,812	0.3	2,980,955	0.3
Construction	32,305,436	3.8	25,642,316	2.7
Manufacturing	24,790,005	2.9	23,752,367	2.5
Wholesale Trade	26,248,652	3.1	28,289,803	3.0
Retail Trade	35,188,547	4.1	38,231,253	4.1
Transportation & Warehousing	14,455,843	1.7	16,461,994	1.7
Information	13,511,916	1.6	13,015,981	1.4
Finance and Insurance	29,743,145	3.5	35,129,169	3.7
Real Estate and Rental and Leasing	10,630,491	1.2	10,695,284	1.1
Professional and Technical Services	41,910,647	4.9	46,256,597	4.9
Management of Companies and Enterprises	8,145,056	1.0	10,497,034	1.1
Administrative and Waste Services	25,168,006	3.0	26,494,780	2.8
Educational Services	5,925,799	0.7	7,377,765	0.8
Health Care and Social Assistance	53,242,374	6.2	63,672,031	6.7
Arts, Entertainment, and Recreation	9,093,942	1.1	10,138,248	1.1
Accommodation and Food Services	19,615,622	2.3	23,603,440	2.5
Other Services, except Public Administration	<u>19,072,791</u>	2.2	<u>21,168,707</u>	2.2
Total Private	\$374,035,735	43.9%	\$405,937,542	43.0
Government & Gov't. Enterprises	\$79,137,733	9.3%	\$79,781,210	8.5%
Total Wages & Salaries	\$455,249,244	53.4%	\$488,281,617	51.7%
Other Income:				
plus: Dividends, Interest & Rent	207,642,200	24.4	219,489,052	23.3
plus: Personal current transfer receipts	123,042,492	14.4	162,856,947	17.3
plus: Adjustment for residence	1,943,554	0.2	2,159,290	0.2
Less: Contributions for social insurance	<u>(51,679,144)</u>	(6.1)	<u>(57,598,280)</u>	(6.1)
Total Other Income	280,949,102	33.0	326,907,009	34.6
Total Personal Income	736,198,346	86.3	815,188,626	86.4
Other Earnings:				
Supplements to wages and salaries	76,725,907	9.0	80,565,712	8.5
Proprietors' Income	<u>39,658,650</u>	4.7	<u>47,980,573</u>	5.1
Total Earnings:	116,384,557	13.7	128,546,285	13.6
TOTAL INCOME	\$852,582,903	100.0%	\$943,734,911	100.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis (August, 2014).

International Trade

Florida's location lends itself to international trade and travel. Florida was the 7th largest exporter in the nation in 2013. The State's international merchandise trade (imports and exports) totaled \$158.4 billion in 2013, a decrease of 2.3% over 2012. Despite the decline, 2013 merchandise trade was the second highest level ever recorded. Between 2012 and 2013, Florida's merchandise exports declined by 5.4% while imports increased by 1.6%. During the same time period, the nation's exports increased by 2.1% and imports decreased by less than 1%.

The State's top five exports for 2013 were precious metals, aircraft, vehicles, telecommunications equipment, and computers. The top imports were oil, gold, vehicles, refined cooper and alloys, and electronics. Florida's top trading partners for 2013 were Brazil, Colombia, China, Costa Rica and Chile. (Source: Enterprise Florida, March 2014)

Florida's International Trade: 2003-2013
(millions of U.S. dollars)

<u>Year</u>	<u>Exports</u>	<u>% Change</u>	<u>Imports</u>	<u>% Change</u>
2003	\$32,404	0.5%	\$40,462	9.5%
2004	37,501	15.7	43,896	8.5
2005	44,115	17.6	51,169	16.6
2006	51,767	17.3	57,399	12.2
2007	58,915	13.8	55,925	(2.6)
2008	73,022	23.9	57,525	2.9
2009	59,884	(18.0)	43,107	(25.1)
2010	73,064	22.0	53,164	23.3
2011	86,753	18.7	62,413	17.4
2012	90,360	4.2	71,833	15.1
2013	85,460	(5.4)	72,971	1.6

Source: Enterprise Florida (March, 2014)

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Primary Sources of Sales Tax

The following tables illustrate taxable sales by category of expenditure over the past ten years, and compare the top twenty-five types of businesses generating sales tax revenues in Fiscal Years 2009 and 2014.

Florida Taxable Sales and Sales Tax Liability by Category Fiscal Years ended June 30, 2004-2014 (millions of current dollars)

Fiscal Year	Consumer Non-durables				Consumer Durables				Building Investment		Business Investment		
	Recreation/Tourism		Other		Autos & Accessories		Other		Sales	Taxes	Sales	Taxes	
	Sales	Taxes	Sales	Taxes	Sales	Taxes	Sales	Taxes					
2004	\$53,924	\$3,224.5	\$77,387	\$4,675.7	\$56,017	\$3,349.6	\$23,003	\$1,375.5	\$18,455	\$1,103.5	\$55,027	\$3,223.9	
2005	58,821	3,517.3	84,393	5,099.0	60,332	3,607.6	25,735	1,538.9	22,868	1,367.4	63,723	3,733.4	
2006	63,247	3,781.9	92,961	5,616.7	64,883	3,879.9	28,704	1,716.4	26,525	1,586.1	71,783	4,205.0	
2007	65,019	3,887.9	97,809	5,909.6	62,511	3,737.9	27,831	1,664.2	23,745	1,419.8	72,464	4,245.5	
2008	65,772	3,932.9	98,075	5,925.7	54,885	3,281.9	24,363	1,456.8	20,319	1,215.0	66,612	3,902.7	
2009	61,767	3,693.4	92,760	5,604.6	43,547	2,603.9	19,938	1,192.2	16,362	978.4	59,961	3,513.0	
2010	60,407	3,610.5	91,404	5,515.3	43,641	2,608.7	18,299	1,094.1	14,845	888.2	55,154	3,233.9	
2011	63,818	3,816.1	94,741	5,724.3	45,889	2,744.0	19,271	1,152.3	15,129	904.6	56,836	3,329.9	
2012	68,168	4,076.2	98,880	5,974.3	48,803	2,918.3	20,431	1,221.7	15,845	947.4	58,543	3,429.8	
2013	72,029	4,306.9	102,711	6,205.6	53,922	3,224.5	21,711	1,298.1	17,893	1,069.8	61,397	3,597.1	
2014	77,043	4,606.9	107,830	6,515.1	59,673	3,568.2	23,194	1,386.9	20,061	1,199.5	65,615	3,844.3	

Source: Office of Economic and Demographic Research (September, 2014).

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State Sales Tax Collections by Top 25 Business Types Fiscal Years Ended June 30, 2009 vs. 2014⁽¹⁾

Type of Business	2009	2014
Automotive Dealers	\$2,062,983,662	\$2,980,024,588
General Miscellaneous Merchandise Stores	2,490,794,874	2,880,799,407
Restaurants, Lunchrooms, Catering Services	1,670,371,379	2,103,320,072
Leased or Rental of Commercial Real Property	1,356,669,887	1,414,211,508
Hotels/Motels Accommodations & Other Lodging Places	870,146,231	1,194,169,051
Food & Beverage Stores	873,954,711	1,042,274,934
Lumber and Other Building Materials Dealers	718,079,232	883,482,359
Apparel & Accessory Stores	617,197,337	881,860,740
Admissions, Amusement & Recreation Services	581,067,773	761,325,051
Wholesale Dealers	512,868,198	665,838,097
Radio, Television, Consumer Electronics, Computers, Music Stores	497,026,503	560,319,774
Manufacturing	470,166,698	511,973,630
Utilities, Electric, Gas, Water, Sewer	522,111,183	494,637,377
Home Furniture, Furnishings & Equipment	333,279,728	460,524,554
Automotive Accessories & Parts	208,194,181	289,601,713
Rental of Tangible Personal Property	290,313,024	283,346,183
Automobile Repair & Services	229,039,430	257,761,181
Communications	137,699,634	222,080,169
Paint, Wallpaper & Hardware Dealers	137,756,800	169,017,169
Taxable Services (per Chapter 212, F.S.)	159,937,296	162,104,246
Building Contractors	84,588,044	157,620,916
Drinking Places (Alcoholic beverages served on premises)	151,511,728	145,697,438
Store & Office Equipment, Office Supplies	153,573,911	132,340,905
Gifts, Cards, Novelty, Hobby, Crafts & Toy Stores	113,922,398	128,643,520
Shoe Stores	88,108,347	125,747,240

Source: Florida Department of Revenue, Office of Tax Research (September, 2014)

⁽¹⁾ Arranged in descending order of collection amounts for Fiscal Year ended June 30, 2014. In that Fiscal Year, "Miscellaneous" and unspecified business types accounted for \$176,728,614 in sales tax collections.

APPENDIX I

CITIZENS' INVESTMENT POLICIES

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CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims Paying Fund (Tax-Exempt)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to four separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund.

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

Citizens Property Insurance Corporation Claims Paying Fund (Tax-Exempt) Investment Policy Page 3 of 8

Exempt) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all investments of proceeds from pre-event bond issuances starting in 2010 and thereafter must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations ("VRDOs")), must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of MIG 1 by Moody's, SP-1 by S&P, and/or F1 by Fitch.
- (2) Securities with long-term investment ratings, must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A3 by Moody's, A- by S&P, and/or A- by Fitch.
- (3) VRDOs must be rated from at least Moody's, S&P, and/or Fitch and be at least rated VMIG 1 by Moody's, A-1 by S&P, and/or F1 by Fitch; in addition, one of the following is required:
 - i. A direct pay Letter of Credit ("LOC") from a bank with long-term underlying ratings from at least two of Moody's, S&P, and / or Fitch (Minimum ratings - Moody's: A3; S&P: A-; Fitch: A-).
 - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC's and credit enhancement from a credit enhancement provider rated by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's and A+ from S&P and/or A+ from Fitch.
 - iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's and A+ from S&P and/or A+ from Fitch.

Citizens Property Insurance Corporation Claims Paying Fund (Tax-Exempt) Investment Policy Page 2 of 8

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the tax-exempt Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short duration and high credit quality.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens Claims-Paying Fund (tax-exempt) portfolio (the "Portfolio") will be invested only in non-AMT tax-exempt fixed income securities or in money market funds which invest exclusively in non-AMT tax-exempt fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. More detailed restrictions are contained below.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Funds (Tax-

Citizens Property Insurance Corporation Claims Paying Fund (Tax-Exempt) Investment Policy Page 4 of 8

- (4) Tax-Exempt Commercial Paper ("TECP"), must be rated from at least two of Moody's, S&P and/or Fitch and must be at least rated P-1 by Moody's, A-1 by S & P, and/or F1 by Fitch.
- (5) Tax-exempt money market funds must be rated Aaa by Moody's, or AAA_{mm} by S&P and/or AAA_{mm} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of A2 by Moody's, A by S&P, and/or A by Fitch.

At the time of purchase, all investments for Series 2009A pre-event bond proceeds must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations ("VRDOs")), must be rated by Moody's and S&P, and must have minimum ratings of MIG 1 by Moody's and SP-1 by S&P.
- (2) Securities with long-term investment ratings, must be rated by Moody's and S&P, and must have minimum ratings of A3 by Moody's and A- by S&P.
- (3) VRDOs must be rated by Moody's and S&P, be at least rated VMIG 1 by Moody's and A-1 by S&P; in addition, one of the following is required:
 - i. A direct pay Letter of Credit ("LOC") from a bank with long-term underlying ratings from at least two of Moody's, S&P, and / or Fitch (Minimum ratings - Moody's: A3; S&P: A-; Fitch: A-)
 - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC's and credit enhancement from a credit enhancement provider rated by at least two of Moody's S&P and/or Fitch, with minimum ratings of Aa3 from Moody's and AA- from S&P and/or AA- from Fitch.
 - iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody's S&P and/or Fitch, with minimum ratings of A1 from Moody's, A+ from S&P and/or A+ from Fitch.
- (4) Tax-Exempt Commercial Paper ("TECP") must be rated by Moody's and S&P and must be at least rated P-1 from Moody's, A-1 from S & P.
- (5) Tax-exempt money market funds must be rated Aaa by Moody's, AAA_{mm} by S&P or AAA_{mm} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from by Moody's and S&P and must have minimum ratings of A2 by Moody's, A by S&P, and/or A by Fitch.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or Liquidity Support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit.
- Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens' CFO prior to investing in any money market fund.
- Tax-exempt commercial paper ("TECP") shall not represent more than 20% of the total portfolio.
- Floating Rate Notes (securities the terms of which provide for the automatic adjustment of their interest rates whenever a specified interest rate changes until the final maturity of the instrument or the period remaining until the principal amount can be recovered through demand) with no external liquidity support from a bank meeting the ratings requirements described above for bank LOCs shall not represent more than 25% of the total portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 15% of the total portfolio.
- Calculations of a bank or issuer's share of Citizens' overall portfolio should be done without regard to the underlying securities in any money market funds owned by Citizens in this portfolio.

STRESS TESTING

The Investment Managers will quarterly stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions two weeks prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset-backed Commercial Paper Notes), Mortgage Backed Securities (including Agency MBS), and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Repurchase Agreements, Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 10, 2014.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the Series 2009 to Series 2012 portfolio is 61 months or five years and one month and for any subsequent Series starting in 2015 is 73 months or six years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 42 months, or three years and six months at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - For pre-refunded municipal obligations with an irrevocable escrow funded by Government or Agency securities, the final maturity shall be deemed to be the date on which the escrow will be used to call the underlying bonds. Pre-refunded obligations have no minimum ratings requirements.
 - If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
 - If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of Aa3 from Moody's, AA- from S&P and/or AA- from Fitch.
- The dollar weighted average maturity of the Series 2009 to Series 2012 Portfolio shall not exceed 42 months, or 3 years and six months, and for any subsequent Series starting Series 2015 Portfolio shall not exceed 4 years, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.

Appendix A-Types of Permitted Securities

VARIABLE RATE DEMAND OBLIGATION (VRDO)

A bond which bears interest at a variable, or floating, rate established at specified intervals (e.g., flexible, daily, weekly, monthly or annually). It contains a put option permitting the bondholder to tender the bond for purchase when a new interest rate is established. VRDOs are also referred to as VRDNs (N=Notes), VRDBs (B=Bonds) or low floaters.

MUNICIPAL SECURITIES (Tax-Exempt)

A Security issued by a state or local governmental units where the interest on the security is excluded from the gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended.

TAX-EXEMPT MONEY MARKET FUND

A Money Market Fund that invests in short-term tax-exempt municipal securities.

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Claims Paying Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to four separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these monies to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund.

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

Citizens Property Insurance Corporation Claims Paying Fund (Taxable) Investment Policy Page 3 of 11

do not relieve the Investment Managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Claims-Paying Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch of Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch.
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch.
- (3) Money Market Funds must be rated Aaa by Moody's, AAA- by S&P and/or AAA- by Fitch;
- (4) Commercial Paper Notes must have 100% liquidity support from a bank with at least two ratings - a minimum of A3 from Moody's, A- from S&P, and/or A- from Fitch;
- (5) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.
- (6) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

Citizens Property Insurance Corporation Claims Paying Fund (Taxable) Investment Policy Page 2 of 11

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Claims-Paying Fund are to provide safety of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses. Since paying such losses fully and in a timely manner is a priority for Citizens, liquidity in all portfolios must be paramount. While the moneys invested pursuant to this policy will not be the first funds Citizens uses after a storm to pay claims, the uncertainty of when they will be needed still demands a fixed income portfolio with relatively short duration and high credit quality.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Claims-Paying Fund portfolio ("the Portfolio") will be invested only in high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Municipal securities, and shares of Money Market Mutual Funds. However, Citizens and its Investment Managers are not permitted to buy such fixed income securities to the extent that they require Citizens to be a Qualified Institutional Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.

For a more detailed description of the Portfolio securities, please see "Types of Permitted Securities" at Appendix A.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all Investment Managers supply Citizens with whatever data is needed to perform such verification in a timely manner. However, Citizens' compliance checks

Citizens Property Insurance Corporation Claims Paying Fund (Taxable) Investment Policy Page 4 of 11

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO) and Notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 35% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 65% of the Portfolio.
- No more than 30% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg Industry Sector will be used to verify the sector limit.
- No more than 10% of the Portfolio shall be invested in Agency MBS or CMO.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that are rated Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 10% of the Portfolio, with the Baa1/BBB+ securities of a single issuer representing no more than 1% of the Portfolio.
- Securities of any individual Agency, including MBS, should not represent more than 20% of the Portfolio.
- Securities of a single issuer of FDIC insured notes sold through the Temporary Liquidity Guarantee Program ("TLGP") (issuer means the financial institution which issued such securities through the TLGP and not the FDIC itself) shall not represent more than 5% of

- the Portfolio. Also, FDIC insured notes issued through the TLGP are considered Agency securities and therefore are limited to the single Agency maximum of 20% of the Portfolio.
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
 - Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD program will be considered Corporate Floating Rate Notes.
 - Municipal Securities shall not represent more than 20% of the Portfolio.
 - Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
 - Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 10% of the Portfolio.
 - Exposure to banks providing LOC or liquidity support for the underlying securities in Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the Portfolio.
 - No more than 10% of the Portfolio shall consist of securities with a final maturity between 61 and 85 months.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the Portfolio is 85 months or seven years and one month.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 3 years at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
- The dollar weighted average maturity of the Portfolio shall not exceed 48 months, or four years, calculated using the interest rate reset period for any VROs without a Demand

Appendix A-Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

- Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
 - Repurchase Agreements must have a maximum maturity of 30 days or less.
 - If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
 - If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of A1 from Moody's, A+ from S&P and/or A+ from Fitch.

STRESS TESTING

The Investment Managers will quarterly stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions two weeks prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset Backed Commercial Paper Notes), non-Agency Collateralized Mortgage Obligations, non-Agency Mortgage Backed Securities and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 10, 2014

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE BACKED SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and "passes through" the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by

fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S & P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage Backed Securities. All Repurchase Agreements must be marked-to-market daily.

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Tax-Exempt)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to four separate policies:

- (1) Liquidity Fund: generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt funds that will be used to pay claims after an event or to pay principal and/or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund.

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' procurement policies.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Liquidity Fund (Tax-exempt) are to provide stability of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses timely. Since paying such losses fully and in a timely manner is the highest priority of Citizens, and since Liquidity Fund (Tax-exempt) moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund (Tax-exempt) must be paramount. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens Liquidity Fund (tax-exempt) portfolio (the "Portfolio") will be invested only in non-AMT tax-exempt fixed income securities or in money market funds which invest exclusively in non-AMT tax-exempt fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. More detailed restrictions are contained below.

It is the responsibility of the Investment Manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically; however, Citizens' compliance checks do not relieve the Investment Manager(s) of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Liquidity Funds performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's

share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks– on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers’ professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio’s overall performance and as one measure of the relative performance of the Investment Manager(s). The Investment Manager(s) must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all investments must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with short-term investment ratings (other than Variable Rate Demand Obligations (“VRDOs”), must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of MIG 1 by Moody’s, SP-1 by S&P, and /or F1 by Fitch.
- (2) Securities with long-term investment ratings, must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of A3 by Moody’s, A- by S&P, and/or A- by Fitch.
- (3) VRDOs must be rated from at least Moody’s, S&P, and/or Fitch and be at least rated VMIG 1 by Moody’s, A-1 by S&P, and/or F1 by Fitch; in addition, one of the following is required:
 - i. A direct pay Letter of Credit (“LOC”) from a bank with long-term underlying ratings from at least two of Moody’s, S&P, and / or Fitch (Minimum ratings - Moody’s: A3; S&P: A-; Fitch: A-).
 - ii. A combination of a liquidity facility with a bank liquidity provider meeting the same ratings requirements as for bank LOC’s and credit enhancement from a credit enhancement provider rated by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.
 - iii. Self liquidity by the issuer with a minimum underlying ratings by at least two of Moody’s S&P and/or Fitch, with minimum ratings of A1 from Moody’s and A+ from S&P and/or A+ from Fitch.

can be recovered through demand) with no external liquidity support from a bank meeting the ratings requirements described above for bank LOC’s shall not represent more than 25% of the total portfolio.

- No more than 25% percent of the Portfolio may be invested in fixed rate securities with remaining time to maturities of 24 to 42 months.
- Exposure to banks providing LOC or liquidity support for the underlying securities in the Portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 15% of the Portfolio.
- Calculations of a bank or issuer’s share of the Portfolio should be done without regard to the underlying securities in any money market funds owned by Citizens in the Portfolio.

Duration

It is Citizens’ intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the portfolio is 42 months or three years and six months.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, “VROs”) with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a LOC or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - For pre-refunded municipal obligations with an irrevocable escrow funded by Government or Agency securities, the final maturity shall be deemed to be the date on which the escrow will be used to call the underlying bonds. Pre-refunded obligations have no minimum ratings requirements.
 - If a fixed rate security has a mandatory put option then the mandatory put date may be used as a final maturity date.
 - If a variable rate security has a mandatory put option then the mandatory put date may be used as a final maturity date but the issuer must have

- (4) Tax-Exempt Commercial Paper (“TECP”), must be rated from at least two of Moody’s, S&P and/or Fitch and must be at least rated P-1 by Moody’s, A-1 by S & P, and/or F1 by Fitch.
- (5) Tax-exempt money market funds must be rated Aaa by Moody’s, or AAA_{mm} by S&P and/or AAA_{mmf} by Fitch.
- (6) For pre-refunded bonds, the ratings for the underlying collateral will be used for compliance purposes.
- (7) Subordinate obligations must be rated from at least two of Moody’s, S&P, and/or Fitch and must have minimum ratings of A2 by Moody’s, A by S&P, and/or A by Fitch.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens’ investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens’ CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens’ CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens’ intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Securities of a single local municipality or issuer, e.g. State, County, City, or Authority, shall not represent more than 5% of the portfolio. This issuer limit includes VRDOs regardless of the LOC or liquidity support provider. The Bloomberg Bond Ticker or an Issuer name for conduit issuer only will be used to verify the issuer limit.
- Investment in an individual money market fund shall be the lesser of 5% of the total individual fund assets or \$200 million. Each Investment Manager must check the compliance of this provision with Citizens’ CFO prior to investing in any money market fund.
- Tax-exempt commercial paper (“TECP”) shall not represent more than 20% of the total portfolio.
- Floating Rate Notes (securities the terms of which provide for the automatic adjustment of their interest rates whenever a specified interest rate changes until the final maturity of the instrument or the period remaining until the principal amount

underlying ratings by at least two of Moody’s S&P and/or Fitch, with minimum ratings of Aa3 from Moody’s and AA- from S&P and/or AA- from Fitch.

- The dollar weighted average maturity of the portfolio shall be calculated and restricted in two separate ways:
 - The dollar weighted average maturity of the portfolio shall not exceed 397 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
 - The dollar weighted average life maturity of the portfolio shall not exceed 730 days, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.

STRESS TESTING

The Investment Managers will quarterly stress-test the portfolio, in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens will provide the stress test conditions two weeks prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset-backed Commercial Paper Notes), Mortgage Backed Securities (including Agency MBS), and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted
- Derivatives are not permitted.
- Repurchase Agreements, Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 10, 2014.

CITIZENS PROPERTY INSURANCE CORPORATION

INVESTMENT POLICY for

Liquidity Fund (Taxable)

INTRODUCTION

Citizens is a government entity whose purpose is to provide property and casualty insurance for those Floridians who cannot obtain affordable coverage in the private market. Citizens strives to pay policyholder claims in a timely manner while maintaining quality customer service and a sound financial posture. Prudent investment of its cash can serve to further these goals.

Citizens will invest its funds according to four separate policies:

- (1) Liquidity Fund (Taxable): generally this policy will govern the investment of funds and surplus that will be the first moneys used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.
- (2) Liquidity Fund (Tax-Exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event or to pay principal and / or interest payments on as needed basis.
- (3) Claims-Paying Fund (Taxable): generally this policy will govern the investment of funds that will be used to pay claims post-event after Citizens has expended all moneys in the Liquidity Fund. Only moneys eligible for investment in taxable instruments will be deposited in this fund.
- (4) Claims-Paying Fund (Tax-exempt): generally this policy will govern the investment of tax-exempt pre-event bond proceeds and other moneys required to be invested in tax-exempt instruments. Citizens will use these moneys to pay claims after an event, typically after it has spent all funds in the Liquidity Fund.

In addition, Citizens may choose to invest a portion of its portfolio using its own investment personnel and the investment procedures approved by the Board of Governors in October 2007 (Citizens' "Internally Managed Funds"). Internally Managed Funds will consist of the approximate amount funds needed to pay the day-to-day operating expenses of Citizens, as determined by Citizens' Chief Financial Officer. Internally Managed Funds will be invested in Money Market Mutual Funds, Bank Instruments, and Treasury or Agency securities (see Appendix A, "Types of Permitted Securities"). For all other funds, (the "Externally Managed Funds") Citizens will utilize third-party professional Investment Managers selected in a method consistent with applicable law and Citizens' internal procurement policies.

Appendix A-Types of Permitted Securities

VARIABLE RATE DEMAND OBLIGATION (VRDO)

A bond which bears interest at a variable, or floating, rate established at specified intervals (e.g., flexible, daily, weekly, monthly or annually). It contains a put option permitting the bondholder to tender the bond for purchase when a new interest rate is established. VRDOs are also referred to as VRDNs (N=Notes), VRDBs (B=Bonds) or low floaters.

MUNICIPAL SECURITIES (Tax-Exempt)

A Security issued by a state or local governmental units where the interest on the security is excluded from the gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1954, as amended.

TAX-EXEMPT MONEY MARKET FUND

A Money Market Fund that invests in short-term tax-exempt municipal securities.

In addition to the restrictions and guidelines contained herein, Citizens' investments must comply with applicable Florida Statutes and bond document restrictions, all of which are incorporated by reference.

Citizens' overall investment strategy will have the following prioritized goals: (i) safety of principal; (ii) liquidity, so that operating expenses and claims can be paid in a timely manner; and (iii) competitive returns. However, each of the policies described above may provide for different portfolio duration, credit quality, and other parameters consistent with these broad goals and the specific purpose of the underlying fund.

INVESTMENT OBJECTIVES

The primary investment objectives of the Liquidity Fund are to provide stability of principal and liquidity while achieving a competitive return on invested assets. Cash flow needs for Citizens after a storm are difficult to project, but it is prudent to assume that significant amounts of cash could be needed quickly to pay covered losses quickly. Since paying such losses fully and in a timely manner is the highest priority for Citizens, and since Liquidity Fund moneys will be among the first used by Citizens to pay claims after a storm, liquidity and principal stability in the Liquidity Fund must be paramount. The achievement of these goals is of prime importance and should not be jeopardized in the quest for additional return.

INVESTMENT STRATEGIES, COMPLIANCE AND PERFORMANCE MEASUREMENT

Citizens' Liquidity Fund portfolio ("the Portfolio") will be invested only in short-term high quality fixed income securities. *Fixed Income Securities* are securities that pay interest, dividends or distributions at a specified rate. The rate may be a fixed percentage of the principal or adjusted periodically. In addition, the issuer of a short-term fixed income security must repay the principal amount of the security, normally within a specified time. The fixed income securities in which Citizens or its Investment Managers will invest include corporate debt securities, bank instruments, US Treasury securities ("Government securities"), US Government Agency securities ("Agency securities"), Municipal securities, and shares of Money Market Mutual Funds. However, Citizens and its Investment Managers are not permitted to buy such fixed income securities to the extent that they require Citizens to be a Qualified Institutional Buyer, as defined by the United States Securities and Exchange Commission in Rule 144A under the Securities Act of 1933.

For a more detailed description of the Portfolio securities, please see "Types of Permitted Securities" at Appendix A.

It is the responsibility of the investment manager(s) to maintain compliance with all aspects of this policy on a daily basis. Citizens will independently verify compliance periodically, and it is therefore required that all investment managers supply Citizens with whatever data is

needed to perform such verification in a timely manner. However, Citizens' compliance checks do not relieve the investment managers of their responsibility to perform such checks on a daily basis.

Citizens will measure the performance of the Portfolio from various perspectives: (i) the Portfolio will be measured regularly for compliance with the Investment Guidelines below and the Investment Objectives above; (ii) the Portfolio's performance will be analyzed for return performance by comparing the various Investment Managers' Liquidity Funds (Taxable) performance to each other on a regular basis; (iii) the Portfolio's performance, and each Investment Manager's share thereof, will be compared to investment benchmarks – or a blend of investment benchmarks – on a monthly basis which Citizens will establish and will communicate to managers periodically. The purpose of using any investment benchmark as performance measurement tools is not to guide investment selection – the Investment Managers' professional judgment, operating within the specific Investment Guidelines below, is meant to be the determinant of investment selection. Rather, Citizens will use any investment benchmark to measure the Portfolio's overall performance and as one measure of the relative performance of the Investment Managers. The Investment Managers must provide reports to Citizens on a monthly basis, or more frequently as requested by Citizens, that enable Citizens to understand specifically how the Portfolio is being invested so this performance analysis can be done.

INVESTMENT GUIDELINES

Credit Quality

At the time of purchase, all securities must be rated in accordance with the following (in the event of split ratings, the lower ratings will be used for compliance purposes):

- (1) Securities with long-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch and must have minimum ratings of Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch;
- (2) Securities with short-term investment ratings must be rated from at least two of Moody's, S&P, and/or Fitch, and must have minimum ratings of P-1 by Moody's; A-1 by S&P; and/or F1 by Fitch;
- (3) Money Market Funds must be rated Aaa by Moody's, AAA_m by S&P and/or AAA_m by Fitch;
- (4) Commercial Paper Notes must have 100% liquidity support from a bank with at least two ratings - a minimum of A3 from Moody's, A- from S & P, and/or A- from Fitch;
- (5) Banker's Acceptances (BAs) and Certificates of Deposit (CDs) can be issued by any domestic or foreign bank with minimum capital of \$100 million and the bank must have minimum ratings of P-1 by Moody's or A-1 by S&P.

- Securities of a single issuer of FDIC insured notes sold through the Temporary Liquidity Guarantee Program ("TLGP") (issuer means the financial institution which issued such securities through the TLGP and not the FDIC itself) shall not represent more than 5% of the Portfolio. Also, FDIC insured notes issued through the TLGP are considered Agency securities and therefore are limited to the single Agency maximum of 20% of the Portfolio.
- Investments in an individual Money Market Fund (including Treasury and Agency Money Market Funds) shall be limited to a lesser of \$200 million or 4% of that individual Money Market Fund's total assets.
- Corporate Floating-Rate Notes (FRN's) shall not represent more than 35% of the overall portfolio.
- Floating Rate Notes collateralized by Certificate of Deposits and issued through the Yankee CD Program will be considered Corporate Floating Rate Notes.
- Fixed-Rate Corporate Notes shall not represent more than 35% of the overall Portfolio.
- Municipal Securities shall not represent more than 20% of the overall Portfolio.
- Repurchase Agreements shall not represent more than 15% of the Portfolio's amortized cost and should be collateralized as described in Appendix A.
- Banker's Acceptances (BA) and Certificates of Deposits (CDs) shall not collectively represent more than 15% of the Portfolio.
- Exposure to banks providing LOC or liquidity support for the underlying securities in Citizens' portfolio should be diversified as well. No bank shall provide such support for underlying securities representing more than 10% of the total Portfolio.
- Commercial Paper shall not represent more than 25% of the Portfolio.

Duration

It is Citizens' intent under this policy to have a portfolio that can provide ready liquidity at a price approximating amortized cost. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the duration restrictions of this policy. With that in mind, the following duration restrictions apply:

- The maximum permitted final maturity for any security in the portfolio is 42 months or three years and six months.
 - For purposes of this calculation, the final maturity of any variable or floating rate obligation (collectively, "VROs") with a Demand Feature (a feature permitting the holder of a security to sell such security within 397 days at an exercise price equal to the approximate amortized cost of the security at the time of exercise, where such feature is supported by a letter of credit ("LOC") or other liquidity facility from a bank rated as described above) shall be deemed to be the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs. Any such LOC or liquidity facility must be renewed at least 45 days prior to its expiration to be

- (6) If the issue or security has no ratings, the ratings of the underlying program or issuer can be used as long as the program or issuer with allowable ratings provides an explicit and unconditional guarantee for the security in the Portfolio.

If anything occurs which causes an investment in the Portfolio to fall outside the standards described above, the applicable Investment Manager must notify Citizens' investment personnel and CFO in writing via e-mail within one day of the occurrence of such event. The Investment Manager must also prepare a written plan of action for the affected security and present it to Citizens' CFO within five business days of the event. In general, any such affected security should be liquidated in a timely fashion as market conditions warrant, and the manager should provide a written recommendation to Citizens' CFO; however, immediate sale in a temporarily depressed market is not mandated by this policy.

Diversification

It is Citizens' intent to maintain a properly diversified portfolio in order to reduce its risk from changes in the market for various classes of securities and to protect against changes in the financial health of any issuer of securities purchased by or on behalf of Citizens. Each individual Investment Manager should treat its portfolio as a stand-alone entity for purposes of compliance with the diversification restrictions of this policy. With that in mind, the following diversification restrictions apply:

- Treasury and Agency securities, Treasury and Agency Money Market Funds, Agency Mortgage Backed Securities (MBS), Agency Collateralized Mortgage Obligations (CMO) and notes whose principal and interest payments are fully insured by the FDIC and Treasury and Agency Collateralized Repurchase Agreements must in total be at least 50% of the Portfolio.
- Corporate securities, Commercial Paper, Banker's Acceptances (BAs) and Certificates of Deposit (CDs), Municipal Securities, and corporate Money Market Funds in total cannot comprise more than 50% of the Portfolio.
- No more than 25% of the Portfolio shall be in a single industry sector. Treasury and Agency securities are not considered to be part of an industry for these purposes. The Bloomberg Industry Sector will be used to verify the sector limit.
- No more than 10% of the Portfolio shall be invested in Agency MBS or CMO.
- Securities of a single issuer (excluding Treasury and Agency securities) shall not represent more than 3% of the Portfolio.
- Securities that are rated Baa1 by Moody's; BBB+ by S&P; and/or BBB+ by Fitch shall not represent more than 10% of the Portfolio, with the Baa1/BBB+ securities of a single issuer representing no more than 1% of the Portfolio.
- Securities of any individual Agency, including MBS, should not represent more than 20% of the Portfolio.

- deemed in effect for purposes of this policy. For VROs without a Demand Feature, the final maturity for purposes of this section is the stated legal maturity.
 - No more than twenty-five percent (25%) of the portfolio may be invested in fixed rate securities with remaining time to maturities of 24 to 42 months.

- The dollar weighted average maturity of the portfolio shall not exceed 397 days, calculated using the interest rate reset period for any VROs without a Demand Feature, and for VROs with a Demand Feature using the longer of the interest rate reset period or the time remaining until the Demand Feature could be exercised.
 - The dollar weighted average life maturity of the portfolio shall not exceed 730 days, calculated using the stated legal maturity for any VROs without a Demand Feature and for VROs with a Demand Feature using the shortest of the time remaining until the Demand Feature could be exercised or the expiration date of the LOC or liquidity facility that supports such VROs.
- Banker's Acceptances and Certificates of Deposit must have a maximum maturity of less than 397 days.
- Repurchase Agreements must have a maximum maturity of 30 days or less.
- If a fixed rate security has mandatory put option then the mandatory put date will be used as a final maturity date.
- If a variable rate security has mandatory put option then the mandatory put date will be used as a final maturity date if the issuer has underlying ratings by at least two of Moody's, S&P and/or Fitch, with minimum ratings of Aa3 from Moody's, AA- from S&P and/or AA- from Fitch.

STRESS TESTING

The Investment Managers will quarterly stress-test the portfolio in order to gauge the ability of the Portfolio to withstand interest rate shifts, credit shocks, and other market changes. Citizens' will provide the stress test conditions two weeks prior to the stress test date.

OTHER RESTRICTIONS

- Auction Rate Securities are not permitted.
- Asset Backed Securities (including Asset Backed Commercial Paper Notes), non-Agency Collateralized Mortgage Obligations, non-Agency Mortgage Backed Securities, and Collateralized Debt Obligations, are not permitted.
- Commercial Paper Notes issued under Section 4(2) of Securities act of 1933 are not permitted
- Qualified Public Depositories are not permitted

- Derivatives are not permitted.
- Subordinate obligations, regardless of ratings, are not permitted.
- Repurchase Agreements (unless collateralized as described in Appendix A), Reverse Repurchase Agreements and Securities Lending are not permitted.
- All securities not explicitly listed as permitted investments are hereby deemed to be prohibited under this policy unless written permission is received from the CFO of Citizens.

This policy was approved by Citizens Property Insurance Corporation's Board of Governors on December 10, 2014

Appendix A-Types of Permitted Securities

CORPORATE DEBT SECURITIES

Corporate Debt securities are fixed income securities issued by businesses. Notes, bonds, debentures and commercial paper are the most prevalent types of corporate debt securities. Citizens may also purchase interests in bank loans to companies.

COMMERCIAL PAPER

Commercial Paper is an issuer's obligation with a maturity of less than 9 or 12 months. Companies typically issue commercial paper to pay for current expenditures. Most issuers constantly reissue their commercial paper and use the proceeds (or bank loans) to repay maturing paper. If the issuer cannot continue to obtain liquidity in this fashion, its commercial paper may default.

DEMAND INSTRUMENTS

Demand instruments are corporate debt securities that the issuer must repay upon demand. Other demand instruments require a third party, such as a dealer or bank, to repurchase the security for its face value upon demand. Citizens' treats demand instruments as short-term securities, even though their stated maturity may extend beyond one year.

BANK INSTRUMENTS

Bank instruments are unsecured interest bearing deposits with banks. Bank instruments include, but are not limited to, bank accounts, Time Deposits, Certificates of Deposit and Banker's Acceptances. Yankee instruments are denominated in US dollars and issued by non-US branches or foreign banks.

Neither Citizens nor its Investment Managers will invest in instruments of domestic or foreign banks and savings and loans unless they have capital, surplus and undivided profits of over \$100,000,000, or if the principal amount of the instrument is insured by the Bank Insurance Fund of the Savings Association Insurance Fund which are administered by the Federal Deposit Insurance Corporation either directly or as part of CDARS (Certificate of Deposit Account Registry Service) program.

These instruments may include Eurodollar Certificates of Deposit, Yankee Certificates of Deposit, and Eurodollar Time Deposits.

FLOATING RATE NOTES

Floating rate Notes are Variable rate bonds with an interest rate that is periodically reset, usually every three months, and that carry a fixed spread, usually over the three-month London Interbank Offered Rate (LIBOR).

U.S. TREASURY SECURITIES

US Treasury securities are direct obligations of the federal government of the United States.

AGENCY SECURITIES

Agency securities are issued or guaranteed by a federal agency or other Government-Sponsored Entity (GSE) acting under federal authority. Some GSE securities are supported by the full faith and credit of the United States. These include securities issued by the Government National Mortgage Association, Small Business Administration, Financial Assistance Corporation, Farmer's Home Administration, Federal Financing Bank, General Services Administration, Department of Housing and Urban Development, Export-Import Bank, Overseas Private Investment Corporation, and Washington Metropolitan Area Transit Authority.

Other GSE securities receive support through federal subsidies, loans, or other benefits. For example, the US Treasury is authorized to purchase specified amounts of securities issued by (or otherwise make funds available to) the federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Tennessee Valley Authority in support of such obligations.

A few GSE securities have no explicit financial support, but are regarded as having implied support because the federal government sponsors their activities. These include securities issued by the Farm Credit System, Financing Corporation, and Resolution Funding Corporation.

Notes issued through the US Government Temporary Liquidity Guarantee Program, whose interest and principal payments are fully and unconditionally guaranteed by the FDIC will be considered Agency Notes.

AGENCY MORTGAGE BACKED SECURITIES

Mortgage pass-through securities are issued by Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHMLC) and Federal National Mortgage Association (FNMA). The pass-through securities represent a direct ownership interest in a pool of mortgage loans.

An issuer of a pass-through or participation certificate (PC) collects monthly payments from the borrowers whose loans are in a given pool and "passes through" the cash flow to investors in monthly payments, less any servicing and/or guarantee fees. Most pass-throughs are backed by

fixed-rate mortgage loans; however, *adjustable-rate mortgage loans (ARMs)* are also pooled to create the securities.

MUNICIPAL SECURITIES

Municipal securities are issued by states, counties, cities, and other political subdivisions and authorities. Both taxable and tax-exempt municipal securities are allowable investments.

FOREIGN SECURITIES

Foreign securities are US dollar-denominated securities of issuers based outside the United States. Citizens considers the issuer to be based outside the United States if: it is organized under the laws of, or has a principal office located in, another country; or it (or its subsidiaries) derived in its most current fiscal year at least 50% of its total assets, capitalization, gross revenue, or profit from goods produced, services performed or sales made in another country.

MONEY MARKET MUTUAL FUNDS

Money Market mutual funds are registered investment companies that comply with rule 2a7 of the Investment Company Act of 1940.

REPURCHASE AGREEMENTS (REPOs)

Repurchase Agreements are a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and buys them back at an agreed upon price the following day. For the party selling the security (and agreeing to repurchase it in the future) it is a repo.

Repurchase Agreements are permitted for use by Citizens when transacted with any registered broker/dealer or any domestic commercial bank whose unsecured long-term debt obligations are rated at least "A2" by Moody's and "A" by S & P without regard to gradation. In addition, (a) a specific written repurchase agreement must govern the transaction, (b) the securities must be held free and clear of any lien, by the Indenture Trustee or an independent third party acting solely as agent for the Indenture Trustee, and (c) such party must be a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$100 million, and the Indenture Trustee must have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Indenture Trustee.

Any Repurchase Agreement must be collateralized at least 102% with U.S. Government or Agency securities, excluding Mortgage Backed Securities. All Repurchase Agreements must be marked-to-market daily.

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APPENDIX J

FORM OF MASTER TRUST INDENTURE

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EXHIBIT B
FORM OF MASTER TRUST INDENTURE

MASTER TRUST INDENTURE

between

CITIZENS PROPERTY INSURANCE CORPORATION

and

_____,
as Trustee

securing

SENIOR SECURED OBLIGATIONS

of

CITIZENS PROPERTY INSURANCE CORPORATION

COASTAL ACCOUNT

Dated

as of

[June 2, 2020]

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Exhibit A – Form of Draw Certificate (Requisition)

MASTER TRUST INDENTURE

THIS MASTER TRUST INDENTURE (the “Master Indenture”) dated as of [June 2, 2020], is made by and between CITIZENS PROPERTY INSURANCE CORPORATION (together with its lawful successors, “Citizens” or the “Issuer”), a statutorily created corporation organized and existing under the laws of the State of Florida, and _____ together with its successors, the “Trustee”), a banking corporation, duly organized and existing under the laws of _____ and qualified to exercise trust powers under the laws of the State of Florida, with a designated place of business located in _____, Florida, as Trustee, under the circumstances summarized in the following recitals (the capitalized terms not defined in the recitals and granting clauses being used therein as defined in Article I hereof):

W I T N E S S E T H:

WHEREAS, the Florida Windstorm Underwriting Association (“FWUA”) was originally established as an unincorporated association under Section 627.351(2), Florida Statutes, as amended, to function as a residual market mechanism to provide residential and commercial windstorm insurance for those who cannot procure such insurance through the voluntary market;

WHEREAS, pursuant to Section 627.351(6), Florida Statutes, as amended (the “Act”), all policies, obligations, rights, assets, and liabilities of FWUA, including bonds, notes and other debt obligations thereof, and the financing documents pertaining to them, were transferred to the Coastal Account of the Issuer;

WHEREAS, as a result of the aforementioned transfer, the Issuer and Regions Bank, as successor indenture trustee (the “Indenture Trustee”) became parties to the certain Trust Indenture, dated as of August 6, 1997 (the “1997 Indenture”), as supplemented and amended by a Series 1999A Supplemental Indenture dated as of March 31, 1999, a Second Supplemental Indenture dated as of August 1, 2002, a Third Supplemental Indenture dated as of May 1, 2004, a Fourth Supplemental Indenture dated as of June 1, 2006, a Fifth Supplemental Indenture dated as of February 1, 2007, a Sixth Supplemental Indenture dated as of June 1, 2008, as amended, a Seventh Supplemental Indenture dated as of May 1, 2009, an Eighth Supplemental Indenture dated as of April 1, 2010, a Ninth Supplemental Indenture dated as of July 1, 2011, a Tenth Supplemental Indenture dated as of June 1, 2015 [INSERT ADDITIONAL SUPPLEMENTAL INDENTURES ENTERED INTO BEFORE CONVERSION DATE] (collectively, the “Original Indenture”), for the benefit of the Coastal Account of the Issuer;

WHEREAS, pursuant to the Original Indenture, there have heretofore been issued for the Coastal Account of the Issuer, Senior Secured Bonds, Series 2015A-1, in the aggregate principal amount of \$ _____, of which \$ _____ is currently outstanding (the “Series 2015A-1 Bonds”) [and Senior Secured Bonds, Series 2015A-2, in the aggregate principal amount of \$ _____, of which \$ _____ is currently outstanding (the “Series 2015A-2 Bonds” and, together with the Series 2015A-1 Bonds, the “Series 2015A Bonds”)] [DESCRIBE ANY OTHER SERIES OF SENIOR SECURED BONDS ISSUED AFTER THE SERIES 2015A BONDS AND OUTSTANDING UNDER THE ORIGINAL INDENTURE AS OF THE CONVERSION DATE];

WHEREAS, in connection with the issuance of the Series 2015A Bonds, the Issuer expressed its desire to amend and restate in its entirety the Original Indenture, as more specifically set forth in Article VI of the Tenth Supplemental Indenture pursuant to which the Series 2015A Bonds were issued and as reflected in the form of the master trust indenture set forth in Exhibit B thereto, with such amendments and the master trust indenture to be effective not earlier than the Conversion Date (as defined herein), as set forth in Section 601 of the Tenth Supplemental Indenture;

WHEREAS, by virtue of their purchase of the Series 2015A Bonds, [ADD ANY OTHER SERIES OF SENIOR SECURED BONDS ISSUED AFTER THE SERIES 2015A BONDS AND OUTSTANDING UNDER THE ORIGINAL INDENTURE AS OF THE CONVERSION DATE] the purchasers thereof consented to and approved (i) the amendment and restatement of the Original Indenture in its entirety, (ii) the execution and delivery of this Master Indenture, (iii) the termination of the Pledge and Security Agreement (as defined in the Indenture) upon the execution and delivery of this Master Indenture and (iv) the conversion of the Series 2015A Bonds [ADD ANY OTHER SERIES OF SENIOR SECURED BONDS ISSUED AFTER THE SERIES 2015A BONDS AND OUTSTANDING UNDER THE ORIGINAL INDENTURE AS OF THE CONVERSION DATE] that are to be outstanding after the Conversion Date from obligations issued and secured under the provisions of the Original Indenture to obligations issued and secured under the provisions of this Master Indenture;

WHEREAS, as the date hereof, which is the Conversion Date, there are no Prior Parity Bonds issued and Outstanding under the Original Indenture, and therefore, Citizens may proceed to execute and deliver this Master Indenture;

WHEREAS, in order to enhance its ability to pay policyholder claims within the Coastal Account, Citizens deems it in its best interest to provide for the issuance of Bonds, and the security for such Bonds and Bank Facilities and Related Hedge Agreements as provided in this Master Indenture, all for the benefit of the Coastal Account;

WHEREAS, any Bonds issued under this Master Indenture and any other Senior Secured Obligations incurred or designated as permitted by this Master Indenture will be secured by a pledge of the Pledged Revenues, all as hereinafter provided;

WHEREAS, Citizens is authorized to execute and deliver this Master Indenture and to do or cause to be done all acts provided or required herein to be performed on its part, and all acts and conditions required to happen, exist and be performed precedent to the execution and delivery of this Master Indenture have happened, exist and have been performed, to make this Master Indenture a valid, binding and legal trust agreement for the security of the Senior Secured Obligations secured hereby; and

WHEREAS, the Trustee has accepted the trusts created by this Master Indenture, and in evidence thereof has joined in the execution hereof;

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH, that in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, of the issuance, incurrence or designation, as applicable, of Senior Secured Obligations as provided

herein, and also for and in consideration of the sum of One Dollar in hand paid to the Trustee at or before the execution and delivery of this Master Indenture, and for other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, and for the purpose of fixing or providing for and declaring the terms and conditions upon which Bonds are to be issued, authenticated, delivered, secured and accepted by all persons who shall from time to time be or become Holders, and to provide for the designation from time to time of other Senior Secured Obligations, and to secure the payment of all amounts due with respect to Senior Secured Obligations at any time issued, incurred or designated and outstanding under this Master Indenture, according to their tenor, purport and effect, and to secure the performance and observance of all the covenants, agreements and conditions, express or implied, therein and herein contained, Citizens has executed and delivered this Master Indenture, and by this Master Indenture has given, granted, bargained, aliened, remised, released, conveyed, transferred, assigned, confirmed, set over, and pledged, and does hereby give, grant, bargain, alien, remise, release, convey, transfer, assign, confirm, set over, and pledge unto the Trustee, and its successor or successors in trust:

1. All Pledged Revenues; and
2. All money and securities held by or on behalf of the Trustee in all of the accounts or subaccounts established pursuant to this Master Indenture, except (a) the Proceeds Account, the Reserve Account or any Series Reserve Account, which are designated to secure only the Bonds, or a specific Series of Bonds as provided herein, and (b) any Rebate Account;

TO HAVE AND TO HOLD all the same with the privileges and appurtenances hereby conveyed and assigned, or agreed or intended so to be, to the Trustee and its successor or successors in trust and to them and their assigns forever;

BUT IN TRUST, NEVERTHELESS, upon the terms and trusts herein set forth, for the benefit, security and protection of all and singular the present and future Holders of any and all Senior Secured Obligations issued or to be issued, incurred or designated under and secured by this Master Indenture, without preference, priority or distinction as to lien or otherwise, except as may otherwise be provided herein, of any Senior Secured Obligation over any other Senior Secured Obligation by reason of priority in their issue, sale, designation or otherwise, all as herein provided;

PROVIDED, HOWEVER, that,

- (i) if Citizens, its successor, successors or assigns, shall well and truly pay, or cause to be paid, or provide for the payment, pursuant to the provisions of this Master Indenture or any applicable Supplemental Indenture, Bank Credit Agreement or Related Hedge Agreement, of all amounts due or to become due with respect to all Senior Secured Obligations at the times and in the manner mentioned in the Senior Secured Obligations, and this Master Indenture, according to the true intent and meaning hereof and thereof, and shall cause the payments to be made into the accounts and subaccounts or otherwise as required under this Master Indenture and the Senior Secured Obligations, and shall pay or cause to be paid to the Trustee all sums of money due or to become due

to it in accordance with the terms and provisions hereof and perform all of its other obligations hereunder, and

(ii) if all of the covenants, agreements, obligations, terms and conditions of Citizens under this Master Indenture shall have been kept, performed and observed and there shall have been paid to the Trustee, the Registrar, the Paying Agents and the Authenticating Agents all sums of money due or to become due to them in accordance with the terms and provisions hereof,

then, upon such performance and payments, this Master Indenture and the rights hereby granted shall cease, determine and become void, as provided in Article IX of this Master Indenture; otherwise this Master Indenture is to be and remain in full force and effect.

THIS MASTER INDENTURE FURTHER WITNESSETH and it is expressly declared that Senior Secured Obligations issued, incurred or designated and secured hereunder are to be issued, authenticated (if applicable), delivered and dealt with, the respective rights of all Holders of Senior Secured Obligations are to be set forth, and all said property hereby given, granted, bargained, aliened, remised, released, conveyed, transferred, assigned, confirmed, set-over and pledged is to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and Citizens has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Holders, from time to time, of Senior Secured Obligations, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. In addition to the words and terms defined in the recitals to the Master Indenture or elsewhere in the Master Indenture, the following words and terms shall have the meanings set forth below, unless the context or use clearly indicates another meaning or intent:

“Account” or “Accounts” means (i) any one or more of the Accounts established pursuant to Sections 5.01 through 5.06 of the Master Indenture and (ii) any one or more of the Accounts established pursuant to Section 5.09 of the Master Indenture.

“Accreted Value” means, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond (the principal amount on the date of original issuance), plus the interest accrued on such Bond from the date of original issuance to the Interest Payment Date next preceding the date of computation or the date of computation if an Interest Payment Date, compounded periodically at the times provided for in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bonds, and if such date of computation is not an Interest Payment Date, a portion of the difference between the Accreted Value as of the immediately preceding Interest Payment Date (or the date of original issuance if such date of computation is prior to the first Interest Payment Date) and the Accreted Value as of the immediately succeeding Interest Payment Date, calculated based on the assumption that Accreted Value accrues during any period in equal daily amounts on the basis of a year of twelve 30-day months.

“Act” means Section 627.351(6), Florida Statutes, as the same may be amended from time to time.

“Additional Surcharges and Assessments” means any surcharges or assessments, other than Regular Assessments or Emergency Assessments, authorized under the Act to be levied and collected by Citizens in respect of the Coastal Account as of the date of the Master Indenture or at any time thereafter, to the extent that the use of the proceeds of any such surcharge or assessment for the payment of the principal of, redemption premium, if any, and interest on Senior Secured Obligations of Citizens is not prohibited by the Act or other applicable law. By way of example, and without intending to limit the application thereof, the term “Additional Surcharges and Assessments” shall include the Citizens Policyholder Surcharges, authorized by the Act as of the date of the Master Indenture.

“Additional Surcharges, Assessments and Other Revenues Subaccount” means the Subaccount in the Revenue Account created and so designated by Section 5.03(a) of the Master Indenture.

“Annual Budget” means the annual budget of Citizens with respect to the Coastal Account adopted by the Board in accordance with the Plan of Operation.

“Annual Payment Requirements” means, as of any particular date of calculation and for the particular Fiscal Year in question, (i) as to the Bonds, the aggregate of all Debt Service

Charges expected to be payable in such Fiscal Year on the Bonds Outstanding, (ii) as to any Bank Facilities, the principal amount of draws and advances outstanding thereunder expected to be payable in such Fiscal Year, plus the interest and any other payments expected to be payable in such Fiscal Year under such Bank Facilities and/or Bank Credit Agreements (such interest and other payments being computed on the same basis and at the same assumed or actual rate as provided in the applicable Bank Credit Agreement), and (iii) as to any Related Hedge Agreement, the unpaid net amounts (but not including any termination or other payment which is not scheduled) scheduled to be payable by Citizens under such Hedge Agreement in such Fiscal Year as provided below.

For purposes of determining the interest component of the Annual Payment Requirements on Bonds, (x) the interest on Variable Rate Bonds shall be calculated on the basis specified in the Supplemental Indenture authorizing such Variable Rate Bonds; (y) the interest on Bonds containing a put option in favor of the Holders, which Bonds are not subject to any Credit Enhancement Facility insuring against such put option, shall be calculated on the basis specified in the Supplemental Indenture authorizing such Bonds; and (z) the interest on Bonds bearing interest at a fixed rate shall be calculated at such fixed rate.

For purposes of determining the principal payable on any Series of Senior Secured Obligations, twenty-five percent (25%) or more of the principal payments of which are due in a single Fiscal Year and which portion of the principal is not required by the Supplemental Indenture or Bank Credit Agreement pursuant to which such Senior Secured Obligations are incurred to be amortized by payment or redemption prior to such year, the amount of principal which would be payable in such period may be determined as if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis, at an interest rate equal to the current market rate for a fixed rate, 30-year obligation, set forth in an opinion, delivered to the Trustee, of a banking institution or an investment banking institution, selected by Citizens and knowledgeable in municipal finance, as the interest rate at which Citizens could reasonably expect to borrow the same by incurring indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity of such Senior Secured Obligation, the full amount of principal payable at maturity shall be included in such calculation.

For purposes of calculating the Annual Payment Requirements in respect of any Related Hedge Agreement, the following assumptions shall be made:

(a) in the case of amounts payable by Citizens under a Related Hedge Agreement based on a variable rate, the projected unpaid net amounts shall be calculated using (i) the variable Reference Rate in effect at the time such calculation is made, with respect to Citizens' obligations, and (ii) the fixed Reference Rate applicable to the Hedge Counterparty's obligations at such time, with respect to the counterparty's obligations;

(b) in the case of amounts payable by Citizens under a Related Hedge Agreement based on a fixed rate, the projected unpaid net amounts shall be calculated using (i) such fixed Reference Rate, with respect to Citizens' obligations and (ii) the variable Reference Rate in effect at the time such calculation is made, with respect to the Hedge Counterparty's obligations;

(c) in the case of amounts payable by Citizens in respect of any other type of Related Hedge Agreement amounts payable thereunder shall be calculated in accordance with the joint recommendations of two dealers in instruments similar to such Related Hedge Agreement, one of whom shall be selected by Citizens and the other of whom shall be selected by the Trustee; and

(d) In all of the above cases (a) through (c), Annual Payment Requirements shall not include the amount of any termination payment or other non-scheduled payment.

"Applicable Procedures" means, with respect to any transfer or exchange of a beneficial interest in a Global Security, the rules and procedures of the Depositary for such Global Security, to the extent the same are applicable to such transfer or exchange.

"Appreciated Value" means, (i) as of any date of computation with respect to any Capital Appreciation and Income Bond up to the Interest Commencement Date set forth in the Supplemental Indenture authorizing such Capital Appreciation and Income Bonds, an amount equal to the principal amount of such Capital Appreciation and Income Bonds (the principal amount on the date of original issuance) plus the interest accrued on such Bond from the date of original issuance of such Bond to the Interest Payment Date next preceding the date of computation or the date of computation if an Interest Payment Date, such increased value to accrue at the stated rate per annum of such Bond compounded on the Interest Payment Dates of such year, plus, if such date of computation shall not be an Interest Payment Date, a portion of the difference between the Appreciated Value as of the immediately preceding Interest Payment Date (or the date of original issuance if the date of computation is prior to the first Interest Payment Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Interest Payment Date calculated based upon an assumption that Appreciated Value accrues during any semi-annual period in equal daily amounts on the basis of a year of twelve 30-day months and (ii) as of any date of computation on and after the Interest Payment Date, the Appreciated Value on the Interest Commencement Date.

"Assessable Insured" or "Assessable Insureds" has the meaning specified in the Act.

"Authenticating Agent" means the Trustee and the Registrar for the Series of Bonds and any bank, trust company or other Person designated as an Authenticating Agent for such Series of Bonds by or in accordance with Section 6.13 of the Master Indenture, each of which shall be a transfer agent registered in accordance with Section 17A(c) of the Securities Exchange Act of 1934, as amended.

"Authorized Citizens Representative" means the Person or Persons designated at the time, pursuant to a certificate of Citizens delivered to the Trustee and which certificate has not been revoked or superseded, to act on behalf of Citizens hereunder.

"Authorizing Resolution" means the resolution or resolutions providing for the issuance of a Series of Bonds and approving the Supplemental Indenture specifying the terms of such Series of Bonds and related matters; in each case as amended or supplemented from time to time.

"Bank Credit Agreement" means the credit agreement or other documents, instruments or agreements adopted or executed by Citizens providing for a Bank Facility or Facilities.

“Bank Facility” or “Bank Facilities” means indebtedness incurred by Citizens and other amounts payable by Citizens under a Bank Credit Agreement or Agreements for the Coastal Account, which is not evidenced by Bonds and which Bank Credit Agreement was entered into to provide liquidity for the payment of claims of the Coastal Account in anticipation of the receipt by Citizens of FHCF Reimbursements, Regular Assessments, Emergency Assessments or Additional Surcharges and Assessments, and is entered into in compliance with the provisions of Section 2.04 hereof.

“Bank Facilities Agent” means the designated agent for lenders under a Bank Facility, as identified to the Trustee in a certificate of an Authorized Citizens Representative pursuant to Section 2.04 hereof.

“Board” means the Board of Governors of Citizens.

“Bond Counsel” means a firm of nationally recognized attorneys, selected by Citizens, having a favorable reputation in matters relating to the issuance of obligations similar to the Bonds.

“Bond” or “Bonds” means (i) the bonds, notes or other evidence of indebtedness issued under Section 2.03 of the Master Indenture and (ii) the Convertible Outstanding Parity Bonds (which Convertible Outstanding Parity Bonds were originally issued as obligations under the Original Indenture and, on and as of the Conversion Date and the execution and delivery of the Master Indenture, automatically convert into obligations issued, Outstanding and secured under the terms of the Master Indenture).

“Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in New York City, Tallahassee, Florida, _____, Florida (so long as the Trustee’s operations office shall be located in such city) or any other city or cities in which the designated office of the Trustee, or any Credit Enhancement Facility Issuer are located, are authorized by law to close.

“Calculation Agent” means the Trustee, or any successor thereto duly appointed by Citizens, in its capacity as calculation agent to perform the duties thereof required by any Supplemental Indenture in connection with the corresponding Series of Bonds. In respect of any Convertible Outstanding Parity Bonds, the Calculation Agent shall perform the duties required thereof as set forth in the supplemental indenture executed and delivered under the Original Indenture corresponding to such Convertible Outstanding Parity Bonds.

“Capital Appreciation Bonds” means any Bond or Bonds of a Series issued under the Master Indenture as to which interest is compounded periodically on each of the applicable periodic dates designated for compounding in the corresponding Supplemental Indenture and payable in an amount equal to the then current Accreted Value to the date of maturity or redemption prior to maturity as designated in such corresponding Supplemental Indenture and which may be either Serial Bonds or Term Bonds.

“Capital Appreciation and Income Bonds” means any Bond or Bonds of a Series issued under the Master Indenture as to which accruing interest is not payable prior to the Interest Commencement Date specified in the corresponding Supplemental Indenture and the

Appreciated Value for such Bonds is compounded periodically on certain dates designated in such corresponding Supplemental Indenture prior to the Interest Commencement Date for such Capital Appreciation and Income Bonds and which may be either Serial Bonds or Term Bonds.

“Citizens” or the “Issuer” means Citizens Property Insurance Corporation and its lawful successors.

“Citizens Policyholder Surcharges” means the Citizens policyholder surcharges authorized under the Act to be levied and collected by Citizens within any of its accounts in respect of the Coastal Account as of the date of the Master Indenture or anytime thereafter, or any other future surcharge or assessment authorized under the Act as a substitute for or replacement of the Citizens Policyholder Surcharge.

“Coastal Account” means the account required to be established under the Act for personal residential, commercial residential, commercial non-residential and quota share primary insurance coverages within specified geographical areas of the State, as established and further defined in the Plan of Operation.

“Commercial Lines Account” means the account which is required to be established under the Act for commercial lines coverages, as established and further defined in the Plan of Operation.

“Commission” means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act.

“Conversion Date” means the earlier to occur of (a) the Scheduled Conversion Date or (b) the date on which none of the Prior Parity Bonds are Outstanding under the Original Indenture as a result of the Issuer’s legal defeasance of the Prior Parity Bonds prior to their stated maturity dates; provided, however, that notwithstanding anything to the contrary contained in any indenture supplemental to the Original Indenture, the Conversion Date shall not occur or be deemed to have occurred for so long as there are any Prior Parity Bonds that remain Outstanding under the Original Indenture.

“Convertible Outstanding Parity Bonds” means (i) the Series 2015A Bonds and (ii) any other Series of Indenture Obligations issued by Citizens under the Original Indenture prior to the Conversion Date and which are intended to convert from obligations issued and secured under the provisions of the Original Indenture to obligations issued and secured under the provisions of the Master Indenture.

“Costs of Issuance” means those costs that are payable from Bond proceeds with respect to the authorization, sale and issuance of a series of Bonds, underwriting fees, auditors’ or accountants’ fees, printing costs, costs of reproducing documents, filing and recording fees, fees and expenses of fiduciaries, legal fees and charges, fees and charges of the Financial Advisor, professional consultants’ fees, costs of credit ratings, fees and charges for the execution, transportation and safekeeping of Bonds, governmental charges, costs of entering into Hedge Agreements, obtaining Permitted Investments and establishing or obtaining Credit Enhancement Facilities, and other costs, charges and fees in connection with the foregoing, all as specified or

provided for in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee at or prior to the date of delivery of the applicable series of Bonds.

“Costs of Issuance Subaccount” means the Subaccount so designated and established in the Proceeds Account pursuant to Section 5.01(a) of the Master Indenture.

“Credit Enhancement Facility” means any credit or liquidity enhancement mechanism such as an irrevocable letter of credit, a surety bond, a bond insurance policy, a corporate or other guarantee, a purchase agreement, a credit agreement or other similar facility applicable to any Senior Secured Obligation, as established and identified pursuant to the applicable Supplemental Indenture or Related Hedge Agreement. Notwithstanding anything to the contrary contained in the Master Indenture, any one or more Senior Secured Obligations may be issued or incurred without a Credit Enhancement Facility; the decision to provide a Credit Enhancement Facility shall be within the absolute and sole discretion of Citizens.

“Credit Enhancement Facility Agreement” means any agreement pursuant to which a Credit Enhancement Facility Issuer issues a Credit Enhancement Facility. The provisions of each Credit Enhancement Facility Agreement shall be subject, in all material respects, to the provisions of the Master Indenture.

“Credit Enhancement Facility Issuer” means the issuer or guarantor of any Credit Enhancement Facility.

“Current Expenses” means all expenses incurred by Citizens in the operation and administration of the Coastal Account, including, without limiting the generality of the foregoing, premiums payable to the FHCF for coverage and other expenses under the FHCF Agreement, premiums payable for other reinsurance coverage and expenses related to such reinsurance coverage, the payment of policyholder claims which are not the result of a catastrophic event, arbitrage rebate and penalties, all administrative expenses, salaries and other compensation, personnel expenses properly chargeable to the Coastal Account, fees and expenses incurred for professional consultants and fiduciaries, or any other items treated as operating expenses under generally accepted accounting principles for insurance companies or other entities similar to Citizens; but Current Expenses shall not include (i) depreciation or amortization or other “non-cash” expense or the change in value of any Hedge Agreement or other derivative instrument, (ii) any deposit to any Account or Subaccount established under the Master Indenture or any Supplemental Indenture or any payment of principal, redemption premium, if any, and interest on any Bonds from any such Account or Subaccount, (iii) any debt service payment or other required payment in respect of any other Senior Secured Obligations or Subordinated Indebtedness or any Hedge Agreement or (iv) the payment of policyholder claims which result from the occurrence of a catastrophic event.

“Debt Service Account” means the Account so designated and established pursuant to Section 5.04 of the Master Indenture.

“Debt Service Charges” means, for any period or payable at any time, the principal of, redemption premium, if any, and interest (excluding any amounts in respect of accrued interest and capitalized interest for the relevant period on deposit in the Interest Subaccount of the Debt

Service Account) on the Bonds for that period or payable at that time whether due at maturity or upon acceleration or redemption. If any Bonds are issued as Capital Appreciation Bonds or Capital Appreciation and Income Bonds, the Debt Service Charges for any period or payable at any time in respect of any such Bonds shall be adjusted as provided in the Supplemental Indenture authorizing the issuance of such Bonds.

“Department of Financial Services” means the State of Florida Department of Financial Services and its legal successors under applicable law.

“Depository” means a clearing agency registered under the Exchange Act that is designated to act as Depository for Bonds or other Senior Secured Obligations, as applicable, as contemplated by the Master Indenture. The initial Depository for Bonds issued under the Master Indenture shall be The Depository Trust Company, New York, New York.

“Draw” means any amount drawn by Citizens from the Proceeds Account pursuant to Section 5.01(c) hereof.

“Emergency Assessments” means the emergency assessments authorized to be levied by Citizens under the Act in connection with a Plan Year Deficit in the Coastal Account.

“Emergency Assessments Subaccount” means the Subaccount in the Revenue Account created and so designated by Section 5.03(a) of the Master Indenture.

“Event of Default” means an Event of Default as defined in Section 7.01 hereof.

“Exchange Act” means the United States Securities Exchange Act of 1934, as amended.

“Extraordinary Services” and “Extraordinary Expenses” mean all services rendered and all reasonable expenses properly incurred by the Trustee under the Master Indenture, other than Ordinary Services and Ordinary Expenses.

“FHCF” means the Florida Hurricane Catastrophe Fund created under Section 215.555, Florida Statutes, as the same may be amended from time to time, and its successors.

“FHCF Agreement” means the reimbursement contract from time to time in effect relating to the Coastal Account, by and between Citizens and the State Board of Administration of the State, which administers the FHCF, or any successor administrator, as such reimbursement contract may be supplemented or amended from time to time.

“FHCF Reimbursements” means any amount which Citizens is entitled to receive under the FHCF Agreement, including, without limitation, the amount of any advance payable by the FHCF in respect thereof.

“FHCF Reimbursements Subaccount” means the Subaccount in the Revenue Account created and as designated by Section 5.03(a) of the Master Indenture.

“Financial Services Commission” means the State of Florida Financial Services Commission, and its legal successors under applicable law.

“Fiscal Year” means the twelve (12) month period commencing on January 1 of a calendar year and ending on December 31 of such calendar year, or such other twelve (12) month period designated as Citizens’ Fiscal Year in the Plan of Operation.

“Fitch” means Fitch Ratings, its successors and assigns, and if such entity no longer performs the functions of a securities rating agency, “Fitch” shall refer to any other nationally recognized securities rating agency designated by Citizens.

“Global Security” means a bond or other debt instrument evidencing all or part of a Series of Bonds, as applicable, authenticated and delivered to, and registered in the name of the applicable Depositary or a nominee thereof, and in which beneficial interests are evidenced on the records of such Depositary or its members or participants.

“Government Obligations” means direct obligations of the United States of America, or obligations the full and timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America (but not including any unit investment trusts or mutual funds consisting of such obligations), and those obligations described in clause (ii) of the definition of Permitted Investments.

“Hedge Agreement” means, and includes, an interest rate exchange agreement, an interest rate swap agreement, a forward purchase contract, a put option contract, a call option contract or any other financial product which is used by Citizens as a hedging device with respect to its obligation to pay debt service on the Bonds or payments under other Senior Secured Obligations entered into between Citizens and a Hedge Counterparty.

“Hedge Counterparty” means any Person (other than Citizens and the Trustee) that is a party to a Hedge Agreement; provided that such Hedge Counterparty shall be an entity whose long-term debt obligations, or whose payment obligations under the Hedge Agreement are guaranteed by an entity, whose long-term debt obligations, ranking pari passu with its obligation under the Hedge Agreement or its guarantee thereof, as the case may be, are rated (on the date the Hedge Agreement is entered into) by any two of the Rating Agencies, as follows: at least “A2” by Moody’s, at least “A” by Standard & Poor’s and at least “A” by Fitch.

“Hedge Receipts” means net scheduled payments received by Citizens or the Trustee, as applicable, from a Hedge Counterparty under a Related Hedge Agreement, excluding any receipts derived from termination of the Hedge Agreement or any other non-scheduled payment thereunder.

“Holder” or “holder” means, as applicable, (i) the Person in whose name a Bond is registered on the Register, or (ii) the lender under a Bank Facility or (iii) the Hedge Counterparty to a Related Hedge Agreement.

“Initial Purchaser” means with respect to each Series of Bonds, the Person or Persons identified in the applicable Purchase Agreement as the purchaser or purchasers of the Bonds from Citizens upon the initial issuance thereof.

“Insurer” means any “assessable insurer” as defined in the Act.

“Interest Commencement Date” means, with respect to any Capital Appreciation and Income Bonds, the date specified in the Supplemental Indenture authorizing such Capital Appreciation and Income Bonds after which interest accruing on such Bonds shall be payable on a periodic basis prior to maturity, with the first such payment date being the applicable Interest Payment Date immediately succeeding such Interest Commencement Date.

“Interest Payment Date” or “Interest Payment Dates” means, (a) as to any Series of Bonds, the date or dates specified as such in the Supplemental Indenture authorizing such Bonds; provided, however, that for any Convertible Outstanding Parity Bonds that become “Bonds” and “Senior Secured Obligations” under the Master Indenture, the Interest Payment Date or Interest Payment Dates therefor shall be as set forth in such Convertible Outstanding Parity Bonds and in the corresponding supplemental indenture executed and delivered in connection with such Convertible Outstanding Parity Bonds under the Original Indenture; (b) as to Bank Facilities, the date or dates designated under the Bank Credit Agreement for the payment of interest or capacity or commitment fees with respect to such Bank Facilities; and (c) with respect to Related Hedge Agreements, the date or dates specified therein for the payment of regularly scheduled payments thereunder.

“Interest Period” means the period from and including any Interest Payment Date to and excluding the next succeeding Interest Payment Date; provided, however, that (a) the first Interest Period for each Series of Bonds shall be from the date of delivery of such Bonds (or such other date as specified in the Supplemental Indenture) to and excluding the first Interest Payment Date for such Bonds, and (b) upon final payment of any Bonds at maturity or upon redemption, the Interest Period shall extend to, but not include, the date of such final payment.

“Interest Subaccount” means the Subaccount so designated and established as a Subaccount within the Debt Service Account pursuant to Section 5.04 of the Master Indenture.

“Legislative Appropriations” means the proceeds received by Citizens from any legislative appropriation of the Florida Legislature legally permitted to be pledged hereunder and available to pay debt service or other payments under Senior Secured Obligations or any particular Series of Senior Secured Obligations hereunder.

“Master Indenture” means this Master Trust Indenture, to be dated as of a date no earlier than the Conversion Date, between Citizens and the Trustee, as amended and supplemented from time to time.

“Maximum Annual Interest” means, as of any date of calculation, the maximum amount of interest due and payable in the then current or any future Fiscal Year on all Series of Outstanding Bonds. For purposes of the calculations required pursuant to Section 5.05 of the Master Indenture, the Maximum Annual Interest shall be determined in accordance with the definition of “Annual Payment Requirements” contained herein.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns, and if such entity no longer performs the functions of a securities rating agency, “Moody’s” shall refer to any other nationally recognized securities rating agency designated by Citizens.

“Net Premiums” means the proceeds of Premiums remaining after the payment of Current Expenses.

“Office of Insurance Regulation” means the State of Florida Office of Insurance Regulation and its legal successors under applicable law.

“Ordinary Services” and “Ordinary Expenses” mean those services normally rendered, and those expenses normally incurred, by a trustee under instruments similar to the Master Indenture.

“Outstanding” means (a) as applied to Bonds (including references to “Outstanding Bonds” and “Bonds Outstanding”), as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Master Indenture, except:

(i) Bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date,

(ii) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient money has been received in trust for and irrevocably deposited and credited with the Trustee or any Paying Agents on or prior to that date for that purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds are to be redeemed prior to their maturity, notice of that redemption shall have been given or arrangements satisfactory to the Trustee shall have been made for giving notice of that redemption, or waiver by the affected Holders of that notice satisfactory in form to the Trustee shall have been filed with the Trustee,

(iii) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of Article IX of the Master Indenture or the applicable Supplemental Indenture, and

(iv) Bonds in lieu of which others have been authenticated under Section 3.06 of the Master Indenture;

(b) As applied to Senior Secured Obligations other than Bonds, all such Senior Secured Obligations as have been executed, delivered and incurred until such Senior Secured Obligations are paid or defeased in accordance with the applicable Bank Credit Agreement or Related Hedge Agreement.

(c) When used with reference to indebtedness other than Senior Secured Obligations, as of a particular date, all indebtedness deemed to be outstanding under the documents pursuant to which such indebtedness was incurred.

“Paying Agent” means any bank or trust company designated as a Paying Agent by or in accordance with Section 6.12 of the Master Indenture.

“Permitted Investments” means any of the investments described in clauses (i) through (xi) below (provided that investments described in clause (x) below shall be Permitted

Investments only for amounts on deposit to the credit of subaccounts established in the Proceeds Account), so long as at the time of the making of such investment, (a) with respect to the investment of moneys in the Debt Service Account and the Reserve Account (and any Subaccounts therein), such obligations are rated in one of the two (2) highest rating categories (without regard to any gradations within such categories) by any two Rating Agencies and (b) with respect to the investment of moneys in the Proceeds Account, the Revenue Account (and any Subaccounts therein), the Costs of Issuance Subaccount and the Surplus Pledged Revenues Account, such obligations are rated in one of the three (3) highest rating categories (without regard to any gradations within such categories) by any two Rating Agencies; provided, however, that in the case of obligations described in clauses (iii), (v), (vi) and (vii) below, if the obligation itself is not assigned a rating as described in (a) and (b) above, then the rating assigned by any two Rating Agencies to the issuer, provider or transferor, as the case may be, must satisfy the requirements set forth in clauses (iii), (v), (vi) or (vii) below, as applicable:

(i) any obligations which as to principal and interest constitute direct obligations of or are guaranteed by the United States of America, including obligations of any agency thereof or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America;

(ii) (A) notes, bonds, debentures or similar obligations of the Federal National Mortgage Association issued under its Charter Act; (B) notes, bonds, debentures or similar obligations of the Federal Home Loan Mortgage Corporation issued under its Charter Act; (C) consolidated notes, bonds, debentures or similar obligations of the Farm Credit Banks and system-wide notes, bonds, debentures or similar obligations of the Farm Credit Banks, in either case issued under Sections 4.2(c) and 4.2(d) of the Farm Credit Act of 1971, as amended; (D) notes, bonds, debentures or similar obligations of the Farm Credit System Financial Assistance Corporation issued under the Farm Credit Act of 1971, as amended; (E) notes, bonds, debentures or similar obligations of the Tennessee Valley Authority (“TVA”) issued under Sections 2.2, 2.3 or 2.5 of the Basic TVA Bond Resolution adopted October 6, 1960, as amended, and under Section 15d of the TVA Act of 1933, as amended; (F) bonds, notes, debentures or similar obligations of the Resolution Funding Corporation issued under Section 21B of the Federal Home Loan Bank Act, as amended; and (G) consolidated bonds, debentures, notes or similar obligations of the Federal Home Loan Banks issued under authority of Section 11 of the Federal Home Loan Bank Act; but shall not include any unit investment trust or mutual fund made up of any such obligations described in the foregoing clauses (A) through (G); provided that, with respect to all such obligations, (I) such obligations shall be maintained in the book-entry system operated by the Federal Reserve Banks, and (II) the Trustee’s securities intermediary shall credit such securities to the Trustee’s account. As used herein, “securities intermediary” has the meaning assigned to such term in 31 C.F.R. § 357.2 (for investments of the types described in clauses (A) and (B)); 12 C.F.R. § 615.5450 (for investments of the types described in clauses (C) and (D)); 18 C.F.R. § 1314.2 (for investments of the types described in clause (E)); 12 C.F.R. § 1511.1 (for investments of the types described in clause (F)); and 12 C.F.R. § 912.1 (for investments of the types described in clause (G));

(iii) certificates of deposit issued by any bank or trust company organized under the laws of any state of the United States or any national banking association (the long-term debt obligations of which bank, trust company or national banking association are rated by any two Rating Agencies in one of their three (3) highest rating categories (without regard to gradations within such categories)), provided that such certificates of deposit must be purchased directly from such bank, trust company or national banking association and issued in the name of the Trustee, must at all times remain in the possession of the Trustee or such other bank acting as its agent, and must be either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or (B) continuously and fully secured by securities described in clause (i) or (ii) above, which have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and are lodged with any Federal Reserve Bank, as custodian, by the bank, trust company or national banking association issuing such certificate of deposit. Additionally, the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured must furnish the Trustee with an undertaking satisfactory to the Trustee that the aggregate market value of all obligations securing such certificate of deposit will at all times be an amount at least equal to the principal amount of such certificate of deposit;

(iv) securities representing an interest or interests in money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act (including funds sponsored or administered by the Trustee or any affiliate hereof), and having a rating in any of the two highest rating categories without regard to gradations by any Rating Agency; provided that, concurrently with such investment, such securities shall be registered in the name of the Trustee on the books of the issuer;

(v) commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided by any two Rating Agencies, which commercial paper is limited to issuing authorities that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000); provided that purchases of eligible commercial paper may not exceed two hundred seventy (270) days maturity;

(vi) repurchase agreements collateralized by securities described in clauses (i) or (ii) above with any registered broker/dealer or with any domestic commercial bank whose long-term debt obligations are rated by any two Rating Agencies in one of their three (3) highest rating categories (without regard to any gradations within such categories), provided that (A) a specific written repurchase agreement governs the transaction, (B) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (I) a Federal Reserve Bank, or (II) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$250 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (C) the repurchase agreement has a term of thirty (30) days or less, or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the

collateral securities if any deficiency in the required collateral percentage is not restored within five (5) Business Days of such valuation, and (D) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(vii) guaranteed investment contracts or funding agreements with banks, securities dealers or insurance companies whose long-term debt obligations are rated by any two Rating Agencies in one of their three (3) highest rating categories (without regard to gradations within such categories);

(viii) subject to the requirements of clauses (a) and (b) of this definition of "Permitted Investments," corporate securities, including asset-backed securities representing securitized cash flows;

(ix) municipal obligations rated in one of the three highest rating categories by any two Rating Agencies in both cases either taxable or tax-exempt;

(x) securities lending agreements substantially in the form prescribed by the Securities Industry and Financial Markets Association or any major lending agent bank with any registered broker/dealer or bank the long-term debt of which is rated by at least two of the Rating Agencies in one of the three highest rating categories of the Rating Agency (without regard to gradations within such categories); provided that the obligations of such broker/dealer or bank under the securities lending agreement shall be collateralized by securities described in clauses (i) or (ii) above that satisfy the requirements of clauses (a) and (b) of this definition of "Permitted Investments," as applicable, or cash held by a collateral undertaking custodian; provided, further that (A) a specific written securities lending agreement governs the transaction, (B) the securities lent and collateral therefor are held, free and clear of any lien except the lien of the Master Indenture, by the Trustee or an independent third party acting as collateral undertaking custodian, and such third party is a bank which is a member of the Federal Deposit Insurance Corporation and which has a combined capital, surplus and undivided profits of not less than \$500 million, in the case of a collateral undertaking custodian, and the Trustee shall have received written confirmation therefrom that it holds such collateral securities or cash as collateral undertaking custodian, free and clear of any lien except the lien of the Master Indenture, (C) the securities lending agreement has a term of thirty (30) days or less, or if longer, the Trustee or collateral undertaking custodian will value the collateral securities no less frequently than weekly and will demand initial collateral for a given loan of securities in an amount equal to 102% of the market value of the securities being lent (except that with respect to securities such as U.S. Treasury strips and bills, where the market functions so as to not allow for the sale of such securities at greater than par, initial collateral shall equal the lesser of 100% of the par value of the security on loan or 102% of its market value) and where the market value of the collateral held by the Trustee for such loan on the collateral marking date is less than the market value of the securities on loan, the Trustee shall require additional collateral so that such additional collateral, taken together with the collateral then held for such loan, shall be not less than 102% of the value of the securities on loan (or such lesser amount as is required with respect to securities such as U.S. Treasury strips and bills), and (D) in the

case of a collateral undertaking custodian, the repurchase agreement has a term of thirty (30) days or less, or if longer, the collateral undertaking custodian will value the collateral securities no less frequently than weekly and will demand initial collateral either at 102% (or such lesser amount as may have been negotiated between the repurchase agreement counterparties or their agents) and will assure that such collateral level is restored each time the collateral is subsequently valued; and

(xi) with respect to any particular Series of Bonds, such other investments (or limitation of investments) as are approved in any Supplemental Indenture for such Series of Bonds.

“Person” or words importing persons mean firms, associations, partnerships (including without limitation, general, limited and limited liability partnerships), joint ventures, societies, estates, trusts, corporations, limited liability corporations, public or governmental bodies, other legal entities and natural persons.

“Personal Lines Account” means the account required to be established under the Act for personal lines residential coverages, as established and further defined in the Plan of Operation.

“Plan of Operation” means Citizens’ Plan of Operation approved by the Financial Services Commission as required by the Act, as such Plan of Operation may be amended from time to time.

“Plan Year” has the meaning specified in Section 4 of the Plan of Operation.

“Plan Year Deficit” has the meaning specified for such term in the Plan of Operation, but only to the extent such term is used in connection with a deficit in the Coastal Account.

“Pledged Revenues” means all revenues, income, receipts and money received in any period by or on behalf of Citizens for or on behalf of the Coastal Account, from, (a) FHCF Reimbursements, (b) Emergency Assessments (subject to the last proviso of this definition), (c) Regular Assessments, (d) Net Premiums, (e) Additional Surcharges and Assessments, (f) Legislative Appropriations, and (g) any and all other moneys held from time to time in the Accounts and Subaccounts established under the Master Indenture, any Supplemental Indenture or Bank Credit Agreement as permitted by the Master Indenture, including, investment earnings thereon, except the Proceeds Account, the Reserve Account and any Series Reserve Account (and any investment earnings in such Accounts), and except for moneys that are expressly set aside in a Rebate Account; and provided further, however, that the pledge of Emergency Assessments shall be limited to the extent that applicable law requires that Emergency Assessments be used to pay only certain indebtedness or other obligations.

“Post-Event” when used in connection with Bonds, other Senior Secured Obligations or the proceeds thereof, refers to the issuance or other designation of such Senior Secured Obligations as “Post-Event” following or in anticipation of the occurrence of a Plan Year Deficit that results in or necessitates the levy of Emergency Assessments under the Act, including Senior Secured Obligations issued to refund other Post-Event Senior Secured Obligations or to refund Pre-Event Senior Secured Obligations Outstanding on the date of such designation, as designated by Citizens, but only to the extent that Emergency Assessments have been or will be levied with

respect to such Post-Event Senior Secured Obligations; provided, however, that Pre-Event Obligations may become Post-Event Obligations for all purposes of the Master Indenture, including, without limitation, the payment of the debt service thereon from Emergency Assessments, if and to the extent that the Board elects to treat such Pre-Event Obligations as Post-Event Obligations in accordance with the provisions of the Master Indenture.

“Pre-Event” when used in connection with Bonds, other Senior Secured Obligations or the proceeds thereof refers to any Senior Secured Obligations other than Post-Event Senior Secured Obligations.

“Pre-Event Bonds Investment Income Subaccount” means the Subaccount in the Proceeds Account created and so designated by Section 5.01(a) hereof.

“Predecessor Bond” of any particular Bond means every previous Bond evidencing all or a portion of the same debt as that evidenced by the particular Bond. For the purposes of this definition, any Bond authenticated and delivered under Section 3.06 of the Master Indenture in lieu of a lost, stolen or destroyed Bond shall, except as otherwise provided in Section 3.06, be deemed to evidence the same debt as the lost, stolen or destroyed Bond.

“Premiums” means all premiums charged or levied, and collected, by Citizens for policies issued by the Coastal Account.

“Principal Subaccount” means the Subaccount so designated and established within the Debt Service Account pursuant to Section 5.04 of the Master Indenture.

“Prior Parity Bonds” means the following Indenture Obligations issued under the Original Indenture, which obligations must be paid in full or legally defeased in accordance with the applicable provisions of the Original Indenture before Citizens can execute and deliver the Master Indenture: (i) Senior Secured Bonds, Series 2009A-1, issued in the original aggregate principal amount of \$1,021,000,000, (ii) Senior Secured Bonds, Series 2010A-1, issued in the original aggregate principal amount of \$1,550,000,000 and (iii) Senior Secured Bonds, Series 2011A-1, issued in the aggregate principal amount of \$645,000,000. Convertible Outstanding Parity Bonds shall not constitute or be deemed to be Prior Parity Bonds. The term “Prior Parity Bonds” is synonymous with, and replaces in the Master Indenture, the term “Outstanding Parity Bonds,” as used in the resolution adopted by Citizen’s Board on April 7, 2015 authorizing, among other things, the issuance of the Series 2015A Bonds and the execution and delivery of the Master Indenture.

“Proceeds Account” means the Account so designated and established pursuant to Section 5.01(a) of the Master Indenture.

“Purchase Agreement” means, as to any Series of Bonds, the bond purchase or selling agreement provided for in the Authorizing Resolution.

“Rating Agency” or “Rating Agencies” means, unless otherwise provided herein or in a supplemental indenture, (i) with respect to Permitted Investments, Moody’s, Standard & Poor’s and/or Fitch, and (ii) with respect to any other references, Moody’s, Standard & Poor’s and/or

Fitch, to the extent that any such Rating Agency then has a published rating requested by Citizens on Senior Secured Obligations Outstanding.

“Rebate Account” means an account or accounts that are expressly set aside in a Supplemental Indenture for the purpose of making rebate, yield reduction or similar payments to the United States of America in order to maintain the tax status of the Tax-Exempt Bonds.

“Reference Rate” means the reference or index rate, as specified in each Hedge Agreement entered into by Citizens or the Trustee on behalf of Citizens or as specified in the applicable Supplemental Indenture for a Series of Bonds.

“Register” means the books kept and maintained by the Registrar for registration and transfer of Bonds pursuant to Section 3.05 hereof.

“Registrar” means the Trustee, until a successor Registrar shall have become such pursuant to applicable provisions of the Master Indenture.

“Regular Assessments” means the assessments authorized to be levied by Citizens on Assessable Insurers and Assessable Insureds under the Act in connection with a Plan Year Deficit in the Coastal Account.

“Regular Record Date” means, with respect to any Bond, the 15th day (whether or not a Business Day) of the calendar month immediately preceding an Interest Payment Date applicable to that Bond or such other date as may be provided for a Series of Bonds in the Supplemental Indenture authorizing the same.

“Related Hedge Agreement” means a Hedge Agreement that is designated a “Related Hedge Agreement” pursuant to Section 2.05 hereof

“Reserve Account” means the Account so designated and established pursuant to Section 5.05 of the Master Indenture.

“Reserve Account Insurance Policy” means the insurance policy, surety bond or other evidence of insurance, if any, deposited to the credit of the Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein, which policy, bond or other evidence of insurance constitutes an obligation of the issuer thereof. The issuer thereof shall be an entity whose obligations ranking pari passu with its obligations under such policy, bond or other evidence of insurance are rated at all times that such policy, bond or other evidence of insurance is on deposit to the credit of the Reserve Account in any of the three (3) highest rating categories (without regard to any gradation within such categories) by any two Rating Agencies.

“Reserve Account Letter of Credit” means the irrevocable, transferable letter or line of credit, if any, deposited for the credit of the Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein, which letter or line of credit constitutes an unconditional senior obligation of the issuer thereof. The issuer of such letter or line of credit shall be a banking association, bank or trust company or branch thereof whose obligations ranking pari passu with its obligations under such letter or line of credit are rated at all times such letter or line of credit is on deposit to the credit of the Reserve Account in any of the three (3) highest

rating categories (without regard to any gradation within such categories) by any two Rating Agencies.

“Reserve Account Requirement” means, for any Series of Bonds that is to be secured by the Reserve Account as provided in the corresponding Supplemental Indenture, an amount equal to one hundred percent (100%) of the Maximum Annual Interest on all Bonds Outstanding and designated to be secured by the Reserve Account, unless otherwise provided in the Supplemental Indenture providing for the issuance of a particular Series of Bonds. The foregoing notwithstanding, to the extent that Bonds issued hereunder are issued as Tax-Exempt Bonds, the Reserve Account Requirement allocable to such Bonds (and available to pay such Bonds) shall not exceed the amount that may be funded in a reasonably required reserve under the provisions of the Internal Revenue Code of 1986, as amended, all as more specifically provided in the Supplemental Indenture pursuant to which such Bonds are issued.

“Revenue Account” means the Account so designated and established pursuant to Section 5.03 of the Master Indenture.

“Scheduled Conversion Date” means June 2, 2020, which is the day after the last Prior Parity Bonds are scheduled to mature in accordance with their stated maturity dates.

“Securities Act” means the United States Securities Act of 1933, as amended.

“Senior Secured Obligations” means Bonds, Bank Facilities and the regularly scheduled payments under a Related Hedge Agreement.

“Serial Bonds” means the Bonds of a Series which shall be stated to mature in sequential years and any other Bonds of a Series that are designated as Serial Bonds by the Issuer.

“Series” means the Bonds delivered at any one or more times under the provisions of the Master Indenture which are designated by or pursuant to the Master Indenture or any Supplemental Indenture as constituting a single Series.

“Series Reserve Account” means a special debt service reserve account created by a Supplemental Indenture as a debt service reserve account only for the particular Series of Bonds authorized by such Supplemental Indenture.

“Series Reserve Account Requirement” means the amount to be deposited or maintained in a Series Reserve Account pursuant to the Supplemental Indenture creating such Series Reserve Account.

“Sinking Fund Subaccount” means the Subaccount so designated and established within the Debt Service Account pursuant to Section 5.04 of the Master Indenture.

“Special Record Date” means, with respect to any Bond, the date established by the Trustee in connection with the payment of overdue interest on that Bond pursuant to Section 3.05 of the Master Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a business of Standard & Poor’s Financial Services LLC, its successors and assigns, and if such entity no longer performs the functions of a securities rating agency, “Standard & Poor’s” shall refer to any other nationally recognized securities rating agency designated by Citizens.

“State” means the State of Florida.

“Subaccount” or “Subaccounts” means (i) any Subaccount or Subaccounts (including any sub-subaccount or sub-subaccounts) established pursuant to Sections 5.01 through 5.06 of the Master Indenture or in any Supplemental Indenture or Bank Credit Agreement and (ii) any Subaccount or Subaccounts (including any sub-subaccount or sub-subaccounts) established pursuant to Section 5.09 of the Master Indenture.

“Subject Lines of Business” has the meaning specified for such term in the Plan of Operation.

“Subordinated Indebtedness” means indebtedness or other contractual payment obligations the terms of which shall provide that it shall be subordinate and junior in right of payment to the prior payment of Senior Secured Obligations to the extent and in the manner set forth in Section 2.07 of the Master Indenture.

“Subordinated Indebtedness Resolution” means the resolution and any other documents, instruments or agreements adopted or executed by Citizens providing for the incurrence of Subordinated Indebtedness.

“Supplemental Indenture” means (i) a supplemental indenture entered into in connection with the issuance of any Bonds hereunder, or (ii) any indenture supplemental to the Master Indenture entered into between Citizens and the Trustee in accordance with Article VIII hereof or (iii) in connection with any Series of Convertible Outstanding Parity Bonds, the provisions, if any, of the supplemental indenture executed and delivered under the Original Indenture and corresponding to such Series of Convertible Outstanding Parity Bonds that are expressly designated in such supplemental indenture as surviving the amendment of the Original Indenture and carrying over to the Master Indenture.

“Surplus Lines Agent” has the meaning specified for such term in the Plan of Operation.

“Surplus Lines Service Office” means the Surplus Lines Service Office established pursuant to Section 626.921, Florida Statutes, as amended.

“Surplus Pledged Revenues Account” means the Account so designated and established pursuant to Section 5.06 hereof.

“Tax-Exempt Bonds” means all Bonds so identified in the Supplemental Indenture authorizing the issuance of such Bonds.

“Term Bonds” means that portion of the Bonds of any Series which are stated to mature on one date in a calendar year with no stated maturity in the immediately preceding or in the

immediately succeeding years, regardless of whether such Bonds are subject to mandatory sinking fund redemption.

“Trustee” means _____, a banking corporation organized and existing under the laws of _____, until a successor Trustee shall have become such pursuant to the applicable provisions of the Master Indenture, and thereafter, “Trustee” shall mean the successor Trustee. [Citizens to appoint an entity as Trustee that satisfies the requirements for a successor Trustee prescribed in Section 6.05 hereof prior to execution and delivery of the Master Indenture.]

“Variable Rate Bonds” or “Variable Rate Obligations” mean any Bonds or other Senior Secured Obligations issued with a variable, adjustable, floating, convertible or other similar interest rate which is not fixed in percentage at the date of issue for the remaining term thereof.

“Withdrawal Deficiency Makeup Requirement” means, with respect to any deficiency (other than a valuation deficiency) in the Reserve Account, the obligation to cure such deficiency in full no later than twenty-four (24) months after the withdrawal that caused such deficiency, by making one or more deposits into the Reserve Account, so that, (a) by the March 31 following such withdrawal, there has been deposited in the Reserve Account, an amount equal to the deficiency multiplied by a fraction, the numerator of which is the number of months elapsed since the month in which the withdrawal occurred through such March 31 and the denominator of which is twenty-four (24), and (b) the balance of the deficiency is cured by making equal monthly deposits into the Reserve Account, beginning in April following such March 31; provided that the deficiency is cured in full no later than twenty-four (24) months after the withdrawal that caused such deficiency.

SECTION 1.02. Interpretation. To the extent not inconsistent with applicable law, any reference herein to Citizens, to the Board or to any member or officer of either includes entities or officials succeeding to their respective functions, duties or responsibilities pursuant to or by operation of law or lawfully performing their functions.

Any reference to a section or provision of the Constitution of the State or the Act, or to a section, provision or chapter of the Florida Statutes, or to any statute of the United States of America, includes that section, provision or chapter as amended, modified, revised, supplemented or superseded from time to time; provided, that no amendment, modification, revision, supplement or superseding section, provision or chapter shall be applicable solely by reason of this paragraph, if it constitutes in any way an impairment of the rights or obligations of Citizens, the Trustee or any Credit Enhancement Facility Issuer under the Master Indenture, the Supplemental Indenture, the Authorizing Resolution, the Bonds, the Senior Secured Obligations, any Bank Credit Agreement, any Related Hedge Agreements or any other instrument or document entered into in connection with any of the foregoing, or of the Holders of any Senior Secured Obligations under the Master Indenture, including, without limitation, any alteration of the obligation to pay Annual Payment Requirements in the amount and manner, at the times, and from the sources provided in the Master Indenture, the corresponding Supplemental Indenture, and any Bank Credit Agreement or Related Hedge Agreement, except as permitted herein.

Unless the context indicates otherwise, words importing the singular number include the plural number, and vice versa. The terms “hereof,” “hereby,” “herein,” “hereto,” “hereunder,” “hereinafter” and similar terms refer to this Master Indenture; and the term “hereafter” means after, and the term “heretofore” means before, the date of this Master Indenture. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

SECTION 1.03. Captions and Headings. The captions and headings in this Master Indenture are solely for convenience of reference and in no way define, limit or describe the scope or intent of any Articles, Sections, subsections, paragraphs, subparagraphs or clauses hereof.

(End of Article I)

ARTICLE II

AUTHORIZATION AND TERMS OF INDEBTEDNESS

SECTION 2.01. Designation of Senior Secured Obligations. (a) Citizens may designate Senior Secured Obligations by issuing Bonds hereunder, by establishing Bank Facilities pursuant to Bank Credit Agreements or by designating a Related Hedge Agreement. The principal amount of Bonds that may be issued hereunder and the principal or payment amount of other Senior Secured Obligations that may be created under other documents and designated hereunder are not limited, but are subject to the applicable requirements set forth in Sections 2.03, 2.04 and 2.05 hereof. Senior Secured Obligations issued or incurred hereunder shall constitute the special and limited obligations of Citizens attributable solely to the Coastal Account, payable from and secured solely by the Pledged Revenues in the manner provided herein.

(b) No Bonds may be issued and no other Senior Secured Obligations may be incurred or designated under this Master Indenture except in accordance with the provisions of this Article. Except as otherwise provided herein with respect to the Proceeds Account, the Reserve Account and any Series Reserve Account, the principal of and the interest on and the redemption premium, if any, on all Bonds, and all payments under any other Senior Secured Obligation issued, incurred or designated under the provisions of this Master Indenture shall be payable from and secured solely by the Pledged Revenues pledged under this Master Indenture for their payment. All covenants, agreements and provisions of this Master Indenture shall be for the benefit and security of all present and future Holders without preference, priority or distinction as to lien or otherwise, except as otherwise hereinafter provided, of any one Senior Secured Obligation over any other Senior Secured Obligation by reason of priority in the issue, sale or negotiation thereof, or otherwise.

(c) Senior Secured Obligations shall be issued or incurred in such forms as may from time to time be authorized by the Board (through adoption of an authorizing resolution) and provided by Supplemental Indenture or otherwise.

(d) With respect to Senior Secured Obligations created, issued, incurred or designated, hereunder simultaneously with or prior to the execution (if applicable), and delivery of such Senior Secured Obligations pursuant to this Master Indenture:

(i) if the Senior Secured Obligations consist of Bonds, all requirements and conditions set forth in Section 2.03 hereof and any additional requirements and conditions set forth in the corresponding Supplemental Indenture, shall be complied with; and

(ii) if the Senior Secured Obligations consist of Bank Facilities, all requirements and conditions set forth in Section 2.04 hereof, and any additional requirements and conditions set forth in the corresponding Bank Credit Agreement, shall be complied with; and

(iii) if the Senior Secured Obligations consist of a Related Hedge Agreement, all requirements and conditions set forth in Section 2.05 hereof and any additional requirements and conditions set forth in the Related Hedge Agreement shall be complied with.

(e) The provisions of the Supplemental Indenture may provide for the use of the Reserve Account or establish a Series Reserve Account for a Series of Bonds and fix the provisions with respect thereto, including, without limitation, the applicable Reserve Account Requirement or Series Reserve Account Requirement, if any, or not establish any debt service reserve account for such Series of Bonds.

(f) In the case of Senior Secured Obligations issued, incurred or designated to refund Outstanding Senior Secured Obligations, Citizens may direct the Trustee (i) to withdraw moneys and Permitted Investments from the appropriate accounts in the Proceeds Account, the Revenue Account, the Debt Service Account, the Reserve Account or any Series Reserve Account, as applicable, allocable to the Senior Secured Obligations being refunded or any other Account or Subaccount hereunder to the extent that, following the issuance of such refunding Senior Secured Obligations, such moneys and Permitted Investments would be in excess of the amount required to be on deposit in the Accounts and Subaccounts pursuant to this Master Indenture, any Supplemental Indenture or any Bank Credit Agreement and (ii) to set aside such moneys and Permitted Investments so withdrawn, together with proceeds of the refunding Senior Secured Obligations and any other moneys provided by Citizens, to facilitate the refunding of such refunded Senior Secured Obligations.

(g) Subordinated Indebtedness may be incurred only in compliance with the provisions of Section 2.07 hereof.

SECTION 2.02. Details of Bonds. Bonds authorized hereunder may be issued in one or more Series that may be delivered from time to time. Citizens shall, by Supplemental Indenture, authorize such Series and shall specify, to the extent appropriate: (1) the authorized principal amount of such Series; (2) the purposes to be financed with the proceeds of such Series, or the Bonds or other indebtedness to be refunded or refinanced with the proceeds thereof, including the payment of Costs of Issuance; (3) whether such Bonds are secured by the Reserve Account, or the creation of a Series Reserve Account for such Series, if any; (4) the date and terms of maturity or maturities of the Bonds of such Series, or the dates of payment (or purchase) of the Bonds on the demand of the Holder thereof; (5) the interest rate or rates of the Bonds of such Series, which may include variable, adjustable, floating, convertible or other rates, original issue discount, current interest Bonds, Capital Appreciation Bonds, Capital Appreciation and Income Bonds, or other deferred interest arrangements and zero interest rate Bonds, provided that the interest cost of such Series shall never exceed for such Series the maximum interest rate, if any, permitted by applicable law; (6) the Interest Payment Dates for such Series of Bonds; (7) the forms, denominations, numbering, lettering and series designation of such Series of Bonds; (8) if other than as provided in this Master Indenture, the Bond Registrar or Paying Agents and place or places of payment of such Bonds; (9) the redemption prices for such Series of Bonds and any terms of redemption, which may include redemption at the election of the Holder thereof to the extent permitted by applicable law; (10) the amount and date of each mandatory redemption requirement, if any, for such Series of Bonds; (11) the application of the

proceeds of such Series of Bonds, including deposits required to be made into the appropriate subaccount or sub-subaccount of the Costs of Issuance Subaccount, the Interest Subaccount and the Reserve Account (or Series Reserve Account, as applicable); (12) any legal opinions required under the corresponding Supplemental Indenture to be rendered in connection with the issuance of such Bonds; and (13) any other terms or provisions applicable to the Series of Bonds not inconsistent with the provisions of this Master Indenture or the Act. The foregoing notwithstanding, the specific details of any Convertible Outstanding Parity Bonds shall be as set forth in the applicable supplemental indenture pursuant to which such Convertible Outstanding Parity Bonds were issued under the Original Indenture, as further set forth in Section 2.03 hereof.

SECTION 2.03. Issuance and Delivery of Bonds. (a) Citizens may issue Bonds from time to time for any purpose permitted by the Act or to refund any Senior Secured Obligation or other indebtedness of Citizens if the purpose for which such other indebtedness was issued was permitted by the Act. The proceeds of any such Bonds shall be deposited and applied as provided in Section 5.01 hereof. Any amounts deposited into the Proceeds Account pursuant to the applicable Supplemental Indenture for such Bonds shall be disbursed by the Trustee only upon satisfaction of the applicable conditions set forth in Section 5.01 hereof. The Bonds of each Series shall be issued in the form thereof attached as an exhibit to the corresponding Supplemental Indenture. The Supplemental Indenture authorizing the issuance of such Bonds shall set forth the details of the Bonds, including, among other things, the matters set forth in Section 2.02 hereof. The Supplemental Indenture authorizing the Bonds shall also specify whether a Credit Enhancement Facility, Reserve Account Insurance Policy or Reserve Account Letter of Credit is to be issued in connection with such Bonds and, if so, the Supplemental Indenture shall set forth or provide for such additional covenants and agreements required in order to obtain such Credit Enhancement Facility, Reserve Account Insurance Policy or Reserve Account Letter of Credit.

(b) Before the Trustee shall authenticate and deliver any Bonds, the Trustee shall receive the following items:

(i) Original executed counterparts of the Supplemental Indenture relating to such Bonds. The Supplemental Indenture shall contain provisions, if applicable, describing any Bonds of the Series that shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security and any circumstances in which any such Global Security may be exchanged in whole or in part for Bonds registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof, and any circumstances in addition to or in lieu of those set forth in Section 3.06 hereof in which transfers of interests in Global Securities may be made.

(ii) A copy of the Authorizing Resolution, certified by an Authorized Citizens Representative.

(iii) A request and authorization to the Trustee on behalf of Citizens, signed by an Authorized Citizens Representative, to authenticate and deliver the Bonds to, or on the

order of, the Initial Purchaser thereof upon payment to the Trustee of the amount specified therein (including without limitation, any accrued interest).

(iv) A certificate of Citizens, signed by an Authorized Citizens Representative or, alternatively, a certified copy of a resolution of the Board, specifying the application of the proceeds of such Bonds and certifying that the sources of repayment available for such Bonds are expected to be sufficient to pay the principal of and interest on the Bonds to maturity.

When (1) the documents listed above have been received by the Trustee, and (2) the Bonds have been executed and authenticated, the Trustee shall deliver the Bonds to or on the order of the Initial Purchaser thereof, but only upon payment to the Trustee of the specified amount (including, without limitation, any accrued interest) set forth in the request and authorization to which reference is made in clause (iii) above.

(c) The foregoing requirements of this Section 2.03 for the issuance and delivery of Bonds notwithstanding, upon execution and delivery of this Master Indenture any and all Convertible Outstanding Parity Bonds automatically, and without any further action required by the Issuer or the Trustee, shall become and shall be deemed to be Bonds and Senior Secured Obligations issued, Outstanding and secured under this Master Indenture (1) in the same principal amount of each series of such Convertible Outstanding Parity Bonds Outstanding under the Original Indenture on the Conversion Date, (2) for the purpose(s) set forth in such Convertible Outstanding Parity Bonds, (3) secured by the Reserve Account or a Series Reserve Account to the extent provided for in the applicable supplemental indenture pursuant to which such Convertible Outstanding Parity Bonds were issued under the Original Indenture, (4) with the same maturity date (or date of purchase) as set forth in such Convertible Outstanding Parity Bonds, (5) bearing interest at the interest rate specified in each such Convertible Outstanding Parity Bond, with such interest payable on the Interest Payment Dates specified in each such Convertible Outstanding Parity Bond, (6) subject to redemption on the same dates, at the same redemption price and on the same terms, if any, as set forth in such Convertible Outstanding Parity Bonds and (7) with such Convertible Outstanding Parity Bonds being in the same forms, denominations, numbering, lettering, series designation and CUSIP numbers as set forth in such Convertible Outstanding Parity Bonds. On and as of the execution and delivery of this Master Indenture, the Trustee, Bond Registrar and Paying Agent(s) for the Convertible Outstanding Parity Bonds shall be the Trustee, Bond Registrar and Paying Agent(s) that have been appointed to serve in such capacities under this Master Indenture.

SECTION 2.04. Designation of Bank Facilities as Senior Secured Obligations. In addition to the issuance of Bonds hereunder, Citizens may enter into Bank Credit Agreements for the purpose of establishing one or more Bank Facilities and, at its option, designate one or more of such facilities as “Bank Facilities” and “Senior Secured Obligations” under this Master Indenture. The conditions to and the application of the proceeds of any draw or advance under any such Bank Facilities shall be set forth in the corresponding Bank Credit Agreement. Bank Facilities shall be in the form provided in the related Bank Credit Agreement.

The Bank Credit Agreement shall set forth the details of the Bank Facilities, including, among other details, (1) the principal amount borrowed or available to be loaned, drawn or

advanced thereunder, (2) the purposes to be financed with the proceeds of draws, advances or term loans under such Bank Facilities (or advances or draws thereunder) or the indebtedness to be refunded or refinanced with the proceeds thereof, including the payment of the cost of establishing such Bank Facilities; (3) the date and terms of repayment, prepayment and/or redemption of advances, draws or terms loans under such Bank Facilities; (4) the interest rate or rates associated with the repayment of advances, draws or term loans under such Bank Facilities, provided that the interest cost associated with any Bank Facilities shall never exceed the maximum interest rate, if any, permitted by law; (5) other fees or payments required to be made by Citizens under the Bank Credit Agreement; (6) the payment dates and places for payment for the Bank Facilities; (7) the creation of any accounts or subaccounts necessary in connection with the Bank Facilities hereunder; (8) the Bank Facilities Agent; and (9) any other terms or provisions applicable to such Bank Facilities not inconsistent with the provisions of this Master Indenture or the Act.

Before the Trustee shall acknowledge the designation of any Bank Facility hereunder, the Trustee shall receive the following items:

(i) An original executed copy (or certified copy) of the Bank Credit Agreement.

(ii) A request and authorization to the Trustee on behalf of Citizens, signed by an Authorized Citizens Representative, to acknowledge the designation of the Bank Facility under this Master Indenture.

(iii) A certificate of Citizens, signed by an Authorized Citizens Representative certifying that the sources of repayment available for such Bank Facility are expected to be sufficient to pay the principal of and interest on any draw, advance or term loan under such Bank Facilities to the maturity thereof and any commitment or capacity fees associated therewith.

SECTION 2.05. Designation of Hedge Agreements as Senior Secured Obligations. Citizens may enter into Hedge Agreements from time to time, and, at its option, designate one or more Hedge Agreements (or a portion of Citizens’ obligations thereunder) as “Related Hedge Agreements” and “Senior Secured Obligations” under this Master Indenture.

The Hedge Agreement designated as a Related Hedge Agreement and a Senior Secured Obligation shall set forth the details of the Hedge Agreement and the designation thereof as a Related Hedge Agreement and Senior Secured Obligation, including, among other details, in each case, as applicable: (1) the notional amount and Reference Rate, (2) the Senior Secured Obligation to which such Hedge Agreement relates; (3) the date and terms of payment under such Hedge Agreement; (4) that any non-scheduled payment thereunder (including, without limitation, any termination payment) shall be either unsecured or Subordinated Indebtedness; and (5) any other terms or provisions applicable to such Hedge Agreement not inconsistent with the provisions of this Master Indenture or the Act. Notwithstanding the foregoing or anything herein to the contrary, only the regularly scheduled payments under a Related Hedge Agreement will be designated a Senior Secured Obligation hereunder. All other payments under a Related Hedge

Agreement shall be treated as unsecured obligations unless separately designated as Subordinated Indebtedness hereunder.

The Related Hedge Agreement shall also specify whether a Credit Enhancement Facility is to be issued in connection with such Hedge Agreement and, if so, the Related Hedge Agreement shall set forth or provide for such additional covenants and agreements required in order to obtain such Credit Enhancement Facility.

Before the Trustee shall acknowledge the designation of any Related Hedge Agreement hereunder, the Trustee shall receive the following items:

- (i) An original executed copy (or certified copy) of the Related Hedge Agreement.
- (ii) A request and authorization to the Trustee on behalf of Citizens, signed by an Authorized Citizens Representative, to acknowledge the designation of the Related Hedge Agreement under this Master Indenture and providing for the establishment of any necessary or convenient accounts or subaccounts under this Master Indenture.

SECTION 2.06. Source of Payment of Senior Secured Obligations. Senior Secured Obligations and all other obligations arising under or permitted by this Master Indenture shall be special and limited obligations of Citizens attributable solely to the Coastal Account, payable from and secured solely by the Pledged Revenues and securities as provided herein together with all money and securities held by or on behalf of the Trustee in all of the accounts or subaccounts established pursuant to this Master Indenture, except (a) the Proceeds Account, the Reserve Account or any Series Reserve Account, which are designated to secure only the Bonds, or a specific Series of Bonds as provided herein, and (b) any Rebate Account; all in the manner provided herein. The Holders of Senior Secured Obligations and the Trustee shall have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or the Commercial Lines Account) in respect of the Senior Secured Obligations or any other obligation arising under this Master Indenture. Notwithstanding anything to the contrary in the Senior Secured Obligations or this Master Indenture, the Senior Secured Obligations do not and shall not represent or constitute a general obligation of Citizens or a debt or pledge of the faith and credit or the taxing power of the State or of any political subdivision, municipality or other local agency thereof or of any Insurer.

Notwithstanding the foregoing, Citizens reserves the right to pay amounts owed with respect to the Senior Secured Obligations from any legally available funds. The reservation of such right shall not, under any circumstances, give the Holders the right to compel the payment of the Senior Secured Obligations from any source other than the Pledged Revenues and other amounts pledged to such payment hereunder or under any Supplemental Indenture.

SECTION 2.07. Subordinated Indebtedness. (a) Subordinated Indebtedness may be incurred by Citizens from time to time for any purpose authorized under the Act. Except to the extent otherwise expressly provided in this Master Indenture, Subordinated Indebtedness shall be

issued in compliance, to the extent applicable, with the provisions of Sections 2.02 and 2.03 hereof setting forth certain terms and conditions for the issuance of Bonds.

In addition, the following conditions must be met for the issuance of Subordinated Indebtedness:

- (i) Citizens shall adopt a Subordinated Indebtedness Resolution authorizing the incurrence of any such Subordinated Indebtedness and setting forth the amount and details thereof.
- (ii) Any such Subordinated Indebtedness shall be incurred pursuant to the provisions of the Act.

(b) In the event (1) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred, and such declaration has not been rescinded and annulled, or (2) any Event of Default under this Master Indenture shall occur and be continuing with respect to Senior Secured Obligations, then the Holders of Senior Secured Obligations shall be entitled to receive payment in full of all principal, premium and interest on and all other amounts payable with respect to all Senior Secured Obligations before the holders of the Subordinated Indebtedness are entitled to receive any payment on account of accelerated principal or interest upon such Subordinated Indebtedness, and, to that end, the Holders of Senior Secured Obligations shall be entitled to receive for application in payment thereof any payment or distribution of any kind or character, allocable to, derived from or constituting Pledged Revenues (or other pledged moneys hereunder) which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect of such Senior Secured Obligations.

Nothing contained in the definition of "Subordinated Indebtedness" or elsewhere in this Master Indenture, or in any Subordinated Indebtedness except as described in Section 2.07(b), shall (1) affect Citizens' obligation to make, or prevent Citizens from making, at any time except as described in Section 2.07(b), payments of principal or of premium, if any, or interest on the Subordinated Indebtedness or of amounts to be available as a sinking fund for such Subordinated Indebtedness, or (2) prevent the application by the Trustee or any Paying Agent of any moneys held by the Trustee or such Paying Agent in trust for the benefit of the holders of the Subordinated Indebtedness as to which notice of redemption shall have been mailed or published at least once prior to the happening of an Event of Default under this Master Indenture, to the payment of or on account of the principal of and premium, if any, and interest on such Subordinated Indebtedness, or (3) prevent the application by the Trustee or any Paying Agent of moneys deposited, prior to the happening of any Event of Default under this Master Indenture, with the Trustee or such Paying Agent in trust for the purpose of paying a specified installment or installments of interest on the Subordinated Indebtedness, to the payment of such installments or interest on such Subordinated Indebtedness.

SECTION 2.08. Additional Restrictions. A Supplemental Indenture, Bank Credit Agreement or Subordinated Indebtedness Resolution may establish restrictions, in addition to

those established in this Master Indenture, including additional restrictions as to the application of Pledged Revenues after the payments required by Section 5.03(a), (b) and (c) and Section 5.06 hereof and additional restrictions on the incurrence of Senior Secured Obligations or other indebtedness in addition to those set forth in Sections 2.02, 2.03, 2.04 and 2.05 hereof.

SECTION 2.09. Capital Appreciation Bonds; Capital Appreciation and Income Bonds. For purposes of determining the principal amount of a Capital Appreciation Bond or a Capital Appreciation and Income Bond for redemption, acceleration or computation of the amount of Bonds held by the Holder thereof in giving to Citizens or the Trustee any notice, consent, request or demand pursuant to this Master Indenture for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value and the principal amount of a Capital Appreciation and Income Bond shall be deemed to be its Appreciated Value in both cases as of the date of computation (or as close to but not later than the date of computation) as set out in the related Supplemental Indenture.

(End of Article II)

ARTICLE III

TERMS OF BONDS GENERALLY

SECTION 3.01. Form of Bonds. The Bonds, the certificate of authentication and the form of assignment shall be substantially in the respective forms thereof set forth in the Supplemental Indenture authorizing the issuance of such Bonds, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depository therefor, all consistent with this Master Indenture; provided, however, that the Convertible Outstanding Parity Bonds shall be in the respective forms thereof as issued under the Original Indenture. All Bonds shall be in fully registered form and, except as provided in Section 3.05 hereof, the Holder shall be regarded as the absolute owner thereof for all purposes of this Master Indenture.

The Bonds of one Series shall bear any designations which may be necessary or advisable to distinguish them from Bonds of any other Series. The Bonds shall be negotiable instruments and shall express the purpose for which they are issued and any other statements or legends which may be required by law. Pending delivery of the Bonds in definitive form, the Bonds may be issued, authenticated and delivered in temporary form on such conditions as the Trustee and Citizens shall deem appropriate, and such temporary Bonds until exchanged for definitive Bonds shall constitute Bonds for all purposes of this Master Indenture.

SECTION 3.02. Variable Terms. Subject to the provisions of this Master Indenture, each Series of Bonds shall be dated, shall mature in the years and the amounts, shall bear interest at the rate or rates per annum, shall be payable on the dates, shall have the Registrar, Paying Agents and Authenticating Agents, shall be of the denominations, shall be subject to redemption and/or purchase on the terms and conditions and shall have any other terms which are set forth or provided for in this Master Indenture and the applicable Supplemental Indenture.

SECTION 3.03. Execution and Authentication of Bonds. Unless otherwise provided in the applicable Authorizing Resolution or Supplemental Indenture, each Bond shall be signed by the Chairman of the Board or by the Executive Director of Citizens, and shall be attested by the Chief Financial Officer of Citizens (or, if the Executive Director is not the person signing such Bonds, the Executive Director may attest the Bonds), in their official capacities (provided that either or both of the execution and attestation signatures may be facsimiles), and shall have a facsimile of the seal of Citizens printed thereon. In case any officer whose signature or a facsimile of whose signature shall appear on any Bond shall cease to be that officer before the issuance of the Bond, his signature or the facsimile thereof nevertheless shall be valid and sufficient for all purposes, the same as if he had remained in office until that time. Any Bond may be executed on behalf of Citizens by an officer who, on the date of execution is the proper officer, although on the date of the Bond that person was not the proper officer.

No Bond, other than the Convertible Outstanding Parity Bonds, shall be valid or become obligatory for any purpose or shall be entitled to any security or benefit under this Master Indenture unless and until a certificate of authentication, substantially in the form set forth in the corresponding Supplemental Indenture, has been signed by the Trustee or by any Authenticating Agent for that Series on behalf of the Trustee. The authentication by the Trustee or by an

Authenticating Agent upon any Bond shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered hereunder and is entitled to the security and benefit of this Master Indenture. The certificate of the Trustee or an Authenticating Agent may be executed by any person authorized by the Trustee or Authenticating Agent, but it shall not be necessary that the same authorized person sign the certificates of authentication on all of the Bonds of a Series.

The authentication and delivery of the Convertible Outstanding Parity Bonds by the Indenture Trustee acting under the Original Indenture shall be deemed to be authentication and delivery of those Convertible Outstanding Parity Bonds “by the Trustee” for all purposes of this Master Indenture, the same as if the Trustee under this Master Indenture had manually executed the certificate of authentication appearing on the Convertible Outstanding Parity Bonds as required by this Section 3.03. By its execution and delivery of this Master Indenture, the Trustee shall be deemed to have adopted the authentication of the Convertible Outstanding Parity Bonds by the Indenture Trustee acting under the Original Indenture and the Convertible Outstanding Parity Bonds shall be valid and binding “Bonds” and “Senior Secured Obligations” entitled to the security and benefit of this Master Indenture.

SECTION 3.04. Payment and Ownership of Bonds. Debt Service Charges shall be payable in lawful money of the United States of America without deduction for the services of the Trustee or any Paying Agent. Subject to the provisions of the second paragraph of this Section, and the provisions of any Supplemental Indenture with respect to any particular Series of Bonds, and to any agreements entered into pursuant to Section 3.09 of this Master Indenture, (i) the final payment of principal of and any premium on any Bond shall be payable when due to a Holder upon presentation and surrender of such Bond at the designated corporate trust office of the Trustee or at the office, designated by the Trustee, of any Paying Agent, and (ii) interest on any Bond shall be paid on each Interest Payment Date by check or draft which the Trustee shall cause to be mailed by first class mail, postage prepaid, on that date to the Person in whose name the Bond (or one or more Predecessor Bonds) is registered at the close of business on the Regular Record Date applicable to that Interest Payment Date on the Register at the address appearing therein. All other payments of principal of and any premium on the Bonds will be payable when due to a Holder at the designated corporate trust office of the Trustee or at such designated office of any Paying Agent. Subject to the provisions of the second paragraph of this Section and the provisions of any Supplemental Indenture with respect to any particular Series of Bonds, any Holder of Bonds in an aggregate principal amount of at least \$1,000,000 (or, if less, five percent (5%) of the outstanding principal amount of the applicable Series of Bonds) is entitled on fifteen (15) days’ prior written request to the Trustee (including instructions and information as to the recipient bank and account) to the payment of interest by bank transfer or credit to a domestic bank or domestic trust account or by wire transfer of immediately available funds. If and to the extent, however, that Citizens shall fail to make payment or provision for payment of interest on any Bond on any Interest Payment Date, that interest shall cease to be payable to the Person who was the Holder of that Bond (or of one or more Predecessor Bonds) as of the applicable Regular Record Date. When moneys become available for payment of interest, (x) the Trustee shall establish a Special Record Date for the payment of that interest which shall be not more than fifteen (15) nor fewer than ten (10) days prior to the date of the proposed payment, and (y) the Trustee shall cause notice of the proposed payment and of the Special

Record Date to be mailed by first-class mail, postage prepaid, to each Holder at its address as it appears on the Register not fewer than ten (10) days prior to the Special Record Date, and thereafter the interest shall be payable to the Persons who are the Holders of the Bonds (or their respective Predecessor Bonds) at the close of business on the Special Record Date. Except as otherwise provided in this paragraph, each Bond delivered under this Master Indenture upon transfer thereof, or in exchange for or in replacement of any other Bond, shall carry the rights to interest accrued and unpaid, and to accrue on that Bond.

Unless otherwise provided in the Supplemental Indenture corresponding to a Series of Bonds, Debt Service Charges on Bonds shall be payable:

(i) on any Bond represented by a Global Security, in same day federal funds (A) in the case of principal of such Bond, delivered or transmitted to the Depositary or its authorized representative when due; provided that if the entire outstanding principal amount of any such Bond is due, only upon presentation and surrender of such Bond at the designated corporate trust office of the Trustee or at the office, designated by the Trustee, of any Paying Agent, and (B) in the case of interest on such Bond, delivered or transmitted on any Interest Payment Date to the Depositary or nominee that was the Holder of that Bond (or a predecessor Bond) at the close of business on the Regular Record Date (or the Special Record Date, as the case may be) applicable to that Interest Payment Date; and

(ii) on any Bond not represented by a Global Security, as provided in the first paragraph of this Section.

Except as provided in the first paragraph of Section 3.06 hereof, (i) the Holder of any Bond shall be deemed and regarded as the absolute owner thereof for all purposes of this Master Indenture, (ii) payment of or on account of the Debt Service Charges on any Bond shall be made only to or upon the order of that Holder or its duly authorized attorney in the manner permitted by this Master Indenture or the corresponding Supplemental Indenture, and (iii) neither Citizens, the Trustee, the Registrar nor any Paying Agent or Authenticating Agent shall, to the extent permitted by law, be affected by notice to the contrary. All of those payments shall be valid and effective to satisfy and discharge the liability upon that Bond, including, without limitation, the interest thereon, to the extent of the amount or amounts so paid.

SECTION 3.05. Registration, Registration of Transfer and Exchange of Bonds. So long as any of the Bonds remain outstanding, Citizens will cause books for the registration and transfer of Bonds, as provided in this Master Indenture, to be maintained and kept at the designated office of the Registrar.

Subject to the further provisions of this Section 3.05, unless otherwise provided in the applicable Supplemental Indenture for a particular Series of Bonds, Bonds may be exchanged, at the option of their Holder, for Bonds of the same Series and of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Bonds being exchanged. The exchange shall be made upon presentation and surrender of the Bonds being exchanged at the designated office of the Registrar or at the designated office of

any Authenticating Agent for that Series of Bonds, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which shall be satisfactory to the Registrar or the Authenticating Agent, as the case may be.

Subject to the further provisions of this Section 3.05 (and any comparable provisions of any Supplemental Indenture), any Bond may be transferred upon the Register, upon presentation and surrender thereof at the designated office of the Registrar or the designated office of any Authenticating Agent for the Series thereof, together with an assignment duly executed by the Holder or its duly authorized attorney in any form which shall be satisfactory to the Registrar or the Authenticating Agent, as the case may be. Upon transfer of any Bond and on request of the Registrar or the Authenticating Agent, Citizens shall execute in the name of the transferee, and the Registrar or the Authenticating Agent, as the case may be, shall authenticate and deliver, a new Bond or Bonds of the same Series, of any authorized denomination or denominations in an aggregate principal amount equal to the unmatured and unredeemed principal amount of, and bearing interest at the same rate and maturing on the same date or dates as, the Bonds presented and surrendered for transfer.

In all cases in which Bonds shall be exchanged or transferred hereunder, Citizens shall execute, and the Registrar or any Authenticating Agent, as the case may be, shall authenticate and deliver, Bonds in accordance with the provisions of this Master Indenture. The exchange or transfer shall be made without charge; provided, that Citizens and the Registrar or the Authenticating Agent, as the case may be, may make a charge for every exchange or transfer of Bonds sufficient to reimburse them for any tax or excise required to be paid with respect to the exchange or transfer. The charge shall be paid before a new Bond is delivered.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of Citizens, evidencing the same debt, and entitled to the same benefits under this Master Indenture, as the Bonds surrendered upon transfer or exchange. Neither Citizens, the Registrar nor any Authenticating Agent, as the case may be, shall be required to make any exchange or transfer of any Bond during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of Bonds pursuant to Section 4.02 hereof and ending at the close of business on the day of such mailing or to transfer or exchange any Bonds selected for redemption, in whole or in part.

In case any Bond is redeemed in part only, on or after the redemption date and upon presentation and surrender of the Bond, Citizens, subject to the provisions of Section 3.08 hereof, shall cause execution of, and the Registrar or any Authenticating Agent for the Series of that Bond shall authenticate and deliver, a new Bond or Bonds of the same Series in authorized denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of, and bearing interest at the same rate and maturing on the same date or dates as, the Bond redeemed in part.

For purposes of this Section, the Trustee shall establish the designated office of the Registrar and the Authenticating Agent.

In case of any transfer or exchange the procedures and requirements for which are not addressed in detail in this Section 3.05, such transfer or exchange will be subject to such

procedures and requirements as may be reasonably prescribed by Citizens and the Trustee from time to time and, in the case of a transfer or exchange involving a Global Security, the Applicable Procedures.

SECTION 3.06. Mutilated, Lost, Wrongfully Taken or Destroyed Bonds. If any Bond is mutilated, lost, wrongfully taken or destroyed, in the absence of written notice to Citizens or the Registrar that a lost, wrongfully taken or destroyed Bond has been acquired by a bona fide purchaser, Citizens shall execute, and the Registrar shall authenticate and deliver, a new Bond of like date, maturity, interest rate and denomination and of the same Series as the Bond mutilated, lost, wrongfully taken or destroyed; provided, that (i) in the case of any mutilated Bond, the mutilated Bond first shall be surrendered to the Registrar, and (ii) in the case of any lost, wrongfully taken or destroyed Bond, there first shall be furnished to Citizens, the Trustee and the Registrar evidence of the loss, wrongful taking or destruction satisfactory to the Authorized Citizens Representative, the Trustee and the Registrar, together with indemnity satisfactory to them.

If any mutilated, lost, wrongfully taken or destroyed Bond shall have matured, instead of issuing a new Bond, the Authorized Citizens Representative may direct the Trustee to pay that Bond without surrender thereof upon the furnishing of satisfactory evidence and indemnity as in the case of issuance of a new Bond. Citizens, the Registrar and the Trustee may charge the Holder of a mutilated, lost, wrongfully taken or destroyed Bond their reasonable fees and expenses in connection with their actions pursuant to this Section.

Every new Bond issued pursuant to this Section by reason of any Bond being mutilated, lost, wrongfully taken or destroyed (i) shall constitute, to the extent of the outstanding principal amount of the Bond lost, mutilated, taken or destroyed, an additional contractual obligation of Citizens, regardless of whether the mutilated, lost, wrongfully taken or destroyed Bond shall be enforceable at any time by anyone and (ii) shall be entitled to all of the benefits of this Master Indenture equally and proportionately with any and all other Bonds issued and outstanding hereunder.

All Bonds shall be held and owned on the express condition that the foregoing provisions of this Section are exclusive with respect to the replacement or payment of mutilated, lost, wrongfully taken or destroyed Bonds and, to the extent permitted by law, shall preclude any and all other rights and remedies with respect to the replacement or payment of negotiable instruments or other investment securities without their surrender, notwithstanding any law or statute to the contrary now existing or enacted hereafter.

SECTION 3.07. Cancellation of Bonds. Any Bond surrendered pursuant to this Article for the purpose of payment or retirement or for exchange, replacement or transfer shall be cancelled upon presentation and surrender thereof to the Registrar, the Trustee or any Paying Agent or Authenticating Agent. Any Bond cancelled by the Trustee or a Paying Agent or Authenticating Agent shall be transmitted promptly to the Registrar by the Trustee, Paying Agent or Authenticating Agent.

Citizens may deliver at any time to the Registrar for cancellation any Bonds previously authenticated and delivered hereunder, which Citizens may have acquired in any manner

whatsoever. All Bonds so delivered shall be cancelled promptly by the Registrar. Certification of the surrender and cancellation shall be made to Citizens and the Trustee by the Registrar at least twice each calendar year. Unless otherwise directed by Citizens, cancelled Bonds shall be retained and stored by the Registrar for a period of seven (7) years after their cancellation. Those cancelled Bonds shall be destroyed by the Registrar in such manner as is customary for the Registrar. The Registrar shall provide certificates describing the destruction of cancelled Bonds to Citizens and the Trustee.

SECTION 3.08. Special Agreement with Holders. Notwithstanding any provision of this Master Indenture or of any Bond to the contrary, with the approval of Citizens, the Trustee may enter into an agreement with any Holder providing for making all payments to that Holder of principal of and interest and any premium on that Bond or any part thereof (other than any payment of the entire unpaid principal amount thereof) at a place and in a manner other than as provided in this Master Indenture and in the Bond, without presentation or surrender of the Bond, upon any conditions which shall be satisfactory to the Trustee and the Authorized Citizens Representative; provided, that payment in any event shall be made to the Person in whose name a Bond shall be registered on the Register, with respect to payment of principal and premium, on the date such principal and premium is due, and, with respect to the payment of interest, as of the applicable Regular Record Date or Special Record Date, as the case may be.

The Trustee will furnish a copy of each of those agreements, certified to be correct by an officer of the Trustee, to the Registrar and Citizens. Any payment of principal, premium or interest pursuant to such an agreement shall constitute payment thereof pursuant to, and for all purposes of, this Master Indenture.

(End of Article III)

ARTICLE IV

REDEMPTION OF BONDS

SECTION 4.01. Redemption of Bonds. Any Series of Bonds may be made subject to optional and/or mandatory redemption, either in whole or in part, and at such times and prices, as may be provided in the Supplemental Indenture authorizing such Series of Bonds.

SECTION 4.02. Notice of Redemption. Any notice of the call for redemption of a Series of Bonds pursuant to the corresponding Supplemental Indenture, shall identify (i) by designation, letters, numbers or other distinguishing marks, the Bonds or portions thereof to be redeemed, (ii) the redemption price to be paid (the redemption price may be identified by a textual description of the method for calculation of any premium to be paid), (iii) the date fixed for redemption, (iv) the place or places where the amounts due upon redemption are payable, and (v) any conditions to such redemption. Except as otherwise provided in a Supplemental Indenture for any particular Series of Bonds, notice of any such redemption shall be given by the Trustee by mailing a copy of the redemption notice by first-class mail, postage prepaid, or transmission by facsimile or electronic transmission to a fax number or email address routinely used by the Trustee in transmitting notices to the Depository, at least thirty (30) days prior to the date fixed for redemption, to the Holder of each Bond subject to redemption in whole or in part at the Holder's address shown on the Register on the fifteenth (15th) day preceding that mailing. Failure to receive notice by mailing or any defect in that notice regarding any Bond, however, shall not affect the validity of the proceedings for the redemption of any other Bond. Any notice of redemption may be stated to be conditioned on the occurrence of any one or more events as specified in such notice.

SECTION 4.03. Payment of Redeemed Bonds. Notice of redemption having been mailed in the manner provided in Section 4.02 hereof and not revoked or cancelled as provided herein, and subject to the further conditions set forth in such notice, the Bonds and portions thereof called for redemption pursuant to the provisions of the corresponding Supplemental Indenture shall become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, shall be paid at the redemption price, plus interest accrued to the redemption date.

If money for the redemption of all of the Bonds or the portions thereof to be redeemed, together with interest accrued thereon to the redemption date, is held by the Trustee or any Paying Agent on the redemption date, so as to be available therefor on that date and if notice of redemption has been deposited in the mail as aforesaid, then from and after the redemption date such Bonds called for redemption shall cease to bear interest and no longer shall be considered to be Outstanding hereunder. If those moneys shall not be so available on the redemption date, or that notice shall not have been deposited in the mail as aforesaid, such Bonds shall continue to bear interest, until they are paid, at the same rate as they would have borne had they not been called for redemption.

All moneys held by the Trustee or a Paying Agent for the redemption of particular Bonds shall be held in trust for the account of the Holders thereof and shall be paid to them, respectively, upon presentation and surrender of those Bonds.

SECTION 4.04. Revocation of Redemption Notice. Notwithstanding any other provision of this Master Indenture, if, on any day prior to the fifth (5th) Business Day preceding any date fixed for redemption of Bonds, Citizens notifies the Trustee in writing that Citizens has elected to revoke its election to redeem such Bonds, such Bonds shall not be redeemed on such date and any notice of redemption mailed to the Holders pursuant to this Article shall be null and void. In such event, within three (3) Business Days after the date on which the Trustee receives notice of such revocation, the Trustee shall cause a notice of such revocation in the name of the Trustee to be mailed to all Holders owning such Bonds.

SECTION 4.05. Variation of Redemption Provisions; Redemption or Prepayment of Bonds. The provisions of this Article IV, insofar as they apply to any Series of Bonds, may be varied by the Supplemental Indenture providing for that Series of Bonds.

(End of Article IV)

ARTICLE V

ESTABLISHMENT OF ACCOUNTS; FLOW OF FUNDS; INVESTMENT OF FUNDS

SECTION 5.01. Proceeds Account. (a) The Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coastal Account Bond Proceeds Account" (the "Proceeds Account"). The Trustee shall establish within the Proceeds Account two separate subaccounts designated as the "Citizens Property Insurance Corporation Costs of Issuance Subaccount" (the "Costs of Issuance Subaccount") and the "Citizens Property Insurance Corporation Pre-Event Bonds Investment Income Subaccount" (the "Pre-Event Bonds Investment Income Subaccount"). There may also be established from time to time such additional Subaccounts within the Proceeds Account as may be specified in the Supplemental Indenture authorizing a Series of Bonds (subject to the provisions of Section 5.02(b) hereof), to the extent such additional Subaccounts are deemed necessary or desirable for the Bonds. The Proceeds Account and the Subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under the Master Indenture and from all other moneys of the Trustee. Notwithstanding anything herein to the contrary, the amounts deposited to the credit of the Proceeds Account (and all Subaccounts therein) shall secure, and are hereby so pledged to secure, only Bonds and Credit Enhancement Facilities for such Bonds and no other Senior Secured Obligation or Subordinated Indebtedness.

The moneys in the Proceeds Account (and all Subaccounts therein) shall be held by the Trustee in trust and, pending application thereof for the purposes permitted in Section 5.01(c) hereof, shall be subject to a lien and charge in favor of the Holders of all Bonds from time to time issued and Outstanding under this Master Indenture and shall be held for the security of all such Holders, regardless of whether one or more Subaccounts shall have been established within the Proceeds Account. The establishment of one or more Subaccounts in the Proceeds Account shall not require, nor be interpreted or construed to mean, that the proceeds of the Series of Bonds for which such Subaccount was established secure only the Holders of such Series of Bonds, it being the intent hereof that all moneys on deposit to the credit of the Proceeds Account and all Subaccounts therein secure the Holders of all Outstanding Bonds equally pending application of such moneys for the purposes permitted in this Section 5.01 hereof.

(b) Upon each issuance of a Series of Bonds, the proceeds thereof shall be deposited into the Proceeds Account and (i) used to pay Costs of Issuance, (ii) used to refund previously issued Bonds or other indebtedness, (iii) used to fund the Reserve Account or a Series Reserve Account, if such Series of Bonds is to be secured by the Reserve Account or a Series Reserve Account, or (iv) if Citizens provides the certifications required in the second paragraph of Section 5.01(c) in order to make a Draw from the Proceeds Account and as provided in the second paragraph of Section 5.01(c), disbursed to Citizens, all as to be set forth in a certificate of Citizens signed by an Authorized Citizens Representative delivered on the date of issuance of the Series of Bonds; provided, however, that proceeds being used to refund previously issued Bonds or other indebtedness may be applied directly to such purpose as provided in the applicable Supplemental Indenture and proceeds used to fund the Reserve Account or a Series Reserve

Account may be deposited directly to such Accounts. All earnings from the investment of amounts held in the Proceeds Account and the Subaccounts therein constituting or allocable to the proceeds of Pre-Event Bonds shall remain in the Proceeds Account or, upon the written direction of Citizens to the Trustee, shall be withdrawn therefrom and be deposited as needed in the Pre-Event Bonds Investment Income Subaccount to pay interest on the Pre-Event Bonds without the need of a requisition.

(c) Subject to satisfaction of the conditions set forth in the following paragraphs of this Section 5.01(c), and subject further to the provisions of the last paragraph of this Section 5.01(c) and to Section 5.01(e) hereof, Citizens may from time to time obtain a Draw from the Proceeds Account and, in its sole and absolute discretion, reimburse the amounts so drawn to the Proceeds Account and (subject to satisfaction of the conditions set forth in this Section 5.01(c)) obtain a new Draw in such amounts from the Proceeds Account (it being expressly understood that the reimbursement of prior Draws to the Proceeds Account shall not be a precondition to Citizens' ability to obtain Draws from amounts remaining in the Proceeds Account, so long as Citizens complies with the requisition requirements of the succeeding paragraphs of this Section 5.01(c)); provided, however, that no Draw may be made if Citizens shall have given written direction to the Trustee to apply amounts in the Proceeds Account in the manner provided in Section 5.07 hereof.

The requisition to be submitted by Citizens in order to obtain a Draw shall be based on Citizens' reasonable forecast of Annual Payment Requirements, the Pledged Revenues, amounts held in the Proceeds Account, the Reserve Account, any Series Reserve Account and the expected earnings thereon and other available moneys allocable to the Coastal Account, available to pay the same on a monthly basis. Each such requisition shall specify the purpose of the Draw and shall also specify the specific type or types of Pledged Revenues (FHCF Reimbursements, Emergency Assessments, Regular Assessments, Net Premiums, Legislative Appropriations, and/or Additional Surcharges and Assessments) against which such Draw is to be made. In addition, each such requisition shall contain a certification by an Authorized Citizens Representative to the effect that (i) the sum of (A) the amount then on deposit in the Debt Service Account, (B) the amount to remain on deposit in the Proceeds Account immediately following such Draw and (C) the amount of Pledged Revenues and other available moneys allocable to the Coastal Account reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of reimbursing such Draw or for the payment of principal of and interest on the Bonds in each year through the final maturity of the Bonds then Outstanding, will be sufficient to pay that portion of the Annual Payment Requirements as they become due through the final maturity of the Bonds, on the Bonds then Outstanding; and (ii) the sum of (A) all amounts then on deposit in the accounts established under any Bank Credit Agreement for the payment of Bank Credit Facilities and (B) the amount of Pledged Revenues and other available moneys allocable to the Coastal Account (excluding any such revenues included for purposes of clause (i)(C) hereof) reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of paying the Senior Secured Obligations other than Bonds in each year through the final maturity of Senior Secured Obligations then Outstanding other than Bonds, will be sufficient to pay that portion of

the Annual Payment Requirements as they become due through the final maturity of such Senior Secured Obligations, on Senior Secured Obligations Outstanding other than Bonds; and (iii) there does not then exist an Event of Default hereunder or an event that with the passage of time or the giving of notice, or both, would constitute such an Event of Default.

Prior to obtaining a Draw from the Proceeds Account in anticipation of FHCF Reimbursements (as stated in the requisition), Citizens shall provide to the Trustee a certificate executed by an Authorized Citizens Representative, to the effect that the FHCF Agreement is in full force and effect.

Notwithstanding anything to the contrary contained in this Section 5.01(c) or elsewhere in this Master Indenture, upon the written direction of Citizens (or pursuant to Article VII hereof), the Trustee shall withdraw moneys from the Subaccounts in the Proceeds Account without regard to the requirements of this Section 5.01(c), for the purpose of depositing such moneys into the corresponding Principal Subaccount, Sinking Fund Subaccount and/or Interest Subaccount of the Debt Service Account, in order to pay scheduled principal or amortization requirements of and/or interest on the corresponding Series of Pre-Event Bonds.

(d) Payments shall be made by the Trustee from the Costs of Issuance Subaccount upon written requisition of Citizens. The Trustee shall pay requisitions in the order in which they are received. Each such requisition shall be signed by an Authorized Citizens Representative and shall state (i) the amount to be paid, (ii) the party to whom payment is to be made, (iii) the service performed and (iv) that the cost to be paid is a proper cost of issuing the particular Series of Bonds. Amounts held in the Costs of Issuance Subaccount for more than sixty (60) days shall upon the written request of Citizens, signed by an Authorized Citizens Representative, be transferred to the Proceeds Account.

(e) So long as any Pre-Event Bonds are Outstanding, the Trustee may withdraw from the Pre-Event Bonds Investment Income Subaccount (and any other investment income on deposit in the Proceeds Account) the amounts necessary to make the deposits or payments required by Section 5.03(c)(i)(1) hereof.

(f) All requisitions and certificates received by the Trustee pursuant to this Section 5.01 as conditions to drawing amounts from the Proceeds Account shall be retained in the possession of the Trustee, subject at all times to the inspection of Citizens, until the final payment of the Series of Bonds to which such requisitions and certificates relate.

SECTION 5.02. Pledge and Deposit of Pledged Revenues. (a) Except as otherwise provided herein with regard to Net Premiums, Citizens shall, on a monthly basis, pay over to the Trustee all Pledged Revenues. The Trustee shall immediately deposit into the Revenue Account and the Subaccounts therein established under Section 5.03 hereof any and all Pledged Revenues so received from or on behalf of Citizens, in the manner provided by Section 5.03(a) hereof. The Pledged Revenues are hereby pledged (as and to the extent provided in the granting clauses hereof and in the definition of "Pledged Revenues" contained herein) as security for the payment

of all amounts due with respect to Senior Secured Obligations, and as security for the performance of any other obligations of Citizens with respect to the Senior Secured Obligations.

The pledge to the Trustee of the Pledged Revenues (as and to the extent provided in the granting clauses hereof and in the definition of “Pledged Revenues” contained herein) as security for the payment of the Senior Secured Obligations and the performance of any other obligations of Citizens hereunder with respect to the Senior Secured Obligations, shall be valid and binding from the date hereof, and the covenants and agreements set forth herein to be performed by or on behalf of Citizens shall be, except as otherwise expressly provided or permitted herein, for the equal benefit, protection and security of the Holders of Senior Secured Obligations, regardless of their times of issue, incurrence or designation hereunder, and maturity, and shall be of equal rank, without preference, priority, or distinction of any one Senior Secured Obligation over any other Senior Secured Obligation.

(b) Except with respect to the Proceeds Account, the Reserve Account, any Series Reserve Account or any Rebate Account, the Accounts and Subaccounts specified in this Article V shall be established under this Master Indenture for the benefit of any and all Senior Secured Obligations issued, incurred or designated under this Master Indenture.

(c) Each Supplemental Indenture shall provide, to the extent applicable, for the creation of a separate sub-subaccount within the Interest Subaccount, the Principal Subaccount, and the Sinking Fund Subaccount with respect to each Series of Bonds, which sub-subaccount shall bear the designation of such Series of Bonds. A Supplemental Indenture may provide that the Bonds authorized thereby may be additionally secured by the Reserve Account or a Series Reserve Account or it may provide that there shall not be any debt service reserve account established in respect of such Series of Bonds. If a Series of Bonds shall be additionally secured by a Series Reserve Account or shall not be additionally secured by any debt service reserve account, such Series of Bonds shall have no claim on the Reserve Account and such Series of Bonds shall not be taken into account for purposes of calculating the “Reserve Account Requirement” hereunder.

SECTION 5.03. Revenue Account. (a) The Trustee is hereby authorized and directed to establish a “Citizens Property Insurance Corporation Coastal Account Revenue Account” (the “Revenue Account”). The Trustee shall establish within the Revenue Account five special subaccounts to be known as the FHCF Reimbursements Subaccount, the Emergency Assessments Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Hedge Agreements Subaccount; all of which Subaccounts shall be held by the Trustee. The Trustee shall immediately deposit upon its receipt thereof any and all Pledged Revenues and Hedge Receipts as follows:

(i) FHCF Reimbursements shall be deposited to the credit of the FHCF Reimbursements Subaccount in the Revenue Account;

(ii) Emergency Assessments shall be deposited to the credit of the Emergency Assessments Subaccount in the Revenue Account;

(iii) Regular Assessments shall be deposited to the credit of the Regular Assessments Subaccount in the Revenue Account;

(iv) Net Premiums shall be deposited to the credit of the Revenue Account or such other Account or Subaccount as may be required to cure any deficiency therein;

(v) Additional Surcharges and Assessments and Legislative Appropriations shall be deposited to the credit of the Additional Surcharges, Assessments and Other Revenues Subaccount in the Revenue Account;

(vi) Hedge Receipts shall be deposited to the credit of the Hedge Agreement Subaccount in the Revenue Account; and

(vii) Any other sources of money not described in the foregoing clauses (i) through (vi) received by Citizens and which may be applied to the payment of debt service on Senior Secured Obligations shall be deposited to the credit of the Additional Surcharges, Assessments and Other Revenues Subaccount in the Revenue Account and applied as directed by Citizens consistent with applicable law.

Except as provided in Section 5.08 hereof, no money deposited in any of the FHCF Reimbursements Subaccount, the Emergency Assessments Subaccount, the Regular Assessments Subaccount, the Net Premiums Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount, the Hedge Agreements Subaccount or any other Subaccount or sub-subaccount established in the Revenue Account shall be commingled with, and instead shall be segregated from, money deposited to the credit of any other such Subaccount or any sub-subaccount established in the Revenue Account.

(b) Notwithstanding anything herein to the contrary, so long as no Event of Default has occurred and is continuing, Citizens shall be entitled to retain (without first depositing such moneys with the Trustee) all Net Premiums, which Net Premiums may be used for any lawful purpose. If in any month, the Trustee determines there are insufficient funds available on deposit in the other Subaccounts within the Revenue Account and, as applicable, the Proceeds Account and the Pre-Event Bonds Investment Income Subaccount therein, to make the transfers required in such month, the Trustee shall notify Citizens of any such deficiency and Citizens shall pay over to the Trustee the amount of such deficiency as soon as practicable, and in any event within thirty (30) days of such request, from Net Premiums. Upon the occurrence and continuance of an Event of Default, Citizens shall, on a monthly basis remit to the Trustee all Net Premiums received. The Trustee shall apply such Net Premiums so received in accordance with this Master Indenture.

(c) Except as hereinafter provided, moneys in the Revenue Account shall be withdrawn by the Trustee at the times and in the amounts provided herein or in a Supplemental Indenture or Bank Credit Agreement, but only in the manner and order specified in this Master Indenture:

(i) Immediately prior to the transfer of Pledged Revenues to the Debt Service Account and the Reserve Account as described in this Section 5.03(c), the Trustee shall apply the following amounts:

(1) Amounts on deposit in the Pre-Event Bonds Investment Income Subaccount shall be transferred to the sub-subaccounts in the Interest Subaccount of the Debt Service Account related to Pre-Event Bonds Outstanding, in an amount sufficient to make the deposits or payments required by Section 5.04 with respect to the payment of interest on such Bonds and, to the extent that amounts on deposit in the Pre-Event Bonds Investment Income Subaccount are insufficient to make such deposits or payments, amounts on deposit in the Pre-Event Bonds Investment Income Subaccount shall be transferred to such sub-subaccounts in the Interest Subaccount of the Debt Service Account ratably according to the amount to be deposited or paid. Any excess moneys remaining in the Pre-Event Bonds Investment Income Subaccount shall be used to fund any deficiency in the Reserve Account or Series Reserve Account. In connection with the maturity date of any Pre-Event Bonds, the principal of which will be paid from the corresponding Subaccount in the Proceeds Account, the Trustee shall withdraw from the Proceeds Account the amount directed to be so withdrawn by Citizens pursuant to the last paragraph of Section 5.01(c) hereof, and deposit such funds in the corresponding sub-subaccount of the Principal Subaccount in the Debt Service Account.

(2) Amounts on deposit in the Hedge Agreement Subaccount shall be transferred to the sub-subaccounts in the Interest Subaccount of the Debt Service Account relating to the Bonds with respect to which such Related Hedge Agreements were entered into.

(ii) So long as no Event of Default has occurred and is continuing, at such times as provided in Section 5.04 hereof, the Trustee shall withdraw amounts held in the Subaccounts of the Revenue Account and transfer the same to the Debt Service Account, after making the transfers described in Section 5.03(c)(i), as follows:

(1) So long as any Post-Event Bonds are Outstanding, the Trustee shall withdraw from the Emergency Assessments Subaccount and transfer to the sub-subaccounts of the Interest Subaccount, the Principal Subaccount and the Sinking Fund Subaccount of the Debt Service Account related to such Post-Event Bonds, the amounts which together with any amounts held in such sub-subaccounts are sufficient to make deposits or payments required by Section 5.04 hereof with respect to such Post-Event Bonds or applicable Related Hedge Agreements and, to the extent that the amounts on deposit in the Emergency Assessment Subaccount are insufficient to make such deposits or payments, amounts on deposit in the Emergency Assessment Subaccount shall be transferred to such sub-subaccounts in the Interest Subaccount, the Principal Subaccount and

the Sinking Fund Subaccount of the Debt Service Account ratably according to the amount to be deposited.

(2) So long as any amounts are outstanding under any Bank Facility or a Draw from the Proceeds Account has occurred in anticipation of FHCF Reimbursements, Regular Assessments, Additional Surcharges and Assessments or Emergency Assessments, the Trustee shall transfer amounts held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccounts, as follows:

(A) To the Bank Facilities Agent, within the time period (which time period shall be at least three Business Days after the later of the receipt of the notice or availability of funds for payment) and in the amount identified in a written notice from the Bank Facilities Agent as the amount of principal and interest then due and payable under the Bank Facility.

(B) To the Proceeds Account, the amount specified by Citizens in a written requisition to reimburse the Proceeds Account for the Draw or Draws previously made in anticipation of the receipt of FHCF Reimbursements, Regular Assessments, Additional Surcharges and Assessments or Emergency Assessments which have not been reimbursed.

(C) To the extent that amounts on deposit in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount are insufficient to make the transfers described in Section 5.03(c)(ii)(2)(A) and (B), amounts in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessment Subaccount shall be transferred to the Bank Facilities Agent and to the Proceeds Account ratably according to the amounts to be deposited pursuant to Section 5.03(c)(ii)(2)(A) and (B).

(3) So long as any Pre-Event Bonds are Outstanding, no amounts are owed under any Bank Facility and to the extent that interest payments to be made on such Bonds are not fully funded with amounts transferred from the Pre-Event Bonds Investment Income Subaccount or the Hedge Agreement Subaccount pursuant to Section 5.03(c)(i), the Trustee shall withdraw from the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount, [and the Emergency Assessment Subaccounts (in that order) and transfer to the sub-subaccounts established for such Bonds in the Interest Subaccount of the Debt

Service Account an amount which, together with other amounts held in such sub-subaccounts, will be sufficient to make the deposits or payments required by Section 5.04 with respect to interest owed on such Bonds, provided that if the amount held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount are insufficient to make such deposits and payments, the Trustee shall transfer amounts held in the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount to such sub-subaccounts in the Interest Subaccount of the Debt Service Account ratably according to the amounts required under Section 5.04.

(4) To the extent the amounts on deposit in the Subaccounts of the Revenue Account are insufficient to make the transfers described in Section 5.03(c)(ii)(1), (2) and (3) hereof, the Trustee shall notify Citizens pursuant to Section 5.03(b) hereof of the deficiency and request the payment of Net Premiums to the Trustee in the amount of such deficiency, which amount, when received by the Trustee shall be applied to eliminate such deficiency, provided that if such amount transferred by Citizens to the Trustee is less than the amount of such deficiency the Trustee shall apply the amount received ratably to the deficiency in each such Subaccount according to the amount of the deficiency therein.

(iii) Following the occurrence and during the continuance of an Event of Default all Pledged Revenues shall be applied, following the application of amounts described in Section 5.03(c)(i), pursuant to Section 7.06 hereof.

(iv) Following the application of Pledged Revenues pursuant to Section 5.03(c)(i) and (ii) hereof, the Trustee shall transfer Pledged Revenues to the Reserve Account and any Series Reserve Account as follows:

(1) So long as Post-Event Bonds are Outstanding, the Trustee shall withdraw from the Emergency Assessments Subaccount and transfer to the Subaccounts in the Reserve Account or any Series Reserve Account securing such Post-Event Bonds amounts required by Section 5.05 hereof.

(2) So long as any Pre-Event Bonds are Outstanding, the Trustee shall withdraw from the FHCF Reimbursements Subaccount, the Regular Assessments Subaccount, the Additional Surcharges, Assessments and Other Revenues Subaccount and the Emergency Assessments Subaccount and transfer to the Subaccounts in the Reserve Account or any Series Reserve Account securing such Pre-Event Bonds amounts required by Section 5.05 hereof.

(3) To the extent that amounts in the Subaccounts referenced in Section 5.03(c)(iv)(1) and (2) are not sufficient to make the transfers described therein, the Trustee shall notify Citizens pursuant to Section 5.03(b) hereof of the deficiency and request payment of Net Premiums to the Trustee over a period of not greater than twenty-four (24) months, in the amount of such deficiency, which amount, when received by the Trustee shall be applied to eliminate such deficiency, provided that if such amount transferred by Citizens to the Trustee is less than the amount of such deficiency, the Trustee shall apply the amounts available ratably to the deficiency in each Subaccount or Series Reserve Account according to the amount of the deficiency therein.

(v) All remaining moneys in the Revenue Account shall be deposited into the Surplus Pledged Revenues Account.

SECTION 5.04. Debt Service Account. (a) The Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coastal Account Debt Service Account" (the "Debt Service Account"). The Trustee shall establish within the Debt Service Account the following subaccounts: a "Citizens Property Insurance Corporation Interest Subaccount" (the "Interest Subaccount"), a "Citizens Property Insurance Corporation Principal Subaccount" (the "Principal Subaccount") and a "Citizens Property Insurance Corporation Sinking Fund Subaccount" (the "Sinking Fund Subaccount"), with separate sub-subaccounts created therein for each Series of Bonds payable from the Debt Service Account. The Trustee shall deposit amounts to the sub-subaccounts and Subaccounts in the Debt Service Account as provided in Section 5.03. The Debt Service Account and the Subaccounts therein shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under this Master Indenture and from all other moneys of the Trustee.

(b) (i) At such time or times as provided in the applicable Supplemental Indenture, the Trustee shall from amounts available for such purpose under Section 5.01 and 5.03 hereof deposit the amounts required by any Supplemental Indenture to be deposited in the appropriate sub-subaccounts in the Interest Subaccount and shall apply such amounts to the payment of interest owed on the Bonds as provided in the Supplemental Indentures, and (ii) if a Related Hedge Agreement provides for any payments thereunder by Citizens relating to interest on a particular Series of Bonds, then, at such time or times as provided in the Related Hedge Agreement, the Trustee shall deliver, to or for the account of the Hedge Counterparty or other appropriate Person designated in the Related Hedge Agreement, the net amount required by such Related Hedge Agreement (but not any termination or other non-scheduled payments) to be paid thereunder by Citizens relating to interest on Bonds related to such Related Hedge Agreement, provided that if there shall not be sufficient Pledged Revenues to satisfy all such deposits and payments, such deposits and payments shall be made to each such sub-subaccount in the Interest Subaccount and to each appropriate Person designated in such Related Hedge Agreement ratably according to the amount so required to be deposited or paid.

(c) At such time or times as provided in the applicable Supplemental Indenture, the Trustee shall deposit the amounts required by the applicable Supplemental Indenture to be deposited in the appropriate sub-subaccounts in the Principal Subaccount and the Sinking Fund Subaccount for the payment of the principal of Bonds, whether at maturity or pursuant to an amortization requirement, in accordance with such Supplemental Indenture; provided that if there shall not be sufficient Pledged Revenues to satisfy all such deposits and payments, such deposits and payments shall be made to each such sub-subaccount in the Principal Subaccount and Sinking Fund Subaccount, as applicable, ratably according to the amount so required to be deposited or paid.

SECTION 5.05. Reserve Account. The Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coastal Account Reserve Account" (the "Reserve Account") with respect to the Bonds issued hereunder. The Reserve Account shall be held by the Trustee for the benefit of all Bonds issued and Outstanding under this Master Indenture (unless expressly otherwise provided in the Supplemental Indenture for a particular Series of Bonds). The Reserve Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under this Master Indenture and from all other moneys of the Trustee. As long as there exists no Event of Default under this Master Indenture and the amount in the Reserve Account is not reduced below the then applicable Reserve Account Requirement, earnings on investments in the Reserve Account shall be transferred on a pro rata basis to the applicable Subaccount within the Debt Service Account for the Bonds secured by the Reserve Account. Otherwise, earnings on investments in the Reserve Account shall be retained in the Reserve Account until applied as set forth herein. In the event it is determined that the amount in the Reserve Account exceeds the Reserve Account Requirement due to a decrease in the then applicable Reserve Account Requirement or as the result of any valuation required by Section 5.08 hereof, the excess amount shall be transferred on the next succeeding Business Day from the Reserve Account on a prorata basis to the applicable Subaccount within the Debt Service Account for the Bonds secured by the Reserve Account.

If a Supplemental Indenture provides that the Bonds issued thereunder are to be secured by the Reserve Account, Citizens shall deposit, from the proceeds of such Bonds or from any other available sources specified in the corresponding Supplemental Indenture, concurrently with the delivery of and payment for such Bonds, to the Reserve Account such amount as is required to make the balance to the credit of such Account equal to the Reserve Account Requirement; provided, however, that in the case of Post-Event Bonds, the initial deposit required to the Reserve Account to make the total amount to the credit of such Account equal to the Reserve Account Requirement may be funded from Emergency Assessments and other Pledged Revenues ratably over not more than twenty-four (24) months from the date of delivery of such Bonds. If a Supplemental Indenture provides that the Bonds issued thereunder are to be secured by a Series Reserve Account, Citizens shall fund, from the proceeds of such Bonds or from any other available sources, at the time or times and in the manner specified in the applicable Supplemental Indenture, such Series Reserve Account in an amount equal to the Series Reserve Account Requirement for such Bonds.

Whenever for any reason on any payment date, the amount in the Debt Service Account, together with the amounts available in the Surplus Pledged Revenues Account and any other Accounts identified herein or in the applicable Supplemental Indenture, are insufficient to pay all amounts due and payable on Bonds secured by the Reserve Account (or Series Reserve Account, as applicable) on such payment date, the Trustee will, without further instructions, transfer the amount of any such deficiency from the Reserve Account (or Series Reserve Account, as applicable) into the appropriate subaccount in the Debt Service Account, to be applied to pay such Bonds secured by the Reserve Account (or Series Reserve Account, as applicable). Any deficiencies in the amounts available in the Debt Service Account will be made up first from moneys withdrawn from the Surplus Pledged Revenues Account to the extent of available amounts in such Account, prior to making any withdrawals from the Reserve Account (or Series Reserve Account, as applicable).

Any withdrawal from the Reserve Account or deficiency therein caused by a valuation of Permitted Investments therein shall be replenished over a period of not to exceed twenty-four (24) months from the date of such withdrawal or valuation, as applicable, from moneys available for such purpose pursuant to Section 5.01(e), Section 5.03(c)(iv) or Section 5.06 hereof.

Notwithstanding the foregoing, in lieu of the required cash deposit into the Reserve Account, Citizens may cause to be deposited into the Reserve Account a Reserve Account Insurance Policy or a Reserve Account Letter of Credit either in lieu of any cash amount required to be deposited therein or in substitution for a portion of or the full amounts then on deposit therein or in an amount equal to the difference between the amount required to be deposited and the sum, if any, then on deposit in the Reserve Account. Any such Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be payable (upon the giving of notice as required thereunder) on any payment date on which a deficiency exists that cannot be remedied by moneys in any other Account held pursuant to this Master Indenture and available for such purposes. If any such Reserve Account Insurance Policy or Reserve Account Letter of Credit is substituted for moneys on deposit in the Reserve Account, the excess moneys in the Reserve Account shall be transferred and applied as provided in a certificate of an Authorized Citizens Representative delivered at the time of such substitution. If a disbursement is made from a Reserve Account Insurance Policy or a Reserve Account Letter of Credit, Citizens shall be obligated to either reinstate the limits of such Reserve Account Insurance Policy or Reserve Account Letter of Credit immediately following such disbursement or immediately deposit into the Reserve Account moneys in the amount of the disbursement made under such Reserve Account Insurance Policy or Reserve Account Letter of Credit. If at any time the issuer of a Reserve Account Insurance Policy or a Reserve Account Letter of Credit shall no longer qualify as such or is in default in its payment obligations under such Reserve Account Insurance Policy or Reserve Account Letter of Credit, Citizens immediately shall obtain a substitute Reserve Account Insurance Policy or Reserve Account Letter of Credit or immediately shall deposit into the Reserve Account moneys equal to the portion of the Reserve Account Requirement represented by the Reserve Account Insurance Policy or Reserve Account Letter of Credit to be replaced. Any and all deposits required to be made by Citizens pursuant to the two immediately preceding sentences shall be made only from moneys within or allocable to the Coastal Account.

In the event that upon the occurrence of any deficiency in the Debt Service Account, the Reserve Account is then funded with a Reserve Account Insurance Policy or a Reserve Account Letter of Credit, the Trustee shall, on or prior to a payment date to which such deficiency relates, cause to be paid under the Reserve Account Insurance Policy or draw upon the Reserve Account Letter of Credit an amount sufficient to remedy such deficiency, in accordance with the terms and provisions of the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as applicable, and any corresponding reimbursement or other agreement governing the Reserve Account Insurance Policy or Reserve Account Letter of Credit; provided, however, that if at the time of such deficiency the Reserve Account is only partially funded with a Reserve Account Insurance Policy or Reserve Account Letter of Credit, prior to drawing on the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as applicable, the Trustee shall first apply any cash and securities on deposit in the Reserve Account which is available to cure the deficiency under the terms of the Master Indenture to remedy such deficiency in accordance with the provisions of this Section 5.05 and, if after such application a deficiency still exists, the Trustee shall make up the balance of the deficiency by drawing on the Reserve Account Insurance Policy or Reserve Account Letter of Credit, as provided in this sentence. Amounts drawn on the Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be applied as set forth in this Section 5.05. Any amounts drawn under a Reserve Account Insurance Policy or Reserve Account Letter of Credit shall be reimbursed to the issuer thereof in accordance with the terms and provisions of the reimbursement or other agreement governing such Reserve Account Insurance Policy or Reserve Account Letter of Credit, but only from moneys on deposit or required to be deposited in the Reserve Account in accordance with the provisions of Section 5.03 hereof.

The foregoing provisions with respect to a Reserve Account Insurance Policy and a Reserve Account Letter of Credit shall apply to a Series Reserve Account, unless otherwise provided in the corresponding Supplemental Indenture.

SECTION 5.06. Surplus Pledged Revenues Account. The Trustee is hereby authorized and directed to establish a "Citizens Property Insurance Corporation Coastal Account Surplus Pledged Revenues Account" (the "Surplus Pledged Revenues Account"). The Surplus Pledged Revenues Account shall constitute an irrevocable trust fund to be applied solely as set forth herein and shall be held by the Trustee separate and apart from all other Accounts and Subaccounts held under this Master Indenture and from all other moneys of the Trustee. Whenever for any reason on any payment date, (i) the amount in the Debt Service Account is insufficient to pay all amounts payable on Bonds on such payment date, or (ii) the amounts available under Section 5.03(c)(ii)(2) are insufficient to pay amounts due under a Bank Facility, the Trustee shall, without further instructions, transfer the amount of any such deficiency from the Surplus Pledged Revenues Account into the Debt Service Account to pay Bonds or apply such amounts to such payment required under Section 5.03(c)(ii)(2) for the payment of amounts due under Bank Facilities, and if amounts in the Surplus Pledged Revenues Account available for such purpose are insufficient to satisfy such deficiencies, such amounts shall be applied on a prorata basis to such deficiencies. Any deficiencies in the amounts available in the Debt Service Account shall be made up from amounts available in the Surplus Pledged Revenues Account

before any amounts are withdrawn from the Reserve Account (or Series Reserve Account) to cure any such deficiencies. After all deficiencies in the Debt Service Account and under Section 5.03(c)(ii)(2) are cured, amounts in the Surplus Pledged Revenues Account shall be applied to cure any deficiency in the Reserve Account (or Series Reserve Account).

If all Accounts and Subaccounts hereunder are fully funded or are otherwise sufficiently funded to satisfy all Annual Payment Requirements payable therefrom or otherwise payable through the end of the then current Fiscal Year and all Draws from the Proceeds Account are fully reimbursed, at the written direction of Citizens signed by an Authorized Citizens Representative, the Trustee shall transfer amounts on deposit in the Surplus Pledged Revenues Account to Citizens or otherwise apply amounts on deposit in the Surplus Pledged Revenues Account as directed by Citizens, including to the payment of Subordinated Indebtedness (to the extent not otherwise paid from other sources); provided that Citizens shall certify to the Trustee that on the date of any such transfer Citizens would satisfy the requirements of Section 5.01(c) for the withdrawal of \$1 from the Proceeds Account. On the last Business Day of each Fiscal Year, any amounts remaining on deposit in the Surplus Pledged Revenues Account shall be released to Citizens free and clear of the lien of this Master Indenture, but only if no Event of Default has occurred and is continuing and only to the extent that there does not then exist a deficiency in any Account or Subaccount hereunder or insufficiency in amounts available to pay all amounts due under any Bank Facility or a Related Hedge Agreement not payable from a specific Account or Subaccount; if such a deficiency does exist, amounts in the Surplus Pledged Revenues Account shall first be applied to cure such deficiency and, so long as no Event of Default has occurred and is continuing, the remaining balance, if any, shall be transferred to Citizens.

SECTION 5.07. Procedure When Funds Are Sufficient to Pay All Senior Secured Obligations. If at any time the moneys held by the Trustee in the Accounts and Subaccounts under this Master Indenture and any Supplemental Indenture, Bank Credit Agreement and Related Hedge Agreement and available therefor are sufficient to pay the principal of redemption premium, if any, and interest and all other payments on all Senior Secured Obligations Outstanding to maturity or prior redemption, together with any amounts due the Trustee, Paying Agent, Registrar and any Credit Enhancement Facility Issuer, the Trustee, at the written direction of Citizens signed by an Authorized Citizens Representative (which shall be delivered in the discretion of Citizens), shall apply the amounts in the Accounts and Subaccounts to the payment of the aforesaid obligations and shall not be required to apply any further Pledged Revenues unless and until it shall appear that there is a deficiency in the Accounts and Subaccounts held by the Trustee.

SECTION 5.08. Depositories of Moneys; Security for Deposits; and Investment of Funds. (a) All moneys received by the Trustee under the provisions of this Master Indenture shall be held in trust, in accordance herewith, shall be applied only in accordance with the provisions of this Master Indenture and shall not be subject to lien or attachment by any creditor of Citizens.

Except as otherwise provided below, all moneys held by the Trustee in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured for the benefit of the Holders and the other Persons entitled thereto, either (i) by lodging with a bank or trust company approved by Citizens as custodian, or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit as collateral security, Government Obligations, or, with the approval of Citizens, other marketable securities eligible as security for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable State of Florida laws or regulations, or, if the furnishing of security as provided in (i) of this Section is not permitted by applicable law, (ii) in such other manner as may then be required or permitted by applicable State or federal laws or regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Trustee to give security for the deposits of any moneys with it which are invested in Permitted Investments.

All moneys held by the Trustee shall be credited to the particular Account or Subaccount to which such moneys belong.

The Trustee is hereby authorized, with the written consent or at the written direction of Citizens, to enter into one or more custodial arrangements with banks or other financial institutions in order to facilitate the management of the investment of funds on deposit with the Trustee under this Master Indenture. To the extent that the Trustee enters into any such arrangements, any funds so deposited shall at all times be considered to remain pledged hereunder and held by the Trustee notwithstanding any such custodial arrangements. The Trustee shall not be liable or responsible for the actions or inactions taken by any custodian pursuant to any such arrangements directed by Citizens.

Notwithstanding anything herein to the contrary requiring any Accounts and Subaccounts to be held separately, the amounts on deposit in any Account, Subaccount or sub-subaccount may be commingled with other moneys hereunder or otherwise by the Trustee to facilitate and provide for efficient investment management thereof.

(b) Moneys held for the credit of the Accounts and Subaccounts established under this Master Indenture shall be invested and reinvested only in Permitted Investments. Except with respect to Permitted Investments held to the credit of the Proceeds Account, all Permitted Investments must either (i) mature not later than the respective dates when they will be required for the purposes of the Accounts and Subaccounts to which they are allocated or (ii) be subject to a forward sale agreement or other similar arrangement (with a counterparty rated in one of the three (3) highest rating categories (without regard to any gradations within such categories) by any two Rating Agencies) pursuant to which the moneys invested will be available not later than the respective dates when they will be required for the purposes of the Accounts and Subaccounts to which they are allocated.

Permitted Investments purchased as an investment of moneys in any Account or Subaccount shall be deemed at all times to be part of such Account or Subaccount. Subject to

the provisions of paragraph (c) below, the interest accruing thereon and any profit realized from such investment shall be credited to such Account or Subaccount. Any loss resulting from such investments shall be charged to such Account or Subaccount.

The Trustee shall sell or cause to be sold or presented for payment or redemption any Permitted Investments acquired under this Master Indenture whenever it shall be necessary in order to provide moneys to meet any payment from an Account or Subaccount.

(c) Investment earnings attributable to amounts in the Reserve Account shall be applied as described in the first paragraph of Section 5.05. The foregoing provisions shall be applicable to any investment earnings attributable to amounts in any Series Reserve Account unless otherwise provided in the applicable Supplemental Indenture.

Investment earnings in the Revenue Account shall be retained therein and applied in accordance with the provisions of Section 5.03 of this Master Indenture regarding application of moneys in the Revenue Account. Investment earnings in the Debt Service Account shall be retained therein and applied to the payment of principal of and interest on the Bonds. Investment earnings in the Surplus Pledged Revenues Account shall be transferred to and deposited in the Revenue Account.

Investment earnings on amounts held in the Proceeds Account (other than investment income allocable to Pre-Event Bonds) shall be retained therein to make Draws, except that investment earnings in the Proceeds Account (other than on deposit in the Pre-Event Bonds Investment Income Account) shall be transferred to and deposited in the Debt Service Account prior to any withdrawal from the Reserve Account, if there is then existing any deficiency in the amounts available in the Debt Service Account to pay principal of or interest on the Bonds. Any investment income allocable to the proceeds of any Pre-Event Bonds held in the Proceeds Account shall be deposited to the credit of the Pre-Event Bonds Investment Income Subaccount in the Proceeds Account.

(d) The Permitted Investments in each of the Accounts and Subaccounts established under this Master Indenture shall be valued at the market value thereof as of the last Business Day of each Fiscal Year.

(e) The Trustee shall be entitled to rely conclusively on the investment instructions provided by Citizens as provided herein (or an authorized agent of Citizens pursuant to an investment management services agreement) and shall not be responsible or liable for the performance of any such investments or, in the absence of written instructions from Citizens, for keeping the moneys held under this Master Indenture fully invested at all times.

If at any time it shall become necessary that some or all of the investments purchased with the moneys in any Account or Subaccount established hereunder be redeemed or sold in order to comply with the provisions of this Master Indenture, the Trustee shall effect such redemption or sale employing, in the case of sale, any commercially reasonable method of effecting the same, in its sole discretion; provided, however, that in the absence of an Event of

Default hereunder or a declaration of acceleration pursuant to Section 7.03 hereof, in no event may the Trustee sell any security prior to its maturity or at a loss without the prior written consent of Citizens. The Trustee shall not be liable or responsible for any loss resulting from any such investment or resulting from the redemption or sale of any such investment as herein authorized.

The Trustee may rely conclusively upon the instructions of Citizens as to the dates when moneys are needed for payments to be made from the Proceeds Account, and shall not be liable or responsible for determining such dates in the absence of such instruction.

SECTION 5.09. Deposit of Moneys Transferred from Original Indenture. (a) Any moneys transferred to the Trustee on date of execution and delivery of this Master Trust Indenture pursuant to Section 406 of the Tenth Supplemental Indenture shall be deposited by the Trustee in the Funds, Accounts, Subaccounts and Sub-subaccounts established hereunder, as follows: (i) amounts transferred from the Series 2015A Bonds Proceeds Subaccount shall be deposited into a Subaccount of the same name hereby established in the Proceeds Account; (ii) amounts transferred from the Series 2015A Bonds Interest Sub-subaccount shall be deposited into a Sub-subaccount of the same name hereby established within the Interest Subaccount in the Debt Service Account; (iii) amounts transferred from the Series 2015A Bonds Principal Sub-subaccount shall be deposited into a Sub-subaccount of the same name hereby established within the Principal Subaccount in the Debt Service Account; and (iv) any amounts transferred from one or more other funds, accounts, subaccounts or sub-subaccounts established under the Original Indenture shall be deposited into the corresponding Fund, Account, Subaccount or Sub-subaccount established under this Master Indenture as more specifically set forth in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee on or before the Conversion Date.

(b) Any moneys transferred to the Trustee on the date of execution and delivery of this Master Trust Indenture pursuant to the provisions of another indenture supplemental to the Original Indenture pursuant to which Convertible Outstanding Parity Bonds with a maturity date after the Conversion Date remain outstanding shall be deposited by the Trustee into the corresponding Fund, Account, Subaccount or Sub-subaccount established under this Master Trust Indenture as more specifically set forth in a certificate signed by an Authorized Citizens Representative and delivered to the Trustee on or before the Conversion Date.

(c) All amounts transferred from a Fund, Account, Subaccount or Sub-subaccount established under the Original Indenture to the corresponding Fund, Account, Subaccount or Sub-subaccount established under this Master Trust Indenture shall be applied to the use and purpose of such Fund, Account, Subaccount or Sub-subaccount hereunder, but only for the benefit of the corresponding Series of Convertible Outstanding Parity Bonds for which the Fund, Account, Subaccount or Sub-subaccount had been established under the Original Indenture.

(End of Article V)

ARTICLE VI

THE TRUSTEE, REGISTRAR, PAYING AGENTS AND AUTHENTICATING AGENTS

SECTION 6.01. Trustee's Acceptance and Responsibilities. The Trustee accepts the trusts imposed upon it by this Master Indenture, and agrees to observe and perform those trusts, but only upon and subject to the terms and conditions set forth in this Article, to all of which the parties hereto and the Holders of Senior Secured Obligations agree.

(a) Prior to the occurrence of a default or an Event of Default (as defined in Section 7.01 hereof) of which the Trustee has been notified, as provided in paragraph (f) of Section 6.02 hereof, or of which by that paragraph the Trustee is deemed to have notice, and after the cure or waiver of all defaults or Events of Default which may have occurred,

(i) the Trustee undertakes to perform only those duties and obligations which are set forth specifically in this Master Indenture, and no duties or obligations shall be implied to the Trustee; provided that, subject to Sections 6.01(a)(ii), 6.01(c), 6.02 and other provisions of this Master Indenture expressly providing a standard of action, the Trustee shall use the same degree of care and skill in the exercise of such duties and obligations as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(ii) in the absence of willful misconduct on its part, the Trustee may rely conclusively, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Master Indenture; but in the case of any such certificates or opinions which by any provision hereof are required specifically to be furnished to the Trustee, subject to the provisions of Section 6.02(1) hereof, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Master Indenture.

(b) In case a default or an Event of Default has occurred and is continuing hereunder (of which the Trustee has been notified, or is deemed to have notice as provided in paragraph (f) of Section 6.02 hereof), subject to Section 6.02(j) hereof, the Trustee shall exercise those rights and powers vested in it by this Master Indenture and shall use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Master Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(i) this Subsection shall not be construed to affect the limitation of the Trustee's duties and obligations provided in subparagraph (a)(i) of this Section or the Trustee's right to rely on the truth of statements and the correctness of opinions as provided in subparagraph (a)(ii) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by any one of its officers, employees or agents unless it shall be established that the Trustee was negligent in ascertaining the pertinent facts;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in principal amount of the Senior Secured Obligations then outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Master Indenture or with respect to any action reasonably taken or omitted to be taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it in this Master Indenture; and

(iv) no provision of this Master Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Master Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 6.01.

SECTION 6.02. Certain Rights and Obligations of the Trustee. Except as otherwise provided in Section 6.01 hereof:

(a) The Trustee (i) may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees (but shall be answerable therefor only in accordance with the standard specified above), (ii) shall be entitled to the advice of counsel concerning all matters of trusts hereof and duties hereunder, and (iii) may pay reasonable compensation in all cases to all of those attorneys, agents, receivers and employees reasonably employed by it in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for Citizens) approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action taken or omitted to be taken in good faith in reliance upon that opinion or advice.

(b) Except for its certificate of authentication on the Bonds (or other Senior Secured Obligations, if applicable), the Trustee shall not be responsible for:

(i) any recital in this Master Indenture, in the Bonds or in other Senior Secured Obligations,

(ii) the validity, priority, recording, re-recording, filing or re-filing of this Master Indenture or any Supplemental Indenture,

(iii) any instrument or document of further assurance or collateral assignment,

(iv) any financing statements, amendments thereto or continuation statements,

(v) the validity of the execution by Citizens of this Master Indenture, any Supplemental Indenture, Bank Credit Agreement or Related Hedge Agreement or instruments or documents of further assurance, or

(vi) the sufficiency of the Pledged Revenues to pay Annual Payment Requirements for the Senior Secured Obligations issued, incurred or designated hereunder or any other obligations intended to be secured hereby or payable therefrom.

(c) The Trustee shall not be accountable for the application by Citizens of the proceeds of any Senior Secured Obligations delivered or designated hereunder.

(d) The Trustee shall be protected, in the absence of willful misconduct on its part, in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or document reasonably believed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee pursuant to this Master Indenture upon the request or authority or consent of any Person who is the Holder of any Senior Secured Obligations at the time of making the request or giving the authority or consent, shall be conclusive and binding upon all future Holders of the same Senior Secured Obligation and of Senior Secured Obligations issued in exchange therefor or in place thereof.

(e) As to the existence or nonexistence of any fact for which Citizens may be responsible or as to the sufficiency or validity of any instrument, document, report, paper or proceeding, the Trustee, in the absence of bad faith on its part, shall be entitled to rely upon a certificate signed on behalf of Citizens by an Authorized Citizens Representative as sufficient evidence of the facts recited therein. Prior to the occurrence of a default or Event of Default hereunder of which the Trustee has been notified, as provided in paragraph (f) of this Section, or of which by that paragraph the Trustee is deemed to have notice, the Trustee may accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient; provided, that the Trustee in its discretion may require and obtain any further evidence which it deems to be necessary or advisable; and, provided further, that the Trustee shall not be bound to secure any further evidence.

(f) The Trustee shall not be required to take notice, and shall not be deemed to have notice, of any default or Event of Default hereunder, except Events of Default described in paragraphs (a) and (b) of Section 7.01 hereof and the failure of Citizens to comply with any of the deposit requirements of this Master Indenture within the time period prescribed for the making of such deposits, unless the Trustee shall be notified specifically of the default or Event of Default in a written instrument or document delivered to it by Citizens (signed by an Authorized Citizens Representative) or by the Holders of at least ten percent (10%) of the aggregate principal amount of Senior Secured Obligations then Outstanding or by any court having jurisdiction of a case or proceeding described in paragraph (f) or (g) of Section 7.01 hereof. In the absence of delivery of a notice satisfying those requirements, the Trustee may assume conclusively that there is no default or Event of Default, except as noted above.

(g) At any reasonable time, the Trustee and its duly authorized agents, attorneys, experts, accountants and representatives (i) may inspect and copy all or any portion of the books, papers and records of Citizens pertaining to the Pledged Revenues and the Bonds, and (ii) may make any memoranda from and in regard thereto as the Trustee may desire.

(h) The Trustee shall not be required to give any bond or surety with respect to the execution of these trusts and powers or otherwise in respect of the premises.

(i) Notwithstanding anything contained elsewhere in this Master Indenture, the Trustee may demand any showings, certificates, reports, opinions, appraisals and other information, and any corporate action and evidence thereof, in addition to that required by the terms hereof, as a condition to the authentication of any Bonds or other Senior Secured Obligations, if applicable, or the taking of any action whatsoever within the purview of this Master Indenture, if the Trustee deems it to be desirable for the purpose of establishing the right of Citizens to the authentication of any Bonds or other Senior Secured Obligations, if applicable, or the right of any Person to the taking of any other action by the Trustee; provided, that the Trustee shall not be required to make that demand.

(j) Before taking action hereunder pursuant to Section 6.04 or Article VII hereof (with the exception of any action required to be taken under Section 7.02 hereof), the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses which it may incur and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful misconduct. Citizens agrees to indemnify and hold the Trustee harmless (but only from and to the extent of the revenues and assets in or allocated to the Coastal Account) against any liabilities which the Trustee may incur in the exercise and performance of its duties hereunder, or under any other instrument or document which requires the observance or performance of duties and obligations by the Trustee as trustee hereunder, except for any liability which is adjudicated to have resulted from its negligence or willful misconduct. The provisions of this paragraph shall survive termination of this Master Indenture and shall also survive the resignation or removal of the Trustee.

(k) Unless otherwise provided herein, all moneys received by the Trustee under this Master Indenture shall be held in trust until those moneys are used, applied or invested as provided herein; provided, that those moneys need not be segregated from other moneys, except to the extent required by this Master Indenture or by law.

(l) Any action by the Board, and any opinions, certificates and other instruments and documents for which provision is made in this Master Indenture, may be accepted by the Trustee, in the absence of willful misconduct on its part, as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for its actions taken hereunder and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such opinion, certificate or other instrument or document.

(m) The permissive right of the Trustee to do things enumerated in this Master Indenture shall not be construed as duties until specifically undertaken by the Trustee.

SECTION 6.03. Fees, Charges and Expenses of Trustee, Registrar, Paying Agents and Authenticating Agents. The Trustee, the Registrar and any Paying Agents or Authenticating Agents shall be entitled to payment of reasonable fees for their Ordinary Services rendered hereunder and for all advances, counsel fees and expenses and other Ordinary Expenses reasonably and necessarily paid or incurred by them in connection with the provision of Ordinary Services; and Citizens hereby covenants and agrees to pay the same. For purposes hereof, fees for Ordinary Services and costs of Ordinary Expenses provided for by their respective standard fee schedule which is submitted to and approved by Citizens shall be considered reasonable. In the event that it should become necessary for any of them to perform Extraordinary Services, they shall be entitled to reasonable compensation therefor, and to reimbursement for reasonable and necessary Extraordinary Expenses incurred in connection therewith. Without creating a default or an Event of Default hereunder, however, Citizens may contest in good faith the necessity for any Extraordinary Service and Extraordinary Expense and the reasonableness of any fee, charge or expense therefor. Under no circumstances, however, shall the Trustee charge any fee (except for accrued and unpaid fees and expenses described above) in connection with its removal or resignation under this Master Indenture.

The Trustee, the Registrar and any Paying Agents or Authenticating Agents shall not be entitled to compensation or reimbursement for Extraordinary Services or Extraordinary Expenses occasioned by their neglect or willful misconduct. The reasonable fees for their respective Ordinary Services and Ordinary Expenses of the foregoing shall be entitled to payment and reimbursement only from (i) the Costs of Issuance Subaccount or (ii) from other moneys made available by Citizens therefor and Citizens hereby covenants and agrees to pay the same, but only from moneys within or allocable to the Coastal Account. Any amounts payable to the Trustee, the Registrar and any Paying Agent or Authenticating Agent pursuant to this Section 6.03 shall be payable upon demand. The initial or acceptance fees of the Trustee and the fees, charges and expenses of the Trustee, the Registrar or any Paying Agents and Authenticating Agents upon initial issuance of any Series of Bonds, may be paid by the Trustee from the Costs of Issuance Subaccount in the Proceeds Account. If the Trustee incurs expenses or renders services after an Event of Default, the expenses and compensation for the services will be intended to constitute expenses of administration under any applicable bankruptcy law or other similar law.

SECTION 6.04. Intervention by Trustee. The Trustee may intervene on behalf of the Holders, and shall intervene if requested to do so in writing by the Holders of not less than a majority of the aggregate principal amount of Senior Secured Obligations then outstanding, in any judicial proceeding to which Citizens is a party. The rights and obligations of the Trustee under this Section are subject to the approval of that intervention by a court of competent jurisdiction. The Trustee may require that a satisfactory indemnity bond be provided to it in accordance with Sections 6.01 and 6.02 hereof before it takes action hereunder.

SECTION 6.05. Succession to Trustee. Anything herein to the contrary notwithstanding,

(a) any corporation or association (i) into which the Trustee may be converted or merged, (ii) with which the Trustee or any successor to it may be consolidated, or (iii) to which it may sell or transfer its assets or its corporate trust business and assets as a whole, or substantially

as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer, ipso facto, shall be and become successor Trustee hereunder and shall be vested with all of the title to the whole property or trust estate hereunder unless Citizens objects to the successor, in which case, the Trustee shall resign upon the request of Citizens and the appointment of a Successor Trustee; and

(b) that corporation or association shall be vested further, as was its predecessor, with each and every trust, property, remedy, power, right, duty, obligation, discretion, privilege, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Master Indenture to be exercised by, vested in or conveyed to the Trustee, without the execution or filing of any instrument or document or any further act on the part of any of the parties hereto.

Any successor Trustee, however, (i) shall be a trust company or a bank having the powers of a trust company, (ii) shall be in good standing within the State, (iii) shall be duly authorized to exercise trust powers within the State, and (iv) shall have a reported capital and surplus of not less than \$100,000,000.

SECTION 6.06. Appointment of Co-Trustee. It is the purpose of this Master Indenture that there shall be no violation of any law of any jurisdiction (including, without limitation, the laws of the State) denying or restricting the right of banks or trust companies to transact business as trustees in that jurisdiction. It is recognized that (a) if there is litigation under this Master Indenture or other instruments or documents relating to the Senior Secured Obligations and, in particular, in case of the enforcement hereof or thereof upon a default or an Event of Default or (b) if the Trustee should deem that, by reason of any present or future law of any jurisdiction, it may not (i) exercise any of the powers, rights or remedies granted herein to the Trustee, or (ii) take any action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an individual or additional institution as a co-Trustee. The following provisions of this Section are adapted to these ends.

In the event that the Trustee appoints an individual or additional institution as a co-Trustee, each and every trust, property, remedy, power, right, duty, obligation, discretion, privilege, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Master Indenture to be exercised by, vested in or conveyed to the Trustee shall be exercisable by, vest in and be conveyed to that co-Trustee, but only to the extent necessary for it to be so vested and conveyed and to enable that co-Trustee to exercise it. Every covenant, agreement and obligation necessary to the exercise thereof by that co-Trustee shall run to and be enforceable by it.

Should any instrument or document in writing from Citizens reasonably be required by the co-Trustee so appointed by the Trustee for vesting and conveying more fully and certainly in and to that co-Trustee those trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens, that instrument or document shall be executed, acknowledged and delivered, but not prepared, by Citizens. In case any co-Trustee or a successor to it shall die, become incapable of acting, resign or be removed, all of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles,

interests and liens of the co-Trustee shall be exercised by, vest in and be conveyed to the Trustee, to the extent permitted by law, until the appointment of a successor to the co-Trustee.

SECTION 6.07. Resignation by the Trustee. The Trustee may resign at any time from the trusts created hereby by giving written notice of the resignation to Citizens, the Registrar, any Paying Agents and Authenticating Agents for the Senior Secured Obligations then Outstanding and by mailing written notice of the resignation to the Holders as their names and addresses appear on the Register at the close of business fifteen (15) days prior to the mailing. The resignation shall take effect upon the appointment of a successor Trustee.

SECTION 6.08. Removal of the Trustee. The Trustee may be removed at any time, with or without cause, by an instrument or document or concurrent instruments or documents in writing delivered to the Trustee, with copies thereof mailed to Citizens, the Registrar, any Paying Agents and Authenticating Agents, (i) signed by or on behalf of the Holders of not less than a majority in aggregate principal amount of the Senior Secured Obligations then Outstanding or (ii) so long as no Event of Default has occurred and is continuing, signed by an Authorized Citizens Representative pursuant to a resolution of the Board, in each case, not less than thirty (30) days prior to the effective date of such removal.

The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of this Master Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of Citizens or the Holders of not less than a majority in aggregate principal amount of the Senior Secured Obligations then Outstanding under this Master Indenture.

No removal of the Trustee shall take effect until the appointment of a successor Trustee and the payment to the Trustee of all fees and expenses then due and payable.

SECTION 6.09. Appointment of Successor Trustee. If (i) the Trustee shall resign, shall be removed, shall be dissolved, or shall become otherwise incapable of acting hereunder, (ii) the Trustee shall be taken under the control of any public officer or officers, or (iii) a receiver shall be appointed for the Trustee by a court, then a successor Trustee shall be appointed by Citizens (through a written instrument signed by an Authorized Citizens Representative); provided, that if a successor Trustee is not so appointed within ten (10) days after (a) a notice of resignation or an instrument or document of removal is received by Citizens, as provided in Sections 6.07 and 6.08 hereof, respectively, or (b) the Trustee is dissolved, taken under control, becomes otherwise incapable of acting or a receiver is appointed, in each case, as provided above, then, so long as Citizens shall not have appointed a successor Trustee, the Holders of a majority in aggregate principal amount of Senior Secured Obligations then outstanding may designate a successor Trustee by an instrument or document or concurrent instruments or documents in writing signed by or on behalf of those Holders. If within thirty (30) days after an event described in clauses (a) or (b) hereof no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section, the Holder of any Senior Secured Obligation Outstanding hereunder or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Every successor Trustee appointed pursuant to this Section (i) shall be a trust company or a bank having the powers of a trust company organized and doing business under the laws of the United States of America, or any state thereof or the District of Columbia, (ii) shall be in good standing within the State, (iii) shall be duly authorized to exercise trust powers within the State, (iv) shall have a reported capital and surplus of not less than \$50,000,000, as set forth in its most recent report of condition so published and shall be subject to supervision by federal or State authority (v) shall, or shall be a subsidiary of a bank holding company which shall be rated by Moody's or Standard and Poor's not lower than such rating category as is at the time the lowest investment grade long-term debt rating category, (vi) for so long as the Bonds are in the form of one or more Global Securities, shall have the necessary and requisite contractual or other arrangements with the Depositary in connection with a Global Security, and (vii) shall be willing to accept the trusteeship under the terms and conditions of this Master Indenture.

Every successor Trustee appointed hereunder shall execute and acknowledge, and shall deliver to its predecessor and Citizens, an instrument or document in writing accepting the appointment. Thereupon, without any further act, the successor shall become vested with all of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens of its predecessor, and shall, within ten (10) days thereafter mail written notice of that acceptance to the Holders as their names and addresses appear on the Register at the close of business on the date of acceptance. Upon the written request of its successor or Citizens, the predecessor Trustee (i) shall execute and deliver an instrument or document transferring to its successor all of the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens of the predecessor Trustee hereunder, and (ii) shall take any other action necessary to duly assign, transfer and deliver to its successor all property (including without limitation, all securities and moneys) held by it as Trustee. Should any instrument or document in writing from Citizens be requested by any successor Trustee for vesting and conveying more fully and certainly in and to that successor the trusts, properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, estates, titles, interests and liens vested or conveyed or intended to be vested or conveyed hereby in or to the predecessor Trustee, Citizens shall execute, acknowledge and deliver that instrument or document.

In the event of a change in the Trustee, the predecessor Trustee shall cease to be custodian of any moneys which it may hold pursuant to this Master Indenture and shall cease to be Registrar, Authenticating Agent and Paying Agent for any of the Bonds, and, if applicable, other Senior Secured Obligations, to the extent it served in any of those capacities. The successor Trustee shall become custodian and, if applicable, Registrar, Authenticating Agent and Paying Agent.

SECTION 6.10. Adoption of Authentication. In case any of the Bonds or Bank Facilities shall have been authenticated, but shall not have been delivered, any successor Trustee, Registrar or Authenticating Agent may adopt the certificate of authentication of any predecessor Trustee, Registrar or Authenticating Agent and may deliver those Bonds or Senior Secured Obligation so authenticated as provided herein. In case any Bonds or other Senior Secured Obligation shall not have been authenticated, any successor Trustee, Registrar or Authenticating Agent may authenticate those Bonds or other Senior Secured Obligation either in the name of

any predecessor or in its own name. In all cases, the certificate of authentication shall have the same force and effect as provided in the Bonds or other Senior Secured Obligation or in this Master Indenture with respect to the certificate of authentication of the predecessor Trustee, Registrar or Authenticating Agent.

SECTION 6.11. Registrars.

(a) Anything herein to the contrary notwithstanding, any corporation or association (i) into which a Registrar may be converted or merged, (ii) with which a Registrar or any successor to it may be consolidated, or (iii) to which it may sell or transfer its assets or its corporate trust business as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer, ipso facto, shall be and become successor Registrar to that Registrar hereunder and shall be vested with each and every power, right, duty, obligation, discretion and privilege expressed or intended by this Master Indenture to be exercised by or vested in the predecessor Registrar, without the execution or filing of any instrument or document or any further act on the part of any of the parties hereto.

(b) A Registrar may resign at any time by giving written notice of its resignation to Citizens, the Trustee, and to each Paying Agent and Authenticating Agent for those Senior Secured Obligations for which the Registrar was serving in such capacity, at least sixty (60) days before the resignation is to take effect. The resignation shall take effect immediately, however, upon the appointment of a successor Registrar, if the successor Registrar is appointed and accepts that appointment before the time stated in the notice.

(c) The Registrar may be removed at any time by an instrument or document or concurrent instruments or documents in writing delivered to the Registrar, with copies thereof mailed to Citizens and the Trustee, and signed by or on behalf of the Holders of not less than a majority in aggregate principal amount of the Senior Secured Obligations, for whom such Registrar was appointed then outstanding.

(d) If (i) a Registrar shall resign, shall be removed, shall be dissolved, or shall become otherwise completely incapable of acting hereunder, (ii) a Registrar shall be taken under the control of any public officer or officers, (iii) a receiver shall be appointed for a Registrar by a court, or (iv) a Registrar shall have an order for relief entered in any case commenced by or against it under the federal bankruptcy laws or commence a proceeding under any federal or state bankruptcy, insolvency, reorganization or similar law, or have such a proceeding commenced against it and either have an order of insolvency or reorganization entered against it or have the proceeding remain undismissed and unstayed for ninety (90) days, then a successor Registrar shall be appointed by an Authorized Citizens Representative with the written consent of the Trustee; provided, that if a successor Registrar is not so appointed within ten (10) days after (a) a notice of resignation or an instrument or document of removal is received by Citizens, as provided above, or (b) the Registrar is dissolved, taken under control, becomes otherwise incapable of acting or a receiver is appointed or an order for relief is entered under any bankruptcy, insolvency, reorganization or similar law, in each case, as provided above, then, if an Authorized Citizens Representative shall not have appointed a successor Registrar, the Trustee or the Holders of a majority in aggregate principal amount of Senior Secured Obligations then outstanding may designate a successor Registrar by an instrument or document or

concurrent instruments or documents in writing signed by the Trustee, or in the case of the Holders, by or on behalf of those Holders.

Every successor Registrar appointed hereunder shall execute and acknowledge, and shall deliver to its predecessor, Citizens and the Trustee, an instrument or document in writing accepting the appointment. Thereupon, without any further act, the successor shall become vested with all of the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests of its predecessor and, within ten (10) days thereafter the Trustee shall mail written notice of that acceptance to the Holders of the Bonds of the applicable series, as their names and addresses appear on the Register at the close of business on the date of acceptance. Upon the written request of its successor or Citizens, a predecessor Registrar (i) shall execute and deliver an instrument or document transferring to its successor all of the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests of it as Registrar hereunder, and (ii) shall take any other action necessary to duly assign, transfer and deliver to its successor all property and records (including without limitation, the Register and any cancelled Senior Secured Obligations of the applicable series) held by it as Registrar. Should any instrument or document in writing from Citizens be requested by any successor Registrar for vesting and conveying more fully and certainly in and to that successor the properties, remedies, powers, rights, duties, obligations, discretions, privileges, claims, demands, causes of action, immunities, titles and interests vested or conveyed or intended to be vested or conveyed hereby in or to a predecessor Registrar, Citizens shall execute, acknowledge and deliver that instrument or document.

SECTION 6.12. Designation and Succession of Paying Agents. The Trustee shall be a Paying Agent for the Bonds, and, if applicable, for other Senior Secured Obligations. With the consent of an Authorized Citizens Representative, the Trustee may appoint a Paying Agent or Agents with power to act on its behalf and subject to its direction in the payment of Debt Service Charges on any Series of Bonds, and, if applicable, payments with respect to other Senior Secured Obligations. It is the responsibility of the Trustee to establish the duties and responsibilities of any Paying Agent for the purposes of this Master Indenture, to the extent not specified herein.

Any corporation or association with or into which any Paying Agent may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, consolidation or conversion to which any Paying Agent shall be a party, or any corporation or association succeeding to the corporate trust business of any Paying Agent, shall be the successor of that Paying Agent hereunder, if that successor corporation or association is otherwise eligible hereunder, without the execution or filing of any paper or any further act on the part of the parties hereto or the Paying Agent or that successor corporation or association.

Any Paying Agent may at any time resign by giving written notice of resignation to the Trustee, Citizens and the Registrar; provided, however that to the extent the Trustee is serving as the sole Paying Agent for a Series of Bonds or other Senior Secured Obligations, the Trustee may not resign as Paying Agent until such time as a successor Paying Agent has been appointed. The Trustee may at any time terminate the agency of any Paying Agent by giving written notice of termination to such Paying Agent, the Registrar and Citizens. Upon receiving such a notice of

resignation or upon such a termination, or in case at any time any Paying Agent shall cease to be eligible under this Section, the Trustee may appoint a successor Paying Agent. The Trustee shall give written notice of appointment of a successor Paying Agent to Citizens and the Registrar and shall mail, within ten (10) days after that appointment, notice thereof to all Holders as their names and addresses appear on the Register on the date of that appointment.

The Trustee shall pay to any Paying Agent from time to time reasonable compensation as authorized in Section 6.03 hereof for its services, and the Trustee shall be entitled to be reimbursed for such payments, subject to Section 6.03 hereof.

The provisions of Section 3.05 and Subsection 6.02(d) shall be applicable to any Paying Agent.

SECTION 6.13. Designation and Succession of Authenticating Agents. With the consent of an Authorized Citizens Representative, the Trustee may appoint an Authenticating Agent or Agents, in addition to the Registrar, with power to act on its behalf and subject to its direction in the authentication and delivery of Bonds in connection with transfers and exchanges under Section 3.06 hereof, and, if applicable, other Senior Secured Obligations. For all purposes of this Master Indenture, the authentication and delivery of Senior Secured Obligations by an Authenticating Agent pursuant to this Section shall be deemed to be authentication and delivery of those Senior Secured Obligations "by the Trustee."

Any corporation or association with or into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation or association succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of that Authenticating Agent hereunder, if that successor corporation or association is otherwise eligible hereunder, without the execution or filing of any paper or any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Registrar and Citizens. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent, the Registrar and Citizens. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee may appoint a successor Authenticating Agent. The Trustee shall give written notice of appointment of a successor Authenticating Agent to Citizens and the Registrar and shall mail, within ten (10) days after that appointment, notice thereof to all Holders as their names and addresses appear on the Register on the date of that appointment.

The Trustee shall pay to any Authenticating Agent from time to time reasonable compensation for its services, and the Trustee shall be entitled to be reimbursed for such payments, subject to Section 6.03 hereof.

The provisions of Section 3.05 and Subsections 6.02(b), (c), (d), (h) and (i) shall be applicable to any Authenticating Agent.

SECTION 6.14. Dealing in Senior Secured Obligations. The Trustee, a Registrar, a Paying Agent and an Authenticating Agent, their affiliates, and any directors, officers, employees or agents thereof, in good faith, may become the owners of Senior Secured Obligations secured hereby with the same rights which it or they would have hereunder if the Trustee, the Registrar, Paying Agents or Authenticating Agents did not serve in those capacities.

SECTION 6.15. Representations, Agreements and Covenants of Trustee. The Trustee hereby represents that it is a _____ banking corporation, in good standing and duly authorized to exercise corporate trust powers in the State, and that it has an unimpaired reported capital and surplus of not less than \$100,000,000. The Trustee covenants that it will take such action, if any, as is necessary to remain in good standing and duly authorized to exercise corporate trust powers in the State, and that it will maintain an unimpaired reported capital and surplus of not less than \$100,000,000.

SECTION 6.16. Duties and Obligations of Trustee in other Instruments and Documents. The Trustee accepts and agrees to observe and perform the duties and obligations of the Trustee to which reference is made in any other instrument or document providing security for any of the Senior Secured Obligations. In observing and performing such duties and obligations the Trustee shall be subject to the privileges, immunities, limitations of duties and obligations and indemnification granted to the Trustee hereunder.

(End of Article VI)

ARTICLE VII

DEFAULT PROVISIONS AND REMEDIES OF TRUSTEE AND HOLDERS

SECTION 7.01. Defaults; Events of Default. The occurrence of any of the following events is defined as and declared to be and to constitute an Event of Default with respect to Senior Secured Obligations:

(a) payment of the principal or the redemption premium, if any, of any of the Bonds or any Bank Facilities shall not be made when the same shall become due and payable, either at maturity or by proceedings for redemption or otherwise; or

(b) payment of any installment of interest on any of the Bonds or any other Senior Secured Obligations or any other payment with respect to Senior Secured Obligations shall not be made when the same shall become due and payable (or within any applicable grace period); or

(c) an event of default shall have occurred under any Supplemental Indenture or the Trustee shall have received written notice from any Holder of Senior Secured Obligations other than Bonds of an event of default under any Bank Credit Agreement or Related Hedge Agreement; or

(d) Citizens shall default in the due and punctual performance of any of the covenants, obligations or agreements (other than those described in paragraph (a), (b) or (c) above) contained in the Senior Secured Obligations or in this Master Indenture on the part of Citizens to be performed and such default shall continue for sixty (60) days after written notice specifying such default and requiring the same to be remedied shall have been given to Citizens by the Trustee, which may give such notice in its discretion and shall give notice at the written request of the Holders of not less than a majority in aggregate principal amount of the Senior Secured Obligations then Outstanding; provided, however, that if the default specified in this paragraph (d) shall be of a type which can be remedied but not within sixty (60) days, it shall not constitute an Event of Default if Citizens shall begin to remedy such default within such sixty (60) period, Citizens diligently pursues such remedy to completion and the default is remedied within one hundred twenty (120) days or such longer period of time as the Trustee may consent to in writing if such delay does not impair the security provided hereunder for the Senior Secured Obligations or adversely affect the rights and remedies of the Trustee hereunder; or

(e) any representation, warranty, certification or statement made by Citizens in this Master Indenture or in any certificate, financial statement or other document delivered in writing pursuant to this Master Indenture shall prove to have been incorrect in any material respect when made and such incorrect representation, warranty, certification or statement materially adversely affects the Pledged Revenues or materially adversely affects the rights or remedies of the Trustee hereunder; or

(f) Citizens shall commence a voluntary case or other proceeding seeking liquidation, rehabilitation, conservatorship, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the

appointment of a trustee, receiver, liquidator, rehabilitator, conservator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any action to authorize any of the foregoing; or

(g) an involuntary case or other proceeding shall be commenced against Citizens seeking liquidation, rehabilitation, conservatorship, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, rehabilitator, conservator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days; or an order for relief shall be entered against Citizens under the federal bankruptcy laws as now or hereafter in effect.

SECTION 7.02. Notice of Default. If an Event of Default shall occur, the Trustee shall give written notice of the Event of Default, by registered or certified mail, to Citizens, the Registrar, any Paying Agent and Authenticating Agent, within five (5) days after the Trustee has knowledge (or is deemed to have knowledge pursuant to Section 6.02 (f) hereof) of the Event of Default. If an Event of Default occurs of which the Trustee has notice pursuant to this Master Indenture, the Trustee shall give written notice thereof, within thirty (30) days after the Trustee's receipt of notice of its occurrence, to the Holders of all Senior Secured Obligations then Outstanding as shown by the Register at the close of business fifteen (15) days prior to the mailing of that notice.

SECTION 7.03. Acceleration. Upon the occurrence of an Event of Default described in paragraph (f) or (g) of Section 7.01 hereof, the Trustee shall declare all Senior Secured Obligations then Outstanding (if not then due and payable), and any interest accrued thereon, as applicable, to be due and payable immediately. Upon the occurrence of any other Event of Default described in Section 7.01 hereof (other than an Event of Default described in paragraph (f) or (g) of that Section 7.01), the Trustee may declare, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Senior Secured Obligations then Outstanding the Trustee shall declare, by a notice in writing delivered to Citizens, all Senior Secured Obligations then Outstanding (if not then due and payable), including any interest accrued thereon, as applicable, to be due and payable immediately. Upon that declaration, with respect to Senior Secured Obligations in the nature of debt, the principal and interest shall become and be due and payable immediately and, with respect to Senior Secured Obligations that are not in the nature of debt, such acceleration shall be instituted as described in the corresponding Bank Credit Agreement or Related Hedge Agreement, as applicable. Interest on the Senior Secured Obligations that bear interest shall accrue to the date determined by the Trustee for the tender of payment to the Holders pursuant to that declaration; provided, that interest on any unpaid principal of Senior Secured Obligations Outstanding that bear interest shall continue to accrue from the date determined by the Trustee for the tender of payment to the Holders of such Senior Secured Obligations.

The provisions of the preceding paragraph are subject, however, to the condition that if, at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement hereunder,

(a) all sums payable hereunder (except the principal of and interest on Senior Secured Obligations which have not reached their stated maturity or due dates but which are due and payable solely by reason of that declaration of acceleration), in respect of which the default shall have occurred, shall have been duly paid or provision shall have been duly made therefor by deposit with the Trustee or Paying Agents and the fees and expenses of the Trustee, the Registrar and the Paying Agents shall have been paid, and

(b) all existing Events of Default shall have been cured or waived,

the Holders of a majority in aggregate principal amount of the Senior Secured Obligations may waive the Event of Default and its consequences and may rescind and annul that declaration. No waiver or rescission and annulment shall extend to or affect any subsequent Event of Default or shall impair any rights consequent thereon.

SECTION 7.04. Other Remedies; Rights of Holders. With or without taking action under Section 7.03 hereof, upon the occurrence and continuance of an Event of Default, the Trustee may pursue any available remedy to enforce the payment of Debt Service Charges or the observance and performance of any other covenant, agreement or obligation under this Master Indenture. Without limiting the generality of the foregoing, upon the occurrence and continuance of an Event of Default, the Trustee, in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Senior Secured Obligations shall, subject to the provisions of Section 6.02(j) hereof, in its own name:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders, including, without limitation, the right to require Citizens to carry out any agreements with, or for the benefit of, the Holders and to perform its duties under the Act and this Master Indenture;

(b) bring suit upon the Senior Secured Obligations;

(c) by action or suit in equity require Citizens to account as if it were the trustee of an express trust for the Holders;

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Holders; and

(e) by other proceeding in law or equity, exercise all rights and remedies provided for by any other document or instrument securing the Senior Secured Obligations.

No remedy conferred upon or reserved to the Trustee (or to the Holders) by this Master Indenture is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given hereunder or otherwise to the Trustee or to the Holders now or hereafter existing.

No delay in exercising or omission to exercise any remedy, right or power accruing upon any default or Event of Default shall impair that remedy, right or power or shall be construed to be a waiver of any default or Event of Default or acquiescence therein. Every remedy, right and power may be exercised from time to time and as often as may be deemed to be expedient.

No waiver of any default or Event of Default hereunder, whether by the Trustee or by the Holders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any remedy, right or power consequent thereon.

In exercising any remedy, right or power hereunder, the Trustee shall take any action which would best serve the interests of the Holders in the judgment of the Trustee, applying the standards described in Sections 6.01 and 6.02 hereof.

SECTION 7.05. Right of Holders to Direct Proceedings. Anything to the contrary in this Master Indenture notwithstanding, the Holders of a majority in aggregate principal amount of Senior Secured Obligations then Outstanding shall have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Trustee, the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Master Indenture or any other proceedings hereunder; provided, that (i) any direction shall not be other than in accordance with the provisions of law and of this Master Indenture, (ii) the Trustee shall be indemnified as provided in Sections 6.01 and 6.02, and (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction.

SECTION 7.06. Application of Moneys in Event of Default. Except as provided in the last paragraph of this Section 7.06, during the continuance of any Event of Default hereunder, any moneys received by the Trustee hereunder with respect to the Senior Secured Obligations shall be applied:

(a) to the payment of the unpaid fees and expenses of the Trustee, including, without limitation, the reasonable fees and expenses of counsel to the Trustee (except from moneys paid under a Credit Enhancement Facility) incurred in connection with actions taken under this Article VII with respect to the Senior Secured Obligations, including any disbursements of the Trustee.

(b) unless payment of Senior Secured Obligations shall have been accelerated and become due and payable:

FIRST: to payment of all installments of interest (or other regularly scheduled payments, as applicable) then due on the Senior Secured Obligations in the order of maturity of such installments of interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any preference or priority of one installment of interest or other payment over any other installment, except as to any difference in the respective rates of interest (or Reference Rate, as applicable) specified in the Senior Secured Obligations; and

SECOND: to payment to the persons entitled thereto of the unpaid principal or redemption price of any of the Senior Secured Obligations which shall have become due in the order of their due dates, with interest on such Senior Secured Obligations from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full the principal or redemption price coming due on such Senior Secured Obligations on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any preference or priority of one such Senior Secured Obligation over another or of any installment of interest over another, except as to any difference in the respective rates of interest specified in the Senior Secured Obligations.

THIRD: to the payment to the persons entitled thereto of all other amounts due, the payment of which is secured under this Master Indenture or any Supplemental Indenture, or is due and payable under any Bank Credit Agreement or any Related Hedge Agreement, ratably if available amounts are insufficient therefor.

(c) If the principal of all Senior Secured Obligations shall have become due and payable, to the payment of principal or redemption price (as the case may be) and interest then owing on the Senior Secured Obligations and in case such moneys shall be insufficient to pay the same in full, then to the payment of principal or redemption price and interest ratably, without preference or priority of one Senior Secured Obligation (including the principal and redemption price thereof) over another or of any installment of interest over any other installment of interest. After the payment of all of the principal of and interest on the Senior Secured Obligations shall have been made, except as provided for in clause (a) above, any moneys remaining shall be applied to the payment of any other costs or payments due with respect to the Bonds or other Senior Secured Obligations to the extent not paid under (b) above. Regular scheduled payments under a Related Hedge Agreement shall be treated the same as interest for purposes of this Section.

Any moneys remaining after the payment of all fees, costs and expenses of the Trustee and all payments due with respect to Senior Secured Obligations may then be applied to the payment of Subordinated Indebtedness, including, without limitation, termination payments and of non-scheduled payments under Related Hedge Agreements.

For purposes of the application of moneys described above, to the extent payments of principal of and interest on Senior Secured Obligations shall have been made under a Credit Enhancement Facility, the Credit Enhancement Facility Issuer shall be entitled to moneys in the Accounts held under this Master Indenture, Supplemental Indenture or Bank Credit Agreement to the extent that the Holders of the Senior Secured Obligations secured by such Credit Enhancement Facility would have been entitled to receive such moneys (assuming for purposes of this provision that the Credit Enhancement Facility is not in effect) in accordance with the agreement pursuant to which such Credit Enhancement Facility has been issued and the Senior Secured Obligations to which such Credit Enhancement Facility relates.

Whenever moneys are to be applied pursuant to the provisions of this Section, those moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of moneys available for application and the likelihood of

additional moneys becoming available for application in the future. Whenever the Trustee shall direct the application of those moneys, it shall fix the date upon which the application is to be made, and upon that date, interest shall cease to accrue on the amounts of principal, if any, to be paid on that date, provided the moneys are available therefor. The Trustee shall give notice to the Holders of the deposit with it of any moneys and of the fixing of that date, all consistent with the requirements of Section 3.05 hereof for the establishment of, and for giving notice with respect to, a Special Record Date for the payment of overdue interest. The Trustee shall not be required to make payment of principal of and any premium on a Senior Secured Obligation to the Holder thereof, until the Senior Secured Obligation shall be presented to the Trustee for appropriate endorsement or for cancellation if it is paid fully.

Notwithstanding the foregoing, any moneys on deposit in the Proceeds Account, the Reserve Account and any Series Reserve Account shall be applied solely to pay the payments due with respect to Bonds secured by such Accounts, and shall be applied prior to the use of any other available moneys therefor. Any funds on deposit in any Rebate Account shall be applied only for the payment of amounts due the United States government as provided in the applicable Supplemental Indenture. Any moneys remaining in such Accounts after the satisfaction of the respective payment obligations shall be applied as other moneys are applied pursuant to this Section 7.06. If the amounts on deposit in the Proceeds Account, the Reserve Account or any Series Reserve Account are insufficient to pay the payment obligations of Bonds secured by such Accounts (including any amounts due with respect to Credit Enhancement Facilities securing such Bonds), then any amounts remaining unpaid with respect to such Bonds shall be paid, prorata, with other Senior Secured Obligations pursuant to this Section 7.06.

SECTION 7.07. Remedies Vested in Trustee. All rights of action (including without limitation, the right to file proof of claims) under this Master Indenture or under any of the Senior Secured Obligations may be enforced by the Trustee without the possession of any of the Senior Secured Obligations or the production thereof in any trial or other proceeding relating thereto. Any suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining any Holders as plaintiffs or defendants. Any recovery of judgment shall be for the benefit of the Holders of the Outstanding Senior Secured Obligations, subject to the provisions of this Master Indenture.

SECTION 7.08. Trustee's Right to Receiver; Compliance with Act. The Trustee shall be entitled as of right to the appointment of a receiver and the Trustee, the Holders and any receiver so appointed shall have such rights and powers and be subject to such limitations and restrictions as are contained in the applicable laws of the State.

SECTION 7.09. Trustee and Holders Entitled to all Remedies under State Law. It is the purpose of this Article VII to provide such remedies to the Trustee and Holders as may be lawfully granted under the applicable laws of the State; if any remedy herein granted shall be held unlawful, the Trustee and the Holders shall nevertheless be entitled to every other remedy provided by the applicable laws of the State. It is further intended that, insofar as lawfully possible, the provisions of this Article VII shall apply to and be binding upon any receiver appointed in accordance with Section 7.08 hereof.

SECTION 7.10. Rights and Remedies of Holders. A Holder shall not have any right to institute any suit, action or proceeding for the enforcement of this Master Indenture, for the execution of any trust hereof, or for the exercise of any other remedy hereunder (other than to seek the appointment of a successor Trustee pursuant to Section 6.09 hereof), unless:

(a) there has occurred and is continuing an Event of Default of which the Trustee has been notified, as provided in paragraph (f) of Section 6.02 hereof, or of which it is deemed to have notice under that paragraph,

(b) the Holders of at least a majority in aggregate principal amount of Senior Secured Obligations then Outstanding shall have made written request to the Trustee and shall have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted herein or to institute the suit, action or proceeding in its own name, and shall have offered indemnity to the Trustee as provided in Sections 6.01 and 6.02 hereof, and

(c) the Trustee thereafter shall have failed or refused to exercise the remedies, rights and powers granted herein or to institute the suit, action or proceeding in its own name within a reasonable time (which shall not be less than thirty (30) days).

At the option of the Trustee, notification (or notice), request, opportunity and offer of indemnity are conditions precedent in every case, to the institution of any suit, action or proceeding described above.

No one or more Holders of the Senior Secured Obligations shall have any right to affect, disturb or prejudice in any manner whatsoever the security or benefit of this Master Indenture by its or their action, or to enforce, except in the manner provided herein, any remedy, right or power hereunder. Any suit, action or proceedings shall be instituted, had and maintained in the manner provided herein for the benefit of the Holders of all Senior Secured Obligations then outstanding. Nothing in this Master Indenture shall affect or impair, however, the right of any Holder to enforce the payment on any Senior Secured Obligation owned by that Holder at and after the maturity (or such earlier date set for payment upon a declaration of acceleration) thereof, at the place, from the sources and in the manner expressed in that Senior Secured Obligation.

SECTION 7.11. Termination of Proceedings. In case the Trustee shall have proceeded to enforce any remedy, right or power under this Master Indenture in any suit, action or proceedings, and the suit, action or proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, Citizens, the Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as if no suit, action or proceedings had been taken. Notwithstanding anything to the contrary contained in this Article VII, no proceeding taken by the Trustee on account of an Event of Default in respect of which a drawing has been made under a Credit Enhancement Facility shall be discontinued unless the Credit Enhancement Facility then in effect has been reinstated to the required maximum amount thereof.

SECTION 7.12. Waivers of Events of Default. Except as hereinafter provided, at any time, in its discretion, the Trustee may waive any Event of Default hereunder and its consequences. The Trustee shall do so upon the written request of the Holders of

(a) at least a majority in aggregate principal amount of all Senior Secured Obligations then outstanding if an Event of Default in the payment of the principal of, redemption premium, if any, or interest thereon exists, or

(b) at least twenty-five percent (25%) in aggregate principal amount of all Senior Secured Obligations then outstanding, if any other Event of Default exists.

There shall not be so waived, however (i) any Event of Default with respect to a covenant or provision of this Master Indenture that cannot be modified or amended without the consent of the Holder of each Outstanding Senior Secured Obligation, without the consent of the Holders of all Outstanding Senior Secured Obligations, or (ii) any Event of Default described in paragraph (a) or (b) of Section 7.01 hereof or any declaration of acceleration in connection therewith rescinded or annulled, unless at the time of that waiver or rescission and annulment payment of the amounts required by Section 7.03 hereof in order for waiver and rescission and annulment in connection with acceleration of maturity to occur has been made or provision has been made therefor and the Trustee shall have received the consent of the Holders of at least a majority in aggregate principal amount of the Senior Secured Obligations then Outstanding. In the case of the waiver or rescission and annulment, or in case any suit, action or proceedings taken by the Trustee on account of any Event of Default shall have been discontinued, abandoned or determined adversely to it, Citizens, the Trustee and the Holders shall be restored to their former positions and rights hereunder, respectively. No waiver or rescission shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

SECTION 7.13. Credit Enhancement Facility Issuer's Rights Upon Events of Default. Anything in this Master Indenture to the contrary notwithstanding, if any Event of Default has occurred and is continuing while a Credit Enhancement Facility securing all or a portion of the Senior Secured Obligations Outstanding is in effect and not in default, the Credit Enhancement Facility Issuer shall, except as set forth in the last sentence of this paragraph below, have the right, in lieu of the Holders of the Senior Secured Obligations secured by said Credit Enhancement Facility, by an instrument in writing, executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under this Master Indenture, including, without limitation, the consent to any waiver of default or remedy, or exercising any trust or power conferred on the Trustee by this Master Indenture. Said direction shall be controlling to the extent the direction of Holders of the Senior Secured Obligations secured by said Credit Enhancement Facility would have been controlling under this Article VII. If the Credit Enhancement Facility Issuer shall be in default in the performance of its obligations under the Credit Enhancement Facility, said Credit Enhancement Facility Issuer shall have no rights under this Section.

(End of Article VII)

ARTICLE VIII

SUPPLEMENTAL INDENTURES

SECTION 8.01. Supplemental Indentures Generally. Citizens and the Trustee may enter into indentures supplemental to this Master Indenture, as provided in this Article and pursuant to the other provisions therefor in this Master Indenture. This Master Indenture may only be amended through a written Supplemental Indenture that complies with the provisions of this Article VIII.

SECTION 8.02. Supplemental Indentures Not Requiring Consent of Holders. Without the consent of or notice to any of the Holders, Citizens and the Trustee may enter into indentures supplemental to this Master Indenture which shall not, in the opinion of Citizens and the Trustee, be inconsistent with the terms and provisions hereof, for any one or more of the following purposes:

(a) to set forth any or all of the matters in connection with the issuance of Additional Bonds required by Articles II and III hereof, including, without limitation, the issuance of Capital Appreciation Bonds, Capital Appreciation and Income Bonds and Variable Rate Bonds;

(b) to add additional covenants of Citizens or to surrender any right or power conferred herein upon Citizens;

(c) for any purpose not inconsistent with the terms of this Master Indenture or the Supplemental Indenture in question, as the case may be, or to cure any ambiguity or to cure, correct or supplement any defective provision (whether because of any inconsistency with any other provision hereof or otherwise) of this Master Indenture or the Supplemental Indenture in question, as the case may be, in such manner as shall not impair the security provided for the Senior Secured Obligations under this Master Indenture or adversely affect the rights and remedies of the Holders;

(d) to make any change necessary to procure the issuance, renewals or extension of any Credit Enhancement Facility or rating on any Senior Secured Obligation, so long as such change does not impair the security provided for the Senior Secured Obligations under this Master Indenture or adversely affect the rights and remedies granted to the Holders hereunder;

(e) to permit the Trustee to comply with any obligations imposed upon it by law;

(f) to specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar and any Authenticating Agents or Paying Agents;

(g) to achieve compliance of this Master Indenture with any applicable federal or state tax law;

(h) to make amendments to the provisions hereof necessary for or desirable to permit registration of the Bonds, or other Senior Secured Obligations, as applicable, under the Securities Act or to qualify this Master Indenture under the Trust Indenture Act of 1939 as amended or to achieve compliance with the Exchange Act or any other federal or state securities law;

(i) to make any change necessary to reflect the combination, merger, cross-collateralization or similar event, with respect to the Coastal Account, Personal Lines Account and the Commercial Lines Account; provided, however, that Citizens shall deliver to the Trustee at or prior to the effective date of any such amendment written confirmation from each Rating Agency such amendment will not result in a reduction or withdrawal of any then current rating on any Senior Secured Obligation; and

(j) to permit any other amendment which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders.

The provisions of Subsections 8.02(e), (g) and (h) shall not be deemed to constitute a waiver by the Trustee, the Registrar, Citizens or any Holder of any right which it may have in the absence of those provisions to contest the application of any change in law to this Master Indenture or the Senior Secured Obligations.

SECTION 8.03. Supplemental Indentures Requiring Consent of Holders. Exclusive of Supplemental Indentures to which reference is made in Section 8.02 hereof and subject to the terms, provisions and limitations contained in this Section, and not otherwise, with the consent of the Holders of not less than a majority in aggregate principal amount of the Senior Secured Obligations at the time outstanding, evidenced as provided in this Master Indenture, Citizens and the Trustee may execute and deliver Supplemental Indentures adding any provisions to, changing in any manner or eliminating any of the provisions of this Master Indenture or any Supplemental Indenture or restricting in any manner the rights of the Holders. Nothing in this Section or Section 8.02 hereof shall permit, however, or be construed as permitting:

(a) without the consent of the Holder of each Senior Secured Obligation so affected, (i) an extension of the maturity of the principal of or the interest or any other payment with respect to any Senior Secured Obligation, (ii) a reduction in the principal amount of any Senior Secured Obligation or the rate of interest or premium thereon, including any mandatory sinking fund requirement, or (iii) the time or price of any applicable redemption, put or purchase rights thereunder affected, or

(b) without the consent of the Holders of all Senior Secured Obligations then Outstanding, (i) the creation of a privilege or priority of any Senior Secured Obligation or Senior Secured Obligations over any other Senior Secured Obligation or Senior Secured Obligations, (ii) any change in the order or priority of Pledged Revenues and other amounts described in Article V, or (iii) a reduction in the aggregate principal amount of the Senior Secured Obligations Outstanding required for consent to a Supplemental Indenture.

If Citizens shall request in writing that the Trustee execute and deliver any Supplemental Indenture for any of the purposes of this Section, upon being satisfactorily indemnified with respect to its expenses in connection therewith, the Trustee shall cause notice of the proposed execution and delivery of the Supplemental Indenture to be mailed by first-class mail, postage prepaid, to all Holders of Senior Secured Obligations then outstanding at their addresses as they appear on the Register at the close of business on the fifteenth (15th) day preceding that mailing.

The Trustee shall not be subject to any liability to any Holder by reason of the Trustee's failure to mail, or the failure of any Holder to receive, the notice required by this Section. Any failure of that nature shall not affect the validity of the Supplemental Indenture when there has been consent thereto as provided in this Section. The notice shall set forth briefly the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated corporate trust office or the office identified in Section 12.03 hereof as applicable, of the Trustee for inspection by all Holders.

If the Trustee shall receive, within a period prescribed by Citizens not exceeding one (1) year following the mailing of the notice, an instrument or document or instruments or documents, in form to which the Trustee does not reasonably object, purporting to be executed by the Holders of the required percentage in aggregate principal amount of the Senior Secured Obligations then Outstanding (which instrument or document or instruments or documents shall refer to the proposed Supplemental Indenture in the form described in the notice and specifically shall consent to the Supplemental Indenture in substantially that form), the Trustee shall, but shall not otherwise, execute and deliver the Supplemental Indenture in substantially the form to which reference is made in the notice as being on file with the Trustee, without liability or responsibility to any Holder, regardless of whether that Holder shall have consented thereto.

The consent of the Holders of any Senior Secured Obligations to be issued hereunder to a proposed Supplemental Indenture shall be deemed given if the Initial Purchasers of such Senior Secured Obligations consent in writing to such proposed Supplemental Indenture and the amendment of the Master Indenture contained therein, and the substance of such amendment is disclosed in the official statement or such other offering document pursuant to which such Senior Secured Obligations are offered and sold, and such official statement or other offering document discloses that by the purchase of such Senior Secured Obligations, the Holder is deemed to have consented to such Supplemental Indenture and the amendment of the Master Indenture contained therein as described in such official statement or other offering document.

Any consent shall be irrevocable and binding upon the Holder of the Senior Secured Obligation giving the consent and, anything herein to the contrary notwithstanding, upon any subsequent Holder of that Senior Secured Obligation and of any Senior Secured Obligation issued in exchange therefor (regardless of whether the subsequent Holder has notice of the consent to the Supplemental Indenture). At any time after the Holders of the required percentage in aggregate principal amount of the Senior Secured Obligations Outstanding shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with Citizens a written statement that the Holders of the required percentage of Senior Secured Obligations have filed those consents. That written statement shall be conclusive evidence that the consents have been so filed.

If the Holders of the required percentage in aggregate principal amount of Senior Secured Obligations Outstanding shall have consented to the Supplemental Indenture, as provided in this Section, no Holder shall have any right (a) to object to (i) the execution or delivery of the Supplemental Indenture, (ii) any of the terms and provisions contained therein, or (iii) the operation thereof, (b) to question the propriety of the execution and delivery thereof, or (c) to enjoin or restrain the Trustee or Citizens from that execution or delivery or from taking any action pursuant to the provisions thereof.

SECTION 8.04. Amendments With Consent of Credit Enhancement Facility Issuer Only. If any Senior Secured Obligations Outstanding under this Master Indenture are secured by a Credit Enhancement Facility to provide security for the payment of principal and interest when due, and if such Credit Enhancement Facility is still in effect at the time of the proposed Supplemental Indenture amending this Master Indenture and will remain in effect after the effective date of such amendment, the Credit Enhancement Facility Issuer may consent in lieu of the consent of any Holder of any Senior Secured Obligation so secured by such Credit Enhancement Facility. The foregoing right of amendment, however, does not apply to any amendment that would deprive a Holder of the right to payment of the Senior Secured Obligations or to any amendment prohibited by Section 8.03 hereof without the consent of the Holders of all of the Senior Secured Obligations Outstanding to be affected by such amendment.

SECTION 8.05. Authorization to Trustee; Effect of Supplement. The Trustee is authorized to join with Citizens in the execution and delivery of any Supplemental Indenture in accordance with this Article and to make the further agreements and stipulations which may be contained therein. Thereafter,

- (a) That Supplemental Indenture shall form a part of this Master Indenture;
- (b) All terms and conditions contained in that Supplemental Indenture as to any provision authorized to be contained therein shall be deemed to be a part of the terms and conditions of this Master Indenture for any and all purposes;
- (c) This Master Indenture shall be deemed to be modified and amended in accordance with the Supplemental Indenture; and
- (d) The respective rights, duties and obligations under this Master Indenture of Citizens, the Trustee, the Registrar, the Paying Agents, the Authenticating Agents, any Credit Enhancement Facility Issuer and all Holders of Senior Secured Obligations then Outstanding shall be determined, exercised and enforced hereunder in a manner which is subject in all respects, to those modifications and amendments made by the Supplemental Indenture.

Express reference to any executed and delivered Supplemental Indenture may be made in the text of any Senior Secured Obligations issued, incurred or designated thereafter, if that reference is deemed necessary or desirable by the Trustee or Citizens. A copy of any Supplemental Indenture for which provision is made in this Article shall be mailed by the Trustee to the Registrar, each Authenticating Agent and Paying Agent and the Initial Purchaser of each Series of Bonds affected thereby.

SECTION 8.06. Opinion of Counsel. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of any firm of nationally recognized attorneys, selected by the Trustee, having a favorable reputation in matters relating to the issuance of obligations similar to the Senior Secured Obligations, as conclusive evidence that (i) any proposed Supplemental Indenture complies with the provisions of this Master Indenture, and (ii) it is proper for the Trustee to join in the execution of that Supplemental Indenture under the provisions of this Article. That counsel may be counsel for Citizens.

SECTION 8.07. Modification by Unanimous Consent. Notwithstanding anything to the contrary contained elsewhere in this Master Indenture, the rights and obligations of Citizens and of the Holders, and the terms and provisions of the Senior Secured Obligations and this Master Indenture may be modified or altered in any respect with the consent of Citizens, the Holders of all of the Senior Secured Obligations then Outstanding and each Credit Enhancement Facility Issuer having a Credit Enhancement Facility then Outstanding (so long as such Credit Enhancement Facility is not then in default).

SECTION 8.08. Consent of Trustee. The Trustee shall not be required to enter into any Supplemental Indenture which is, in the judgment of the Trustee, prejudicial to the rights of the Trustee hereunder.

(End of Article VIII)

ARTICLE IX

RELEASE OF MASTER INDENTURE

SECTION 9.01. Release of Master Indenture. Subject to the conditions contained in Section 9.04 hereof, if (i) Citizens shall pay all of the Outstanding Senior Secured Obligations or any series of Senior Secured Obligations or portions thereof, or shall cause them to be paid and discharged or to be deemed to have been paid (as provided in Section 9.02 hereof) and discharged, or if there otherwise shall be paid to the Holders of the Outstanding Senior Secured Obligations or any series of Senior Secured Obligations or portions thereof, all principal of, redemption premium, if any, and interest due or to become due thereon, and (ii) all other sums payable hereunder and under any Credit Enhancement Facility Agreement shall have been paid or discharged, then this Master Indenture shall cease, determine and become null and void as to only the series of Senior Secured Obligations or any portion thereof so paid or deemed to be paid (except for those provisions surviving by reason of Section 9.03 hereof), and the covenants, agreements and obligations of Citizens hereunder shall be released, discharged and satisfied.

Thereupon, and subject to the provisions of Section 9.03 hereof if applicable,

(i) the Trustee shall release this Master Indenture as to the series of Senior Secured Obligations or any portion thereof so paid or deemed to be paid (except for those provisions surviving by reason of Section 9.03 hereof), and shall execute and deliver to Citizens any instruments or documents in writing as shall be required to evidence that release and discharge or as reasonably may be requested by Citizens, and

(ii) the Trustee and any other Paying Agents shall assign and deliver to Citizens any property subject at the time to the lien of this Master Indenture which then may be in their possession as to only the series of Senior Secured Obligations or portion thereof to be defeased, except amounts held for the payments required by this Section 9.01 or 9.02.

SECTION 9.02. Payment and Discharge of Bonds and Other Senior Secured Obligations. All or any part of the Senior Secured Obligations shall be deemed to have been paid and discharged within the meaning of this Master Indenture including, without limitation, Section 9.01 hereof, if:

(a) the Trustee as paying agent and any Paying Agents shall have received, in trust for and irrevocably committed thereto, sufficient moneys, or

(b) the Trustee shall have received, in trust for and irrevocably committed thereto, Government Obligations which are not callable or redeemable at the option of the issuer thereof, which are verified by an independent firm of national reputation for the provision of such verification reports to be of such maturities or redemption dates (which redemption dates have been irrevocably established) and interest payment dates, and to bear such interest as will be sufficient, together with any moneys to which reference is made in subparagraph (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (which earnings are to be held likewise in trust and so committed, except as

provided herein), for the payment of all principal of, redemption premium, if any, and interest on those Bonds through their maturity or redemption dates, as the case may be; provided, that if any of those Bonds are subject to redemption and are to be redeemed prior to the maturity thereof, notice of that redemption shall have been duly given or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice.

Any moneys held by the Trustee in accordance with the provisions of this Section may be invested by the Trustee only in Government Obligations described in subparagraph (b) above having maturity dates, or having redemption dates (which redemption dates have been irrevocably established), which shall be not later than the date or dates at which moneys will be required for the purposes described above.

If any Senior Secured Obligations shall be deemed paid and discharged pursuant to this Section 9.02 and such Senior Secured Obligations do not mature or by their terms are not redeemable within the next sixty (60) days, then within thirty (30) days after such Senior Secured Obligations are so deemed paid and discharged the Trustee shall cause a written notice to be given to each Holder as shown on the Register on the date on which such Senior Secured Obligations are deemed paid and discharged. Such notice shall state the numbers of the Senior Secured Obligations deemed paid and discharged or state that all Senior Secured Obligations of a particular Series are deemed paid and discharged, set forth a description of the Government Obligations held pursuant to subparagraph (b) of the first paragraph of this Section 9.02 and specify any date or dates on which any of the Senior Secured Obligations are to be called for redemption pursuant to notice of redemption given or irrevocable provisions made for such notice pursuant to the first paragraph of this Section 9.02.

Senior Secured Obligations other than Bonds may be discharged and deemed paid hereunder in the same manner as provided above for Bonds, unless a different method or additional requirements for discharge for such Senior Secured Obligations is set forth in the corresponding Bank Credit Agreement or Related Hedge Agreement, as applicable.

SECTION 9.03. Survival of Certain Provisions. Notwithstanding the foregoing, any provisions of this Master Indenture which relate to the maturity of Senior Secured Obligations, interest payments and dates thereof, optional and mandatory redemption provisions, exchange, transfer and registration of Senior Secured Obligations, replacement of mutilated, destroyed, lost or stolen Senior Secured Obligations, the safekeeping and cancellation of Senior Secured Obligations, non-presentment of Senior Secured Obligations, the holding of moneys in trust, the duties of the Trustee and the Registrar and the right of the Trustee to require indemnification and to receive its fees and costs in connection with all of the foregoing, shall remain in effect and be binding upon the Trustee, the Registrar, the Authenticating Agents, the Paying Agents and the Holders notwithstanding the release and discharge of this Master Indenture. The provisions of this Article shall survive the release, discharge and satisfaction of this Master Indenture.

(End of Article IX)

ARTICLE X

COVENANTS AND AGREEMENTS OF CITIZENS

SECTION 10.01. Nature of Obligations. Citizens' obligations under the Senior Secured Obligations will at all times constitute special and limited obligations of Citizens attributable solely to the Coastal Account, payable from and secured solely by the Pledged Revenues as provided herein. The Holders of the Senior Secured Obligations (by their acceptance of the benefits of this Master Indenture) and the Trustee agree and acknowledge that they have no claim against, or recourse to, the Personal Lines Account or the Commercial Lines Account (including the revenues and assets allocated and allocable or required to be allocated to the Personal Lines Account or the Commercial Lines Account in accordance with the Act and the Plan of Operation) in respect of the obligations under this Master Indenture.

The issuance of the Bonds or other Senior Secured Obligations shall not directly or indirectly or contingently obligate or require the State or any political subdivision thereof to levy or pledge any tax whatsoever or to make any appropriation for the payment of the Senior Secured Obligations or any other obligation of Citizens under this Master Indenture. Further, nothing in this Master Indenture gives the Holders, and they do not have, the right to require or compel the State or any political subdivision thereof to levy or appropriate any taxes for the payment of principal of, redemption premium, if any, and interest or any other payment with respect to Senior Secured Obligations or otherwise required under this Master Indenture. Citizens does not have any taxing power.

The covenants, agreements and obligations of Citizens contained in this Master Indenture shall not be deemed to be the covenants, agreements and obligations of any member of the Board, or of any officer, agent, trustee, or employee of Citizens in his or her individual capacity or of any Insurer and no recourse shall be had against and no such member, officer, agent, trustee or employee of Citizens or Insurer is or shall become personally liable for the performance of any obligation of Citizens under this Master Indenture.

SECTION 10.02. Payment of Senior Secured Obligations. Citizens covenants that it will promptly pay the principal of, redemption premium, if any, and interest on every Bond, Bank Facility, and other Senior Secured Obligation, as applicable, issued, incurred or designated under this Master Indenture at the places, on the dates and in the manner specified herein and in the corresponding Senior Secured Obligation according to the true intent and meaning thereof. The Pledged Revenues are specifically pledged by this Master Indenture to the payment of the Senior Secured Obligations in the manner and to the extent specified herein.

SECTION 10.03. Covenants as to Revenues. (a) Citizens covenants and agrees to fix, levy, charge and collect sufficient funds, including, without limitation, Regular Assessments, Additional Surcharges and Assessments and Emergency Assessments, in respect of the Coastal Account, in accordance with the Plan of Operation, the Act and other applicable law, in an amount sufficient, together with Net Premiums and FHCF Reimbursements received by Citizens, the proceeds of the Bonds and amounts available under any other Senior Secured Obligations, to pay the principal of and interest on all Senior Secured Obligations, and all of its obligations in respect of the Coastal Account when due.

(b) Citizens will cause all Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments, FHCF Reimbursements and Net Premiums, in respect of the Coastal Account, to be levied as soon as is reasonable (and, (x) in the case of the Emergency Assessments collected by the Insurers, other joint underwriting associations, if any, or special purpose insurance companies, to be remitted to the Trustee or to Citizens, as applicable, no less frequently than quarterly and (y) in the case of Emergency Assessments and Regular Assessments collected by Surplus Lines Agents and/or the Surplus Lines Service Office, to be remitted to the Trustee or to Citizens, as applicable, at the times provided in the Plan of Operation) and shall impose and enforce obligations for the payment thereof, to the end that the amount of the Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments and Net Premiums collected in respect of the Coastal Account shall be sufficient to satisfy the requirements of subsection (a) above; provided that (i) Citizens shall levy Citizens Policyholder Surcharges and, if necessary, Regular Assessments, in respect of a Plan Year Deficit paid, in whole or in part, from Draws under this Master Indenture, not later than July 1 after the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit and (ii) Citizens shall levy, and shall direct the Insurers, other joint underwriting associations (if any), special purpose insurance companies, Surplus Lines Agents and the Surplus Lines Service Office to start to collect, Emergency Assessments in respect of any Plan Year Deficit paid, in whole or in part, from Draws under this Master Indenture, not later than July 1 of each year following the end of the Plan Year in which the first Draw is made in respect of such Plan Year Deficit and by July 1 of each year thereafter.

SECTION 10.04. No Disposition of Pledged Revenues. Except as permitted or required by this Master Indenture, Citizens covenants and agrees not to sell, lease, pledge, assign or otherwise encumber or dispose of its interest in the Pledged Revenues or any portion thereof. Citizens shall promptly pay or make its best efforts to cause to be discharged, or make adequate provision in the judgment of the Trustee to discharge, any lien or charge on any part thereof not permitted by this Master Indenture.

SECTION 10.05. Information Requirements. Citizens covenants and agrees to provide to the Trustee any information which the Trustee reasonably requests as necessary to enable the Trustee to perform its duties and obligations hereunder.

The Trustee shall make available copies of any of the foregoing information and notices to any Holder requesting a copy of the same. The Trustee may charge the Holder requesting any such information or notice a reasonable charge for the expense of copying the same.

SECTION 10.06. Maintenance of Separate Accounts. (a) Citizens covenants and agrees to prepare and maintain books and records separating all revenues, assets, liabilities, losses and expenses of Citizens into the Coastal Account and each other account of Citizens (currently consisting of the Personal Lines Account and the Commercial Lines Account) as required by the Act and the Plan of Operation. In furtherance, and not in limitation, of this requirement, Citizens shall (i) allocate all Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments, FHCF Reimbursements, Premiums and the proceeds of any other reinsurance purchased by Citizens in respect of the Coastal Account to such Coastal Account, for the corresponding Plan Year Deficit and shall not levy Emergency Assessments, Regular Assessments, or Additional Surcharges and Assessments within the Coastal Account in

excess of the maximum assessment or surcharge permitted by the Act for such account, and (ii) allocate all emergency assessments, additional surcharges and assessments and FHCF reimbursements relating to the other accounts of Citizens (currently consisting of Personal Lines Account and the Commercial Lines Account) to such other accounts, and the proceeds of any other reinsurance purchased by Citizens in respect of the other accounts of Citizens to such other accounts. All books, records and other documents in the possession of Citizens relating to the Pledged Revenues shall at all reasonable times be open to inspection by such accountants or other agencies as the Trustee may from time to time designate.

(b) All revenues, assets, liabilities, losses and expenses of Citizens not directly attributable to the lines and types of insurance coverages relating to any of the Coastal Account, the Personal Lines Account or the Commercial Lines Account shall be prorated among each such account as contemplated by the Act and the Plan of Operation.

SECTION 10.07. Compliance with Laws. (a) Citizens covenants and agrees to comply (i) with all provisions of the Act and with all provisions of other laws, ordinances, rules, regulations and requirements of governmental authorities applicable to Citizens relating to the Emergency Assessments, Regular Assessments, Additional Surcharges and Assessments, Net Premiums and the transactions contemplated by this Master Indenture and (ii) in all material respects with all other material provisions of the Act and other laws, ordinances, rules, regulations and requirements of governmental authorities applicable to Citizens.

(b) This Master Indenture will at all times constitute an “applicable loan agreement, trust indenture or other financing agreement” and a “loan agreement or trust indenture” for purposes of the Plan of Operation.

(c) The Trustee will at all times constitute an “authorized trustee, escrow agent or other custodian” for purposes of the Plan of Operation.

SECTION 10.08. FHCF. Citizens covenants and agrees to take all actions necessary on its part to be taken to entitle Citizens to receive reimbursement on a timely basis from the FHCF under the FHCF Agreement in respect of losses incurred as a result of a “covered event,” as defined in Section 215.555(2)(b), Florida Statutes, as amended.

SECTION 10.09. Instruments of Further Assurance. Citizens covenants and agrees that the Trustee may defend Citizens’ rights to the payments and other amounts due under the Act for the benefit of the Holders, against the claims and demands of all persons whomsoever. Citizens covenants and agrees that it will do, execute, acknowledge and deliver, or make its best efforts to cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assuring, transferring, pledging, assigning and confirming to the Trustee all and singular the rights assigned hereby and the amounts pledged hereby to the payment of the principal of, redemption premium, if any, and interest on the Senior Secured Obligations.

SECTION 10.10. Recording and Filing; Further Instruments. Citizens shall record and/or file, or cause to be recorded and/or filed on its behalf, in the manner and in the places required by law, such instruments and related documents as may be required in order to preserve

and protect fully (to the extent permitted by law) the security granted to the Holders hereunder. Citizens shall, upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments and take such further action as may be reasonable and as may be required to effectuate the purposes of this Master Indenture or any provision hereof

SECTION 10.11. Future Collateral. Citizens covenants and agrees that, to the extent it grants any additional collateral to any other creditor or creditors under one or more debt instruments initially secured on a parity with the Senior Secured Obligations, the Holders will be granted a parity lien on and pledge of such additional collateral and the proceeds of any such additional collateral will be applied on a pro rata basis as among the Holders.

SECTION 10.12. Observance and Performance of Covenants, Agreements, Authority and Actions. Citizens covenants and agrees to observe and perform faithfully at all times all covenants, agreements, authority, actions, undertakings, stipulations and provisions to be observed or performed on its part under this Master Indenture and the Senior Secured Obligations which are executed, authenticated and delivered or designated under this Master Indenture, and under all proceedings of its Board pertaining thereto.

SECTION 10.13. Certain Notices to Trustee. Citizens covenants and agrees to provide prompt written notice to the Trustee immediately upon Citizens’ becoming aware of the existence of an Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default) hereunder. Within ninety (90) days after the end of each Fiscal Year, Citizens shall provide to the Trustee a certificate to the effect that no Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default) occurred during the recently concluded Fiscal Year and is continuing hereunder or, if any such Event of Default (or event that with the passage of time or giving of notice, or both, would constitute an Event of Default), occurred and is continuing, containing a description of such Event of Default or other event.

(End of Article X)

ARTICLE XI

MATTERS RELATING TO HOLDERS

SECTION 11.01. Purposes of Meetings. A meeting of Holders, or of the Holders of any series of Senior Secured Obligations, may be called at any time and from time to time pursuant to the provisions of this Article XI, to the extent relevant to the Holders of all of the Senior Secured Obligations or of Senior Secured Obligations of that series, as the case may be, to take any action (i) authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Senior Secured Obligations, or of that series, (ii) under any provision of this Master Indenture or (iii) authorized or permitted by law.

SECTION 11.02. Call of Meetings. The Trustee may call at any time a meeting of Holders pursuant to Section 11.01 to be held at any reasonable time and place the Trustee shall determine. Notice of such meeting, setting forth the time, place and generally the subject thereof, shall be mailed by first-class mail, postage prepaid, not fewer than fifteen (15) nor more than ninety (90) days prior to the date of the meeting to the Holders at their addresses as they appear on the Register on the fifteenth (15th) day preceding such mailing, which fifteenth (15th) day, preceding the mailing shall be the record date for the meeting.

If, at any time, the Board, or the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Senior Secured Obligations or, if applicable, the affected series of Senior Secured Obligations, then Outstanding, shall have requested the Trustee to call a meeting of Holders, by written request setting forth the purpose of the meeting, and the Trustee shall not have mailed the notice of the meeting within twenty (20) days after receipt of the request, then Citizens or the Holders of Senior Secured Obligations in the amount above specified may determine the time and the place of the meeting and may call the meeting to take any action authorized in Section 11.01, by mailing notice thereof as provided above.

Any meetings of Holders, or the Holders of any series of Senior Secured Obligations affected by a particular matter, shall be valid without notice, if the Holders of all Senior Secured Obligations, or if applicable, the affected series of Senior Secured Obligations, then Outstanding are present in person or by proxy, or if notice is waived before or after the meeting by the Holders of all Senior Secured Obligations, or if applicable, the affected series of Senior Secured Obligations, Outstanding who were not so present at the meeting, and if Citizens and the Trustee are either present by duly authorized representatives or have waived notice, before or after the meeting.

SECTION 11.03. Voting. To be entitled to vote at any meeting of Holders, a Person shall (a) be a Holder of one or more Outstanding Senior Secured Obligations or, if applicable, of the affected series of Senior Secured Obligations, as of the record date for the meeting as determined above, or (b) be a person appointed by an instrument or document in writing as proxy by a Person who is a Holder as of the record date for the meeting, of one or more Outstanding Senior Secured Obligations or, if applicable, of the affected series of Senior Secured Obligations. Each Holder or proxy shall be entitled to one vote for each \$1,000 principal amount of Senior Secured Obligations held or represented by it.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders of Senior Secured Obligations or of their representatives by proxy and the identifying number or numbers of the Senior Secured Obligations held or represented by them.

SECTION 11.04. Meetings. Notwithstanding any other provisions of this Master Indenture, the Trustee may make any reasonable regulations which it may deem to be advisable for meetings of Holders, with regard to

- (a) proof of the holding of Senior Secured Obligations and of the appointment of proxies,
- (b) the appointment and duties of inspectors of votes,
- (c) recordation of the proceedings of those meetings,
- (d) the execution, submission and examination of proxies and other evidence of the right to vote, and
- (e) any other matters concerning the conduct, adjournment or reconvening of meetings which it may think fit.

The Trustee shall appoint a temporary chair of the meeting by an instrument or document in writing, unless the meeting shall have been called by Citizens or the Holders, as provided in Section 11.02, in which case Citizens or the Holders calling the meeting, as the case may be, shall appoint a temporary chair in like manner. A permanent chair and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in principal amount of the Senior Secured Obligations represented at the meeting and entitled to vote.

The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at the meeting and their counsel, any representatives of the Trustee or Registrar and their counsel and any representatives of Citizens and its counsel.

SECTION 11.05. Miscellaneous. Nothing contained in this Article XI shall be deemed or construed to authorize or permit any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Master Indenture or of the Senior Secured Obligations by reason of any call of a meeting of Holders or any rights conferred expressly or impliedly hereunder to make a call.

SECTION 11.06. Calculation of Principal Amount of Senior Secured Obligations. The following rules shall apply for purposes of calculating the principal amount of Senior Secured Obligations held by a Holder for purposes of voting, consents, remedial actions and any other purpose:

- (i) Holders of Bonds or Bank Facilities not secured by a Credit Enhancement Facility meeting the criteria of Section 8.04 or which Credit Enhancement Facility is then in default, shall be deemed to be Holders of the principal amount of Bonds owned by such Holder, with respect to Bonds, and the sum of the principal amount of loans

outstanding plus the amount available to be drawn but which has not been drawn under a Bank Facility, with respect to Bank Facilities.

(ii) Holders of Bonds or other Senior Secured Obligations secured by a Credit Enhancement Facility that meets the criteria referenced in Section 8.04, which Credit Enhancement Facility is not in default, shall not be deemed to be the Holder of such Bonds or Senior Secured Obligations but rather, the Credit Enhancement Facility Issuer shall be deemed to be the sole Holder of such Bonds.

(iii) Holders of Senior Secured Obligations which evidence obligations under a Related Hedge Agreement shall be deemed to be the Holders of Senior Secured Obligations in the principal amount of 0% of the notional amount reflected in the Related Hedge Agreement.

(End of Article XI)

ARTICLE XII

MISCELLANEOUS

SECTION 12.01. Limitation of Rights. With the exception of rights conferred expressly in this Master Indenture, nothing expressed or mentioned in or to be implied from this Master Indenture or the Senior Secured Obligations is intended or shall be construed to give to any Person other than the parties hereto, the Registrar, the Authenticating Agents and the Holders of the Senior Secured Obligations any legal or equitable right, remedy, power or claim under or with respect to this Master Indenture or any covenants, agreements, conditions and provisions contained herein. This Master Indenture and all of those covenants, agreements, conditions and provisions are intended to be, and are, for the sole and exclusive benefit of the parties hereto and the Holders of the Senior Secured Obligations, as provided herein.

SECTION 12.02. Severability. In case any section or provision of this Master Indenture, or any covenant, agreement, stipulation, obligation, act or action, or part thereof, made, assumed, entered into or taken under this Master Indenture, or any application thereof, is held to be illegal or invalid for any reason, or is inoperable at any time, that illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision of this Master Indenture or any other covenant, agreement, stipulation, obligation, act or action, or part thereof, made, assumed, entered into or taken under this Master Indenture, all of which shall be construed and enforced at the time as if the illegal, invalid or inoperable portion were not contained therein.

Any illegality, invalidity or inoperability shall not affect any legal, valid and operable section, provision, covenant, agreement, stipulation, obligation, act, action, part or application, all of which shall be deemed to be effective, operative, made, assumed, entered into or taken in the manner and to the full extent permitted by law from time to time.

SECTION 12.03. Notices. Except as provided in Section 7.02 hereof, it shall be sufficient service or giving of any notice, request, complaint, demand or other instrument or document, if it is forwarded by first-class mail, postage prepaid or by overnight courier service, delivery charges prepaid. Notices to Citizens and the Trustee shall be addressed as follows:

(a) If to Citizens, at Citizens Property Insurance Corporation, 2312 Killearn Center Boulevard, Tallahassee, Florida 32309, Attention: Executive Director; with a copy of such notice to the Chief Financial Officer and the General Counsel of Citizens.

(b) If to the Trustee, at _____, _____, _____, Attention: Corporate Trust Services.

Duplicate copies of each notice, request, complaint, demand or other instrument or document given hereunder by Citizens, the Trustee or the Holders to one or both of the others also shall be given to the others. The foregoing parties may designate, by notice given hereunder, any further or different addresses to which any subsequent notice, request, complaint, demand or other instrument or document shall be sent. The Trustee shall designate, by notice to Citizens the addresses to which notices or copies thereof shall be sent to the Registrar, the Authenticating Agents and the Paying Agents.

In connection with any notice forwarded pursuant to the provisions of this Master Indenture, a certificate of the Trustee, Citizens, the Registrar, the Authenticating Agents or the Holders of the Bonds, whichever or whoever forwarded that notice, that the notice was so forwarded shall be conclusive evidence of the proper mailing of the notice.

SECTION 12.04. Suspension of Mail or Courier Services. If because of the suspension of delivery of first-class mail or by courier services, or for any other reason, the Trustee shall be unable to forward by the required class of mail or by overnight courier service any notice required to be forwarded by the provisions of this Master Indenture, the Trustee shall give such notice in such other manner as in the judgment of the Trustee shall most effectively approximate the forwarding thereof required by this Master Indenture, and the giving of that notice in that manner for all purposes of this Master Indenture shall be deemed to be in compliance with the requirement hereunder for the forwarding thereof. Except as otherwise provided herein, the forwarding of any notice shall be deemed complete upon deposit of that notice in the mail or the delivery to the overnight courier service and the giving of any notice by any other means of delivery shall be deemed complete upon receipt of the notice by the means of delivery.

SECTION 12.05. Payments Due on Saturdays, Sundays and Holidays. If any Interest Payment Date, any date of maturity of the principal of any Senior Secured Obligation or any date fixed for redemption or purchase of any Senior Secured Obligation is a Saturday, a Sunday or a day on which (i) the Trustee is required, or authorized or not prohibited, by law (including, without limitation, executive orders) to close and is closed, then payment of interest, principal, purchase price or any redemption premium need not be made by the Trustee or any Paying Agent on that date, but that payment may be made on the next succeeding Business Day on which the Trustee is open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption or purchase, and no interest shall accrue for the period after that date, or (ii) a Paying Agent is required, or authorized or not prohibited, by law (including, without limitation, executive orders) to close and is closed, then payment of interest, principal, purchase price and any redemption premium need not be made by that Paying Agent on that date, but that payment may be made on the next succeeding Business Day on which that Paying Agent is open for business with the same force and effect as if that payment were made on the Interest Payment Date, date of maturity or date fixed for redemption or purchase and no interest shall accrue for the period after that date; provided, that if the Trustee is open for business on the applicable Interest Payment Date, date of maturity or date fixed for redemption or purchase, it shall make any payment required hereunder with respect to payment of interest on Outstanding Bonds and payment of principal or purchase price of and premium on Bonds presented to it for payment or purchase, regardless of whether any Paying Agent shall be open for business or closed on the applicable Interest Payment Date, date of maturity or date fixed for redemption or purchase.

SECTION 12.06. Instruments of Holders. Any writing, including, without limitation, any consent, request, direction, approval, objection or other instrument or document required under this Master Indenture to be executed by any Holder may be in any number of concurrent writings of similar tenor and may be executed by that Holder in person or by an agent or attorney appointed in writing. Proof of (i) the execution of any writing including, without limitation, any consent, request, direction, approval, objection or other instrument or document,

(ii) the execution of any writing appointing any agent or attorney, and (iii) the ownership of Senior Secured Obligations, shall be sufficient for any of the purposes of this Master Indenture if made in the following manner and, if so made, shall be conclusive in favor of the Trustee with regard to any action taken thereunder, namely:

(a) the fact and date of the execution by any person of any writing may be proved by the certificate of any officer in any jurisdiction, who has power by law to take acknowledgments within that jurisdiction, that the person signing the writing acknowledged that execution before that officer, or by affidavit of any witness to that execution; and

(b) the fact of ownership of Bonds shall be proved by the Register maintained by the Registrar.

Nothing contained herein shall be construed to limit the Trustee to the foregoing proof, and the Trustee may accept any other evidence of the matters stated therein which it deems to be sufficient. Any writing, including, without limitation, any consent, request, direction, approval, objection or other instrument or document, of the Holder of any Senior Secured Obligations shall bind every future Holder of the same Senior Secured Obligations, with respect to anything done or suffered to be done by Citizens, the Trustee, the Registrar or any Paying Agent or Authenticating Agent pursuant to that writing.

SECTION 12.07. Priority of this Master Indenture. This Master Indenture shall be superior to any liens which may be placed upon the Pledged Revenues or any other funds or accounts created pursuant to this Master Indenture.

SECTION 12.08. Extent of Covenants; No Personal Liability. All covenants, stipulations, obligations and agreements of Citizens contained in this Master Indenture are and shall be deemed to be covenants, stipulations, obligations and agreements of Citizens to the full extent authorized by the Act and permitted by the Constitution of the State. No covenant, stipulation, obligation or agreement of Citizens contained in this Master Indenture shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of Citizens or the Board in other than that person's official capacity. Neither the members of the Board nor any official executing the Senior Secured Obligations or this Master Indenture or any amendment or supplement hereto shall be liable personally on the Senior Secured Obligations or be subject to any personal liability or accountability by reason of the issuance or execution hereof or thereof

SECTION 12.09. Binding Effect. This Master Indenture shall inure to the benefit of and shall be binding upon Citizens and the Trustee and their respective successors and assigns, subject however to the limitations contained herein.

SECTION 12.10. Counterparts. This Master Indenture may be executed in counterpart, and in any number of counterparts, each of which shall be regarded as an original and all of which together shall constitute but one and the same instrument.

SECTION 12.11. Governing Law. This Master Indenture and the Senior Secured Obligations shall be deemed to be contracts made under the laws of the State and for all purposes shall be governed by and construed in accordance with the laws of the State.

(End of Article XII)

IN WITNESS WHEREOF, Citizens has caused this Master Indenture to be executed and delivered for it and in its name and on its behalf by its duly authorized officers; and, in token of its acceptance of the trusts created hereunder, the Trustee has caused this Master Indenture to be executed and delivered for it and in its name and on its behalf by its duly authorized signatories; all as of the day and year first above written.

CITIZENS PROPERTY INSURANCE
CORPORATION

[SEAL]

By: _____
Chairman

ATTEST:

By: _____
Executive Director

not in its individual capacity but as
Trustee, Registrar and Paying Agent.

By: _____
Vice President and Trust Officer

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

On this [2nd] day of [June, 2020], before me, a notary public in and for the State and County aforesaid, personally appeared _____ and _____, Chairman of the Board of Governors and Executive Director, respectively, of Citizens Property Insurance Corporation (“Citizens”), who acknowledged that they did sign the foregoing instrument as such officers, respectively, for and on behalf of Citizens; that the same is their free act and deed as such officers, respectively, and the free act and deed of Citizens; and that the seal affixed to said instrument is the seal of Citizens.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

My Commission expires _____

[NOTARIAL SEAL]

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

On this [2nd] day of [June, 2020], before me, a notary public in and for the State and County aforesaid, personally appeared _____, a Vice President and Trust Officer of _____, as Trustee, who acknowledged that he did sign said instrument as such officer for and on behalf of said corporation; that the same is his free act and deed as such officer and the free act and deed of said corporation; and that the seal affixed to said instrument is the seal of said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year in this certificate first above written.

My Commission expires _____

[NOTARIAL SEAL]

EXHIBIT A

FORM OF DRAW CERTIFICATE (REQUISITION)

**CITIZENS PROPERTY INSURANCE CORPORATION
COASTAL ACCOUNT**

This Draw Certificate (the “Requisition”) is submitted by Citizens Property Insurance Corporation (“Citizens”), by and through its undersigned Authorized Citizens Representatives, pursuant to Section 5.01(c) of that certain Master Trust Indenture dated as of [June 2, 2020] (the “Master Indenture”), between Citizens and the Trustee, in order to obtain a Draw from amounts on deposit in the Proceeds Account established under the Master Indenture in the amounts and for the purpose set forth below. Capitalized terms used herein without definitions have the meanings ascribed thereto in the Master Indenture.

The Authorized Citizens Representatives hereby certify to the Trustee as follows:

1.	Total Amount of Draw:	\$ _____	
2.	Purpose of Draw:	Pay claims or other costs [Insert if applicable: associated with a Plan Year Deficit for the calendar year ____,] incurred as a result of [Insert if applicable: provide brief explanation as to cause of Plan year Deficit]. _____ _____ _____	
3.	Type of Pledged Revenue against which draw is made (check one or more, as applicable):	___	Citizens Policyholder Surcharges Amount of Draw Allocable: \$ _____
		___	Regular Assessments Amount of Draw Allocable: \$ _____
		___	FHCF Reimbursements (complete item 5 below) Amount of Draw Allocable: \$ _____
		___	Emergency Assessments (complete item 4 below) Amount of Draw Allocable: \$ _____

		___	Additional Surcharge and Assessments (other than Citizens Policyholder Surcharges) Amount of Draw Allocable: \$ _____
4.	Basis for determination of Emergency Assessments:	___	Aggregate direct written premiums (complete item 6 below)
		___	Percentage of Plan Year Deficit. The percentage is __%.
5.	Certification as to FHCF Agreement:	The undersigned hereby certify that the FHCF Agreement dated _____, between Citizens and the State Board of Administration of the State of Florida, which administers the FHCF, is in full force and effect.	

6. **General Certification as to Sufficiency of Moneys:** After giving effect to the Draw requested hereby, (i) the sum of (A) the amount now on deposit in the Debt Service Account, (B) the amount to remain on deposit in the Proceeds Account immediately following this Draw and (C) the amount of Pledged Revenues and other available moneys reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of reimbursing this Draw or for the payment of principal and of interest on the Bonds in each year through the final maturity of the Bonds now Outstanding, will be sufficient to pay that portion of the Annual Payment Requirements as they become due through the final maturity of the Bonds, on the Bonds now Outstanding; and (ii) the sum of (A) all amounts now on deposit in the accounts established under all Bank Credit Agreements for the payment of Bank Credit Facilities and (B) the amount of Pledged Revenues and other available moneys (excluding any such revenues included for purposes of clause (i)(C) hereof) reasonably expected to be received by the Trustee from or on behalf of Citizens and available for the purpose of paying the Senior Secured Obligations other than Bonds in each year through the final maturity of Senior Secured Obligations now Outstanding other than Bonds, will be sufficient to pay that portion of the Annual Payment Requirements as they become due through the final maturity of such Senior Secured Obligations, on Senior Secured Obligations Outstanding other than Bonds.

7. **No Event of Default:** There does not exist an Event of Default under this Master Indenture or an event that with the passage of time or the giving of notice, or both, would constitute such an Event of Default.

IN WITNESS WHEREOF, Citizens has caused this certificate to be executed by its Authorized Citizens Representatives, as of this ____ day of _____, 20 ____.

Dated: _____

Authorized Citizens Representative
Citizens Property Insurance Corporation

Authorized Citizens Representative
Citizens Property Insurance Corporation

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