Citizens Property Insurance Corporation

Statutory-Basis Financial Statements and Supplementary Information

Years Ended December 31, 2015 and 2014

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

To the Audit Committee
Citizens Property Insurance Corporation
Tallahassee, Florida

We have audited the accompanying statutory-basis financial statements of Citizens Property Insurance Corporation (Citizens), which comprise the statutory-basis statement of admitted assets, liabilities and accumulated surplus as of December 31, 2015, and the related statutory-basis statements of income, changes in accumulated surplus, and cash flows for the year then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory-basis financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statutory-basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

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

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by Citizens in accordance with the statutory accounting principles prescribed or permitted by the Office, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Office. The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are described in Note 13.

DIXON HUGHES GOODMAN LLP

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, the statutory-basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Citizens as of December 31, 2015, or the results of its operations or its cash flows for the year then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus of Citizens as of December 31, 2015, or the results of its operations and its cash flows for the year then ended.

Predecessor Auditors' Opinion on 2014 Statutory-Basis Financial Statements

The statutory-basis financial statement of admitted assets, liabilities and accumulated surplus as of December 31, 2014 and the related statutory-basis statements of operations, changes in accumulated surplus, and cash flows for the year then ended, and the related notes to the statutory-basis financial statements, were audited by other auditors whose report, dated May 29, 2015, expressed an unmodified opinion on those statutory-basis financial statements.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The Supplemental Combining Statutory-Basis Statement of Admitted Assets, Liabilities and Accumulated Surplus by Account, Supplemental Combining Statutory-Basis Statement of Income by Account, Summary Investment Schedule, the Supplemental Reinsurance Interrogatories, and the Supplemental Investment Risks Interrogatories (collectively, "Supplementary Information") on pages 30 through 39 as of and for the year ended December 31, 2015, are presented for purposes of additional analysis and are not required as part of the basic statutory-basis financial statements. This additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The information has been subjected to the auditing procedures applied in the audit 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 statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matter described in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America" paragraph, it is inappropriate to and we do not express an opinion on the Supplementary Information in accordance with accounting principles generally accepted in the United States of America. In our Opinion, this information is fairly stated in all material respects in relation to the statutory-basis financial statements in accordance with statutory accounting principles prescribed or permitted by the Office as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
May 31, 2016

Citizens Property Insurance Corporation
Statutory-Basis Statements of Admitted Assets, Liabilities and Accumulated Surplus
December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
ADMITTED ASSETS		
Cash and invested assets:		
Bonds	**$ 11,484,293**	$ 12,221,894
Cash, cash equivalents, and short-term investments	**1,665,225**	1,456,597
Receivable for securities	**5,829**	-
Total cash and invested assets	**13,155,347**	13,678,491
Investment income due and accrued, net	**74,733**	74,222
Premiums receivable, net	**89,889**	117,842
Reinsurance recoverable on paid losses and loss adjustment expenses	**2,606**	923
Other receivables under reinsurance contracts, net	**32,435**	32,654
Assessment receivable	**3,330**	5,530
Other admitted assets	**4,657**	4,586
Total admitted assets	**$ 13,362,997**	$ 13,914,248
LIABILITIES AND ACCUMULATED SURPLUS		
Liabilities:		
Loss reserves, net	**$ 522,740**	$ 738,068
Loss adjustment expense reserves, net	**209,872**	294,920
Retroactive reinsurance ceded	**(1,433)**	(1,466)
Unearned premiums, net	**513,335**	696,086
Reserve for future assessments	**146,095**	38,246
Taxes and fees payable (receivable)	**1**	(1,035)
Reinsurance payable	**133,138**	144,953
Provision for reinsurance	**11**	556
Bonds payable	**4,318,932**	4,420,636
Interest payable	**16,592**	22,540
Advance premiums and suspended cash	**32,247**	48,961
Other liabilities	**81,776**	127,755
Total liabilities	**5,973,306**	6,530,220
Accumulated surplus:		
Restricted	**20,950**	25,348
Unrestricted	**7,368,741**	7,358,680
Total accumulated surplus	**7,389,691**	7,384,028
Total liabilities and accumulated surplus	**$ 13,362,997**	$ 13,914,248

Citizens Property Insurance Corporation
Statutory-Basis Statements of Income
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
Underwriting income:		
Net premiums earned	$ 760,750	$ 1,377,841
Underwriting expense:		
Net losses incurred	402,515	441,155
Net loss adjustment expenses incurred	86,538	198,935
Other underwriting expenses incurred	278,787	374,600
Total underwriting expense	767,840	1,014,690
Net underwriting (loss) income	(7,090)	363,151
Investment (expense) income:		
Net interest income	141,084	128,535
Net realized capital gains	19,047	53,501
Net interest expense	(165,800)	(180,835)
Total investment (expense) income, net	(5,669)	1,201
Other income (expense):		
Assessment income (expense)	19,326	(19,020)
Other (expense) income	(863)	5,790
Total other income (expense)	18,463	(13,230)
Net income	$ 5,704	$ 351,122

See accompanying notes to the statutory-basis financial statements.

Citizens Property Insurance Corporation
Statutory-Basis Statements of Changes in Accumulated Surplus
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	Restricted	Unrestricted	Total Accumulated Surplus
Balance at December 31, 2013	$ 15,339	$ 6,992,869	$ 7,008,208
Net income	-	351,122	351,122
Change in nonadmitted assets	-	23,770	23,770
Change in provision for reinsurance	-	1,325	1,325
Net assessments advanced / (released) from FSLSO	10,009	(10,009)	-
Other	-	(397)	(397)
Balance at December 31, 2014	25,348	7,358,680	7,384,028
Net income	**-**	**5,704**	**5,704**
Change in nonadmitted assets	**-**	**(555)**	**(555)**
Change in provision for reinsurance	**-**	**545**	**545**
Net assessments advanced / (released) from FSLSO	**(4,398)**	**4,398**	**-**
Other	**-**	**(31)**	**(31)**
Balance at December 31, 2015	**$ 20,950**	**$ 7,368,741**	**$ 7,389,691**

Citizens Property Insurance Corporation
Statutory-Basis Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollars in thousands)

	2015	2014
Operating activities:		
Premiums collected, net of reinsurance	**$ 580,637**	$ 972,774
Loss and loss adjustment expenses paid	**(791,112)**	(862,447)
Underwriting expenses paid	**(282,424)**	(379,101)
Net investment income received	**75,849**	68,904
Other income (expenses) received (paid)	**(8,824)**	10,215
Net cash used in operating activities	**(425,874)**	(189,655)
Investing activities:		
Proceeds from investments sold, matured or repaid	**7,900,014**	7,973,070
Investments acquired	**(7,275,745)**	(7,453,633)
Net cash provided by investing activities	**624,269**	519,437
Financing and miscellaneous activities:		
Borrowed funds received	**1,088,275**	-
Borrowed funds repaid	**(1,173,934)**	(535,275)
Assessments received	**110,050**	209,610
Other cash paid	**(14,158)**	(42,375)
Net cash provided by (used in) financing and miscellaneous activities	**10,233**	(368,040)
Net increase (decrease) in cash, cash equivalents, and short-term investments	**208,628**	(38,258)
Cash, cash equivalents, and short-term investments:		
Beginning of year	**1,456,597**	1,494,855
End of year	**$ 1,665,225**	$ 1,456,597

Notes to Statutory-Basis Financial Statements

1. Organization and Description of the Company

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

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

Citizens is supervised by a Board of Governors (the Board) which consists of nine individuals who reside in the State of Florida. The Governor appoints three members, and the Chief Financial Officer, the President of the Senate and the Speaker of the House of Representatives each appoint two members of the Board. At least one of the 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 (collectively, the Accounts). A brief history of each account follows:

> ***Personal Lines Account History*** - The FRPCJUA began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property insurance coverage to qualified risks in the State of Florida for applicants who were in good faith entitled to procure insurance through the private market but were unable to do so. Residential property coverage consists of the types of coverage provided to homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies. The policies provide coverage for all perils covered under a standard residential policy, subject to certain underwriting requirements. Such policies may exclude windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account (PLA) under Citizens.

***Commercial Lines Account History* -** The Florida Property and Casualty Joint Underwriting Association (FPCJUA) was activated in early 1994 to provide commercial residential coverage (i.e. coverage for condominium associations, apartment buildings and homeowner associations) to organizations unable to obtain such coverage from a private insurer. During 1995, legislation was enacted to transfer all obligations, rights, assets, and liabilities related to commercial residential coverage from the FPCJUA to the FRPCJUA. The legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. This portion of the FRPCJUA's activities became the Commercial Lines Account (CLA) under Citizens. In 2006, the FPCJUA was re-activated to provide commercial non-residential wind-only coverage. In 2007, legislation was enacted which resulted in the transfer and assumption of the FPCJUA's commercial non-residential policies by Citizens. These policies were added to the CLA.

***Coastal Account History* -** The FWUA, which was a residual market mechanism for windstorm and hail coverage in select areas of the State of Florida, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State of Florida. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High-Risk Account (HRA) under Citizens. In 2007, Citizens received authority to issue multi-peril policies in the HRA. Pursuant to legislative changes during 2011, the HRA was renamed the Coastal Account.

2. Summary of Significant Accounting Policies

Basis of Presentation

Citizens prepares its statutory-basis financial statements in conformity with Florida statutes and accounting rules prescribed by the Office for insurance companies domiciled in the State of Florida. The statutory-basis financial statements have been prepared in conformity with the Statutory Accounting Principles (SAP) of the National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office, as described below.

SAP is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). The significant SAP which differ from GAAP are as follows:

- Certain assets are defined under SAP as "nonadmitted." These include furniture and equipment, leasehold improvements, certain prepaid assets, certain computer software, investments over prescribed limits and receivables in the course of collection with balances more than 90 days past due. The net change in such nonadmitted assets during the year is charged or credited directly to accumulated surplus. Conversely, GAAP includes these as assets net of any applicable valuation allowance.

- Investments in bonds are reported at amortized cost or fair value based on their NAIC rating; for GAAP, these investments would be reported at fair value with unrealized holding gains and losses reported in the statement of operations.

(Dollars in thousands)

- All single class and multi-class mortgage-backed/asset-backed securities, such as collateralized mortgage obligations (CMOs), when it is determined that a decline in fair value is other-than-temporary, the amortized cost basis is written down to the present value of future cash flows. The difference between the amortized cost basis and the present value of future cash flows is recognized as a realized loss in the consolidated statutory-basis statements of operations. For GAAP, all securities held representing beneficial interests in securitized assets, such as CMOs, mortgage-backed securities and other asset-backed securities, excluding high credit quality securities, are written down to fair value if the decline is determined to be other-than-temporary.

- Cash, cash equivalents, and short-term investments in the statutory-basis statements of admitted assets, liabilities, and accumulated surplus and cash flows represent cash balances and investments with original maturities of one year or less at the date of acquisition. Under GAAP, the corresponding caption of cash and cash equivalents 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 and cash equivalents. The statutory-basis statement of cash flows does not classify cash flows consistent with GAAP.

- Certain other reported amounts in the statutory-basis financial statements prepared on the basis of SAP are classified or presented differently than they would be under GAAP. Statutory requirements include that the statutory-basis financial statements of Citizens be filed with state regulatory authorities. Accordingly, the statutory-basis financial statements are presented in a format similar to the filed annual statement, which differs from the format of financial statements presented under GAAP. Required statutory disclosures that are not applicable to Citizens are not included in the notes to statutory-basis financial statements.

Differences between Florida prescribed practices and SAP which affect Citizens are provided in Section 625.305, Florida Statutes. This statute provides limitations on the admission of invested assets as a percentage of total admitted assets, for securities with ratings of 5 and 6 as issued by the Securities Valuation Office (SVO) or equivalent rating agency, among other limitations not applicable to Citizens. Measurement for nonadmitted invested assets under this prescribed practice is performed separately for each of Citizens' Accounts. The effect of the prescribed practice on accumulated surplus is provided below. There is no effect on net income as a result of the prescribed practice.

Description	**State**	**2015**	**2014**
Accumulated surplus, state basis	FL	**$ 7,389,691**	$ 7,384,028
Effect of state prescribed practices			
F.S. 625.305(4) d. Nonadmitted Invested Assets	FL	**38,256**	36,098
Accumulated surplus, SAP basis		**$ 7,427,947**	$ 7,420,126

Significant Accounting Policies

Use of Estimates

The preparation of the statutory-basis financial statements in accordance with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Bonds

Bonds, which consist solely of debt securities, are recorded at admitted asset values, as prescribed by the NAIC's valuation procedures and are rated in accordance with current NAIC guidelines. Bonds designated by the SVO or equivalent as 1 or 2 are reported at amortized cost. Bonds designated as 3-6 are reported at the lower of amortized cost or fair value. Debt securities not backed by other loans are stated at amortized cost using the interest method. Loan backed debt securities and structured securities are stated at amortized cost using the interest method and adjusted retrospectively. Prepayment assumptions were obtained from broker dealer values. Fair values are generally measured using quoted prices in active markets for identical securities or other inputs that are observable either directly or indirectly, such as quoted prices for similar securities.

Declines in the estimated fair value of bonds below amortized cost are evaluated for other-than-temporary impairment (OTTI) losses on a regular basis. Impairment losses for declines in the estimated fair value of bonds below amortized cost attributable to issuer-specific events are evaluated based upon all relevant facts and circumstances for each investment and are recognized when appropriate in accordance with SAP and related guidance. In determining OTTI, Citizens considers many factors, including (1) the length of time and extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; (3) whether the market decline was affected by macroeconomic conditions; (4) the present value of the expected future cash flows associated with the debt security compared to its carrying value; and (5) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery, which may be maturity. The assessment of whether an OTTI decline exists involves a high degree of subjectivity and judgment, and is based on the information available at a point in time. Citizens records an impairment charge to the extent that the amortized cost exceeds the estimated fair value of the securities and the decline in value is determined to be other than temporary. Citizens recognizes OTTI losses on its loan-backed and structured securities measured as the difference between amortized cost and estimated present value of projected future cash flows. OTTI charges are recognized in net realized capital gains.

Cash, Cash Equivalents, and Short-term Investments

Cash and cash equivalents consists of highly liquid investments with remaining maturities of three months or less at the date of purchase. Short-term investments are investments with remaining maturities of one year or less at the date of purchase (excluding those investments classified as cash) and are generally recorded at cost.

Short-term investments include amounts invested in various money market funds, commercial paper, short-term municipal securities, short-term corporate bonds and U.S. government agency short-term notes.

(Dollars in thousands)

Net Investment (Expense) Income

Net investment (expense) income includes interest income, amortization and accretion, and realized gains and losses on sales of investments that are recognized on the specific identification basis. Gains and losses from call redemptions and repayments are charged to investment income. Net investment (expense) income also includes bond interest, bond expenses and investment expenses. Interest is recognized on the accrual basis and uncollected interest is recorded in investment income due and accrued in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. Accrual of income is suspended for bonds that are in default or when the receipt of interest payments is in doubt.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are depreciated using the straight-line method over the assets' estimated useful life. The estimated useful lives, by asset class, are as follows:

Electronic data processing (EDP) equipment:	3 years
Office equipment and automobiles:	5 years
Furniture and equipment:	7 years
Leasehold improvements:	10 years

The cost and accumulated depreciation for EDP equipment was $41,470 and $37,258 at December 31, 2015, and $37,945 and $33,806 at December 31, 2014, respectively. Depreciation and amortization expense was $5,171 and $6,652 for the years ended December 31, 2015 and 2014, respectively, and is included in other underwriting expenses incurred on the accompanying statutory-basis statements of income. Nonadmitted balances for fixed assets, excluding EDP equipment, at December 31, 2015 and 2014 were $5,638 and $3,940, respectively. Net admitted EDP equipment is included in other admitted assets on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

Loss Reserves and Loss Adjustment Expense Reserves

Liabilities for loss reserves and loss adjustment expense (LAE) reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations for incurred but not reported reserves, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and LAE incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses and LAE. However, the ultimate settlement of losses may vary significantly from the reserves provided. Adjustments to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. Citizens does not discount liabilities for loss reserves and LAE reserves. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and LAE. While anticipated price increases due to inflation are considered in estimating the ultimate claim costs, the increase in average severities of claims is caused by a number of factors that vary with the individual type of policy written. Future average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions, and general economic trends. Those anticipated trends are monitored based on actual development and the estimated liabilities are modified, if necessary.

In the event of loss recoveries through reinsurance agreements, loss and LAE reserves are reported net of reinsurance amounts recoverable for unpaid losses and LAE. Losses and LAE ceded through reinsurance are credited against losses and LAE incurred.

Salvage and subrogation recoveries are not recorded until cash is received.

Premiums

Premiums written are recorded on the effective date of the policy and earned using the daily pro rata method over the policy period. The portion of premiums not earned at the end of the reporting period are recorded as unearned premiums. Premiums collected prior to the effective date of the policy are recorded as advance premiums. Amounts incurred for ceded reinsurance premiums are deducted from written, earned and unearned premiums. Funds collected that are not readily identifiable with a Citizens' policy, primarily as a result of depopulation, are temporarily recorded as suspended cash until such time as the funds can be settled or returned by Citizens.

If anticipated losses, LAE, commissions and other acquisition costs exceed Citizens' recorded unearned premium reserve, a premium deficiency is recognized by recording an additional liability for the deficiency. Citizens anticipates investment income as a factor in the premium deficiency calculation. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with how Citizens' policies are marketed, serviced, and measured for the profitability of such contracts. Additionally, Citizens' premium deficiency calculation is performed for each Account separately. At December 31, 2015 and 2014, management determined that no premium deficiency reserve was required.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using estimated annual premiums for each policy and are paid either through an installment plan offered by Citizens or in their entirety at the inception of the policy. Citizens nonadmits assets due from insureds for which a portion of the receivable is more than 90 days past due. Premiums receivable are charged to bad debt expense in the period determined uncollectible. Recoveries received on amounts previously charged off are credited to bad debt expense in the period received. As of December 31, 2015 and 2014, nonadmitted premiums receivable totaled $2,027 and $3,473, respectively.

Premium revenues and associated policy fees and inspection fees are recognized in accordance with the rates, rules, and forms as filed with the Office. Associated policy fees and inspection fees and included within other income (expense).

Underwriting Expenses

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred.

Guaranty Fund and Other Assessments

Citizens is subject to assessments by the Florida Insurance Guaranty Association (FIGA). For the property lines of insurance, FIGA collects assessments from solvent insurance companies operating in Florida to cover the costs resulting from insolvency or rehabilitation of other insurance companies. Assessments are charged to expense and a liability is accrued when Citizens is notified that an assessment will be levied. After paying the FIGA assessment, Citizens recoups the assessment from its own insureds. Citizens records a receivable and recognizes revenue for the amount of policy surcharges that are expected to be received to recoup any assessment levied by FIGA. Uncollected balances associated with FIGA assessments are reported as assessments receivable on the accompanying statutory-basis statements of admitted assets, liabilities, and accumulated surplus.

Citizens is also required to assess insurers and insureds in Florida for deficits incurred by Citizens. Assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as receivable in the period approved by the Board and the Office and levied by Citizens (see Note 14). Assessment receivables are considered to be fully collectible. Under the Plan, amounts collected in excess of the calculated assessment are carried as a liability on the statutory-basis statements of admitted assets, liabilities and accumulated surplus as reserve for future assessments until such time as their permitted use is determined by the Board in accordance with the Plan.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. Reinsurance recoverables on unpaid losses and LAE are recorded as a reduction to loss and LAE reserves. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance premiums are recorded as premiums ceded and are amortized over the life of the Atlantic hurricane season, from June 1 to November 30, for which the premiums apply. Premiums ceded include Florida Hurricane Catastrophe Fund (FHCF), private catastrophe reinsurance purchases and depopulation premiums.

Other receivables under reinsurance contracts represent amounts receivable from reinsurers on depopulation premiums. Reinsurance premiums payable represents amounts due to the FHCF, private reinsurers, and as a result of depopulation, which is presented as a liability. For multi-year treaties, ceded reinsurance is incurred in the treaty year in proportion to the coverage provided and amortized over the life of the hurricane season. Amounts unpaid for the current treaty year are recorded as reinsurance payable under the terms of the treaty.

Retroactive reinsurance ceded on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus represents ceded losses and loss adjustment expenses associated with a 100% quota-share reinsurance agreement that qualified for retroactive treatment in accordance with SSAP No. 62R, *Property and Casualty Reinsurance*. All policies ceded under the agreement were fully earned as of December 31, 2015 and 2014. Changes in retroactive reinsurance reserves are recognized on the accompanying statutory-basis statements of income within other (expense) income.

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 2015 or 2014.

Significant Concentrations of Risks

Citizens has geographic exposure to catastrophic losses. Catastrophes can be caused by various events including, but not limited to, hurricanes, windstorms, hail and fire. The occurrence and severity of catastrophes are inherently unpredictable. Citizens attempts to mitigate its exposure to losses from catastrophes by purchasing catastrophe reinsurance coverage. Catastrophes, depending on their path and severity, could result in losses exceeding Citizens' reinsurance protection, and could have a material adverse effect on Citizens' financial condition and results of operations.

Citizens' exposure to concentrations of credit risk consists primarily of its cash, investments, and reinsurance balances. Citizens minimizes this risk by maintaining cash at highly rated financial institutions, adhering to an investment strategy that emphasizes preservation of principal, and contracting with reinsurance companies that meet certain rating criteria and other qualifications. Financial instruments that potentially subject Citizens to concentrations of credit risk consist principally of cash and cash equivalents, and investments. Citizens' cash management and investment policies restrict investments by type, credit and issuer, and Citizens performs periodic evaluations of the credit standing of the financial institutions with which it deals. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation up to $250,000 per depositor. Bank deposits at times may exceed federally insured limits. An increased risk of loss occurs as more investments are acquired from one issuer or a group of issuers within one industry which results in a concentration of credit risk. Excluding securities issued by U.S. Government & Agencies, Citizens does not hold any securities from any single issuer that exceeded 5% of the investment portfolio. Citizens' investment strategy focuses primarily on higher quality, fixed income securities, reviews the credit strength of all entities in which it invests, limits its exposure in any one investment, and monitors portfolio quality, taking into account credit ratings assigned by recognized credit rating organizations. Citizens enters into reinsurance treaties with highly rated reinsurers and obtains a letter of credit from any unauthorized reinsurer and certain certified reinsurers. As of December 31, 2015, management believes Citizens had no significant concentrations of credit risk.

(Dollars in thousands)

Citizens is exposed to interest rate risk, which is the risk that interest rates will change and cause a decrease in the value of fixed-rate investments. Citizens mitigates this risk by attempting to match the maturity schedule of its assets with the expected payout of its liabilities.

Components of Unrestricted Surplus

Unrestricted surplus for the years ended December 31, 2015 and 2014 was comprised of the following:

	2015	2014
Unrealized capital (loss)	**$ (6)**	$ -
Provision for reinsurance	**$ (11)**	$ (556)
Nonadmitted assets:		
Bonds	**$ (1,565)**	$ (2,961)
Short-term investments	**(36,691)**	(33,137)
Premiums receivable	**(2,027)**	(3,473)
Other receivables under reinsurance contracts	**(5,053)**	(6,602)
Furniture, fixtures and equipment	**(5,638)**	(3,940)
Prepaid expenses	**(7,348)**	(8,578)
Other assets	**(1,769)**	(845)
Total nonadmitted assets	**$ (60,091)**	$ (59,536)

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 under SSAP No. 100, *Fair Value*. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect 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.

At December 31, 2015, Citizens did not have any financial assets or liabilities measured at estimated fair value on a recurring basis.

(Dollars in thousands)

The following tables reflect the admitted values and estimated fair values of all admitted assets and liabilities that are financial instruments at December 31, 2015 and 2014. The estimated fair values are categorized into the three-level fair value hierarchy as described below.

	2015				
	Admitted Value	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Bonds	**$ 11,484,293**	**$ 11,492,065**	**$ 1,360,660**	**$ 10,131,405**	**$ -**
Cash, cash equivalents, and short-term investments	**1,665,225**	**1,730,721**	**1,406,617**	**324,104**	**-**
Investment income due and accrued	**74,733**	**74,733**	**-**	**74,733**	**-**
Total financial assets	**$ 13,224,251**	**$ 13,297,519**	**$ 2,767,277**	**$ 10,530,242**	**$ -**
Financial liabilities					
Bonds payable	**$ 4,318,932**	**$ 4,528,742**	**$ -**	**$ 4,528,742**	**$ -**
Interest payable	**16,592**	**16,592**	**-**	**16,592**	**-**
Total financial liabilities	**$ 4,335,524**	**$ 4,545,334**	**$ -**	**$ 4,545,334**	**$ -**

	2014				
	Admitted Value	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Bonds	$ 12,221,894	$ 12,269,986	$ 1,519,016	$ 10,750,970	$ -
Cash, cash equivalents, and short-term investments	1,456,597	1,527,900	1,188,527	339,373	-
Investment income due and accrued	74,222	74,222	-	74,222	-
Total financial assets	$ 13,752,713	$ 13,872,108	$ 2,707,543	$ 11,164,565	$ -
Financial liabilities					
Bonds payable	$ 4,420,636	$ 4,692,407	$ -	$ 4,692,407	$ -
Interest payable	22,540	22,540	-	22,540	-
Total financial liabilities	$ 4,443,176	$ 4,714,947	$ -	$ 4,714,947	$ -

The following describe fair value methodologies that may not be indicative of net realizable value or reflective of future fair values. Furthermore, Citizens believes different methodologies or assumptions used to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Bonds and Short-Term Investments

When available, the estimated fair values are based on quoted prices in active markets that are readily and regularly obtainable. Generally, these investments are classified in Level 1 and are the most liquid of Citizens' securities holdings, and valuation of these securities does not involve management's judgment.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or which can be derived principally from or corroborated by observable market data. Generally, these investments are classified as Level 2.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or which cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management's judgment or estimation and cannot be supported by reference or market activity. Even though these inputs are unobservable, Citizens believes they are consistent with those which other market participants would use when pricing such securities and are considered appropriate, given the circumstances. Generally, these investments are classified as Level 3.

Cash and Cash Equivalents

The estimated fair value of cash and cash equivalents approximates carrying value and are classified as Level 1, given the nature of cash.

Investment Income Due and Accrued and Interest Payable

The estimated fair value is determined based on significant observable inputs. These amounts are generally classified as Level 2.

Bonds Payable

Citizens' bonds trade on the bond market. The estimated fair value is based on trading activity and closing market prices on December 31.

At the end of each reporting period, Citizens evaluates whether or not any event has occurred or circumstances have changed that would cause an instrument to be transferred between Levels 1 and 2. This policy also applies to transfers into or out of Level 3.

At December 31, 2015 Citizens analyzed its investment portfolio and determined U.S. treasuries, which were previously classified as Level 2, should be classified as Level 1 based on the inputs used to measure estimated fair value. As such, transfers into Level 1 from Level 2 were $1,360,660 during the year ended December 31, 2015. In addition, $1,519,016 related to U.S treasuries in the table related to December 31, 2014 was transferred from Level 2 to Level 1. During the year ended December 31 2014, Citizens had no transfers into or out of any of the levels.

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:

(Dollars in thousands)

- Liquidity Fund (Taxable): generally this policy governs the investment of funds and surplus that, in addition to internally managed cash, are the first monies used to pay claims after an event, and that can be used to pay operating expenses on an ongoing basis.

- Liquidity Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event or to pay principal and / or interest payments on an as needed basis.

- Claims-Paying Fund (Taxable): generally this policy governs the investment of funds used to pay post-event claims after Citizens has expended all monies in the Liquidity Fund. Only monies eligible for investment in taxable instruments are deposited in this fund.

- Claims-Paying Fund (Tax-exempt): generally this policy governs the investment of tax-exempt pre-event bond proceeds and other monies required to be invested in tax-exempt instruments. Citizens uses these monies to pay claims after an event, typically after all funds in the Liquidity Fund have been expended.

Citizens did not recognize any other-than-temporary impairments for the years ended December 31, 2015 or 2014. 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 $38,256 and $36,098 of invested assets at December 31, 2015 and 2014, respectively, that were rated 6 by the SVO or an equivalent rating agency, 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, 2015 and 2014.

Bonds

The amortized cost, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2015 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Bonds:				
U.S. treasury and U.S. government securities	$ 1,393,242	$ 912	$ (4,568)	$ 1,389,586
All other government	67,948	266	(151)	68,063
States, territories and possessions	712,526	2,757	(415)	714,868
Political subdivisions of states, territories and possessions	807,282	3,166	(313)	810,135
Special revenue	3,862,634	8,944	(6,834)	3,864,744
Industrial and miscellaneous	4,407,532	19,084	(16,896)	4,409,720
Mortgage-backed securities	234,694	991	(736)	234,949
Total bonds	11,485,858	$ 36,120	$ (29,913)	$ 11,492,065
Nonadmitted bonds under prescribed practice	(1,565)			
Admitted bonds	$ 11,484,293			

(Dollars in thousands)

The amortized cost, gross unrealized gains and losses, and estimated fair value of bonds at December 31, 2014 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
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 and miscellaneous	4,321,073	29,557	(6,661)	4,343,969
Mortgage-backed securities	249,565	1,650	(123)	251,092
Total bonds	12,224,855	$ 59,219	$ (14,088)	$ 12,269,986
Nonadmitted bonds under prescribed practice	(2,961)			
Admitted bonds	$ 12,221,894			

The unrealized loss position of bonds at December 31, 2015 was as follows:

	Less than 12 months		More than 12 months		Total	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
Bonds:						
U.S. Treasury and U.S. Government Securities	**$ 845,700**	**$ (3,910)**	**$ 220,518**	**$ (658)**	**$ 1,066,218**	**$ (4,568)**
All other government	**13,212**	**(65)**	**19,447**	**(85)**	**32,659**	**(150)**
States, territories and possessions	**112,323**	**(268)**	**32,437**	**(147)**	**144,760**	**(415)**
Political subdivisions of states, territories and possessions	**114,243**	**(236)**	**38,350**	**(77)**	**152,593**	**(313)**
Special revenue	**1,164,589**	**(3,549)**	**529,056**	**(3,285)**	**1,693,645**	**(6,834)**
Industrial and miscellaneous	**1,847,892**	**(10,711)**	**974,029**	**(6,186)**	**2,821,921**	**(16,897)**
Mortgage-backed securities	**93,345**	**(671)**	**32,734**	**(65)**	**126,079**	**(736)**
Total	**$ 4,191,304**	**$ (19,410)**	**$ 1,846,571**	**$ (10,503)**	**$ 6,037,875**	**$ (29,913)**

(Dollars in thousands)

The unrealized loss position of bonds at December 31, 2014 was as follows:

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

There were 2,321 and 698 bond holdings in an unrealized loss position at December 31, 2015 and 2014, respectively.

Citizens believes there were no fundamental issues such as credit losses or other factors with respect to any of its bond securities that are in an unrealized loss position. The unrealized losses on bonds were primarily caused by interest rate changes. It is expected that the securities would not be settled at a price less than the par value of the bonds. Citizens evaluates U.S. Treasury, corporate, and state and municipal bonds based upon factors such as expected cash flows and the financial condition, and near-term and long-term prospects of the issuer, and evaluates mortgage-backed securities and asset-backed securities based on actual and projected cash flows after considering such factors as the quality of the underlying collateral, expected prepayment speeds, current and forecasted severity, consideration of the payment terms of the underlying assets, and payment priority of the security. For each loan-backed security held in an unrealized loss position, Citizens has determined that either (1) the present value of expected future cash flows or (2) the market value of such securities is equal to or exceeds the current amortized cost basis as reflected in these financial statements. Because the decline in fair value is attributable to changes in interest rates or market conditions and not credit quality, and because Citizens has the ability and intent to hold its bond securities until a market price recovery or maturity, Citizens does not consider any of its bonds to be other than temporarily impaired at December 31, 2015 and 2014.

Proceeds from maturities and sales of bonds during 2015 were $7,892,822 with gross realized gains of $25,626 and gross realized losses of $3,254 and during 2014 were $7,951,066 with gross realized gains of $35,763 and gross realized losses of $4,161. Investment dispositions and purchases are measured and recorded in the financial statements using the trade date, which may differ from the date on which settlement of the trade activity occurs. Proceeds related to gains on cash, cash equivalents, and short term investments during 2015 and 2014 were $7,192 and $22,004, respectively.

(Dollars in thousands)

The amortized cost and estimated fair value of securities at December 31, 2015, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Maturity:		
In 2016	**$ 1,437,794**	**$ 1,441,711**
2017 - 2020	**9,049,209**	**9,041,940**
2021 - 2025	**468,491**	**468,950**
After 2025	**295,670**	**304,515**
Mortgage-backed securities	**234,694**	**234,949**
Total	**11,485,858**	**$ 11,492,065**
Nonadmitted bonds under prescribed practice	**(1,565)**	
Admitted bonds	**$ 11,484,293**	

Sources and uses of net investment (expense) income for the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Gross interest income		
Bonds	**$ 139,881**	$ 133,341
Cash, cash equivalents, and short-term investments	**7,308**	1,687
Total gross interest income	**147,189**	135,028
Investment Expenses	**(6,105)**	(6,493)
Net interest income	**141,084**	128,535
Net realized gain on sales of invested assets		
Bonds	**22,372**	31,514
Cash, cash equivalents, and short-term investments	**13,022**	21,987
Total net realized gain on sales of invested assets	**35,394**	53,501
Loss on defeasance of debt	**(16,347)**	-
Net realized capital gains	**19,047**	53,501
Interest expense		
Bond interest	**(160,508)**	(180,835)
Bond issuance costs	**(5,292)**	-
Total interest expense	**(165,800)**	(180,835)
Total investment (expense) income, net	**$ (5,669)**	$ 1,201

(Dollars in thousands)

Restricted Assets

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

Restricted Asset Category	Gross Restricted: Total from Current Year	Gross Restricted: Total from Prior Year	Gross Restricted: Increase (Decrease)	Total Current Year Admitted	Percentage: Gross Restricted to Total Assets	Percentage: Admitted Restricted to Total Admitted Assets
Pledged as collateral not captured in other categories	$ 761,493	$ 1,087,145	$ (325,652)	$ 761,493	5.67%	5.70%
Other restricted assets	20,950	25,348	(4,398)	20,950	0.16%	0.16%
Total restricted assets	$ 782,443	$ 1,112,493	$ (330,050)	$ 782,443	5.83%	5.86%

Restricted assets pledged as collateral above consist of debt sinking funds on deposit with Citizens' Indenture Trustee for the purpose of funding principal and interest obligations associated with outstanding bonds payable. Other restricted assets consist of assessments that were over-collected by the Florida Surplus Lines Servicing Office (FSLSO) from surplus lines insureds with respect to the 2004 Plan Year Deficit. Pursuant to a consent order, the Office, FSLSO and Citizens agreed that this cash would be included in Citizens' restricted surplus until such time future regular and emergency assessments would otherwise be payable by surplus lines insureds. As amounts have been approved by FSLSO with respect to regular and emergency assessments for Citizens' 2005 Plan Year deficit, Citizens has transferred these funds to unrestricted surplus.

5. Liability for Loss Reserves and Loss Adjustment Expense Reserves

Activity in the liability for loss and LAE reserves for December 31 was as follows:

	2015	2014
Balance at beginning of year	**$ 1,032,988**	$ 1,256,773
Incurred related to:		
Current accident year	**356,735**	525,725
Prior accident years	**132,318**	114,365
Total incurred	**489,053**	640,090
Paid related to:		
Current accident year	**(189,275)**	(272,399)
Prior accident years	**(600,154)**	(591,476)
Total paid	**(789,429)**	(863,875)
Balance at end of year	**$ 732,612**	$ 1,032,988

(Dollars in thousands)

As a result of changes in estimates of insured events in prior years, the provision for loss and LAE reserves increased by approximately $132,318 and $114,365, net of reinsurance, in 2015 and 2014, respectively. These adjustments are the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. There can be no assurance that the ultimate settlement of losses will not vary significantly from the recorded provision for losses and LAE. However, management believes the provision for losses and LAE is adequate to cover the cost of unpaid claims incurred. During 2015 and 2014, net recoveries with respect to reinsurance recoverable on paid losses and LAE was ($1,683) and $1,428, 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 a per-day rate or on a graduated fee schedule based on the gross claim amount. Such costs are included as LAE.

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 measured and recognized as though the Coastal Account is a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the PLA and CLA are considered together as a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Reinsurance coverage purchased through the FHCF was $2,124,115 and $1,106,086 in the Coastal Account and PLA and CLA, respectively, for 2015, and $2,849,470 and $1,698,582 in the Coastal Account and PLA and CLA, respectively, for 2014. Reinsurance coverage purchased in the Coastal Account through traditional and capital markets totaled $3,905,500 and $3,269,000 for 2015 and 2014, respectively.

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

	2015		2014	
	Written	**Earned**	**Written**	**Earned**
Direct premiums	**$ 1,267,754**	**$ 1,660,282**	$ 2,083,870	$ 2,374,093
FHCF ceded premiums	**(226,435)**	**(226,435)**	(345,100)	(345,100)
Private ceded premiums	**(282,609)**	**(282,609)**	(303,857)	(303,857)
Depopulation ceded premiums	**(180,711)**	**(390,488)**	(454,977)	(347,295)
Net premiums	**$ 577,999**	**$ 760,750**	$ 979,936	$ 1,377,841

Ceded premiums include premiums ceded to companies that assume policies pursuant to a depopulation program (see Note 10). Ceded losses and LAE incurred were ($2,229) and ($2,518) during 2015 and 2014, respectively. Unearned premiums on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus are net of ceded unearned premiums on depopulation contracts of $99,180 and $308,957 at December 31, 2015 and 2014, respectively. There were no ceded unearned premiums with respect to the FHCF or traditional and capital markets reinsurance agreements at December 31, 2015 and 2014.

(Dollars in thousands)

Amounts recoverable from reinsurers on unpaid losses and LAE are estimated based on the allocation of estimated unpaid losses and LAE among Citizens' coverage lines. Actual amounts recoverable will depend on the ultimate settlement of losses and LAE. FHCF and private reinsurance contracts do not relieve Citizens from its obligation to policyholders. Citizens remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements. There were no balances due from an individual reinsurer in excess of 3% of accumulated surplus for the years ended December 31, 2015 and 2014.

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:

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)	Feb 26, 2007	$ -	$ -	3.750% - 5.000%	$ 388,930	$ 7,877
Series 2009A-1 Senior Secured Bonds (Pre-event HRA)	May 7, 2009	746,585	746,987	4.000% - 6.000%	-	42,707
Series 2010A-1 Senior Secured Bonds (Pre-event HRA)	Apr 6, 2010	830,000	834,843	3.000% - 5.250%	410,000	50,979
Series 2011A-1 Senior Secured Bonds (Pre-event HRA)	Jul 14, 2011	565,000	571,438	3.000% - 5.000%	80,000	29,647
Series 2012A-1 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	1,025,000	1,079,205	3.000% - 5.000%	75,000	52,948
Series 2012A-3 Senior Secured Bonds (Pre-event PLA/CLA)	Jun 21, 2012	-	-	SIFMA plus 1.25%	200,000	1,288
Series 2015A-1 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	700,000	786,459	3.000% - 5.000%	-	17,303
Series 2015A-2 Senior Secured Bonds (Pre-event Coastal)	Jun 2, 2015	300,000	300,000	SIFMA plus 0.85%-0.95%	-	1,390
Total		$ 4,166,585	$ 4,318,932		$ 1,153,930	$204,139

Interest expense includes the amortization and accretion of premiums and discounts of $37,684 and $39,127 for the years ended December 31, 2015 and 2014, respectively. Citizens recorded a premium of $93,567 in connection with the issuance of Series 2015A-1 pre-event bonds and accelerated the recognition of $3,657 premium in connection with the legal defeasance of the 2007A post-event bonds during the year ended December 31, 2015. Net unamortized premium at December 31, 2015 and 2014 was $152,347 and $100,121, respectively.

(Dollars in thousands)

Effective January 27, 2015, Citizens executed a legal defeasance of its 2007A post-event bonds. Authorization for the action was approved by the Board at its September 24, 2014 regular meeting. The defeasance, which is contemplated in the bond agreement, was effected by Citizens transferring $416,811 to a trusteed escrow agent, from which current obligations for bond principal and accrued interest of $400,464 and future interest of $16,347 will be made over the contractual bond period. 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 realized loss within the statutory-basis statements of income for the year ended December 31, 2015. As a result of the defeasance, Citizens recognized $17,918 in assessment income that was previously reported as unearned assessment income at the time of the defeasance. The unearned assessment income resulted from the issuance of the 2005 Citizens Emergency Assessment and was used to offset bond expenses under the 2007A post-event bonds. The net effect on accumulated surplus, as a result of the defeasance and recognition of unearned assessment income, was an increase of approximately $1,571.

A schedule of bond maturities is as follows:

Years Ending December 31	2009 Bonds	2010 Bonds	2011 Bonds	2012 Bonds	2015 Bonds	Total
2016	$ 403,085	$ 305,000	$ 90,000	$ 125,000	$ -	$ 923,085
2017	343,500	525,000	-	130,000	-	998,500
2018	-	-	125,000	130,000	200,000	455,000
2019	-	-	175,000	160,000	-	335,000
2020	-	-	175,000	160,000	300,000	635,000
After	-	-	-	320,000	500,000	820,000
	$ 746,585	$ 830,000	$ 565,000	$ 1,025,000	$ 1,000,000	$ 4,166,585

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

Years Ended December 31,	Principal	Interest	Total
2016	$ 923,085	$ 171,577	$ 1,094,662
2017	998,500	121,122	1,119,622
2018	455,000	90,053	545,053
2019	335,000	73,460	408,460
2020	635,000	51,598	686,598
After	820,000	91,239	911,239
	$ 4,166,585	$ 599,049	$ 4,765,634

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 $4,766 and $4,076 for the years ended December 31, 2015 and 2014, respectively.

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 $102,871 and $169,764 during 2015 and 2014, respectively.

Additionally, Citizens is a party to an agreement with a servicing company to provide underwriting and policy management services. The agreement provides for monthly compensation to the company based on a “Per Transaction Fee” applied to the number of transactions processed in a monthly cycle. These services are for both Citizens’ Commercial Lines and Personal Lines business. The amount per transaction ranges from $3.50 to $140.00, depending on the complexity and volume of each transaction. Servicing company fees included in other underwriting expenses incurred were $2,859 and $5,891, during 2015 and 2014, respectively. There were no premiums written by service providers which individually are more than 5% of policyholders' surplus.

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. 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 2015 and 2014, Citizens recognized ceded written premiums of $180,711 and $454,977, respectively, as a result of depopulation.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. While Citizens is not liable to cover claims after the assumption (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, 2015 and 2014, net assumed premiums receivable in the amount of $32,435 and $32,654, respectively, were due from certain Takeout Companies and are reported as other receivables under reinsurance contracts in the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus. In addition, premiums due to Takeout Companies of $25,891 and $19,436, at December 31, 2015 and 2014, respectively, are included in reinsurance payable on the accompanying statutory-basis statements of admitted assets, liabilities and accumulated surplus.

11. Operating Leases

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $8,133 and $7,287 for the years ended December 31, 2015 and 2014, respectively. There are no contingent rental payments or unusual renewal options, escalation clauses or restrictions and there have been no early terminations of existing leases.

(Dollars in thousands)

Future minimum payments under operating leases are as follows:

2016	$	3,390
2017		6,205
2018		5,199
2019		5,115
2020		4,283
After		24,766
Total	$	48,958

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 Answer to the 4th Amended Complaint was filed on July 20, 2015. Plaintiff's counsel requested this matter be stayed pending an appellate decision in the 4th District Court of Appeals. Citizens has agreed to stay the trial court proceeding pending that opinion.

Frank Catchpole v. Citizens. This Leon County Circuit Court class action relates to Citizen's wind mitigation reinspections around the time of 2011-2012. Plaintiff alleges that Uniform Wind Mitigation Inspection Form (submitted by the insured) which identified wind mitigation features which were eligible for a discount was valid for five years. Therefore, Plaintiff contend Citizens' reinspection of the wind mitigation features of the property and removal of wind mitigation discounts that were not validated was improper. In particular, Plaintiff alleges that Citizens "accepted" the Mitigation Form by applying the discount and then could not subsequently verify the mitigation through reinspection. Litigation of this suit, as a class action, will take an extended period of time. Citizens will vigorously defend our actions.

(Dollars in thousands)

Multi-Year Reinsurance Treaties

Citizens is party to several aggregate and per occurrence catastrophe excess of loss reinsurance arrangements that provide coverage into 2016 and 2017. Premiums ceded under multi-year contracts are determined before each contractual reset period and are based upon defined risk parameters within the contracts that may result in increases or decreases to premiums ceded. Such adjustments to premiums ceded are included in the treaty year to which they apply. Payment obligations due under multi-year reinsurance treaties using the most currently available reset parameters are $154,010 and $37,891 in 2016 and 2017, respectively, provided: 1) there are no bilateral agreements to modify the contractual terms of the contracts, 2) there is no partial or full exhaustion of coverage provided, 3) there are no changes to current contractual resets that adjust the risk profile of coverage provided, or 4) Citizens' does not invoke its ability to exercise a call option on certain of its catastrophe bonds.

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, 2015 and 2014, Citizens had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, data-breach liability, and directors' and officers' liability. Management continuously reviews the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

13. Reconciliation of SAP to GAAP

A reconciliation of Citizens' 2015 and 2014 statutory-basis net income and accumulated surplus to GAAP basis (as determined by the Governmental Accounting Standards Board) change in net position and net position, respectively, is as follows:

	2015	2014
Net income - statutory basis	**$ 5,704**	$ 351,122
Adjustments:		
Change in allowance for doubtful accounts	**2,987**	(1,359)
Change in FIGA assessment income	**2,133**	6,250
Change in net unrealized gain on investments	**(49,568)**	(26,052)
Change in net position - GAAP basis	**$ (38,744)**	$ 329,961

	2015	2014
Accumulated surplus - statutory basis	**$ 7,389,691**	$ 7,384,028
Adjustments:		
Nonadmitted assets, net of allowance	**53,010**	49,460
Provision for reinsurance	**11**	556
FIGA assessment recoverable	**(3,330)**	(5,463)
Net unrealized gain on investments	**27,602**	77,170
Net position - GAAP basis	**$ 7,466,984**	$ 7,505,751

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 levied separately, for each of the three accounts. The Plan provides for deficits to be determined in accordance with GASB, adjusted for certain items.

In the event of a Plan Year Deficit in any Account, Citizens must first levy an assessment against the premium of each Citizens policyholder (the Citizens Policyholder Surcharge) in each of Citizens' Accounts, as a uniform percentage of the premium of the policy of up to 15% of such premium. Citizens Policyholder Surcharges are not subject to commissions, fees, or premium taxes; however, failure to pay a Citizens Policyholder Surcharge is treated as failure to pay premium.

If the Citizens Policyholder Surcharge is insufficient to eliminate a deficit in the Coastal account, Citizens would then levy a "Regular Assessment" on assessable insurers, as defined in Section 627.351(6), Florida Statutes. The assessment is based upon each assessable insurer's share of direct written premium for the Subject Lines of Business in the State of Florida for the calendar year preceding the year in which the deficit occurred, and is applied as a uniform percentage of up to 2% of subject premiums. The Regular Assessment is not available for deficits within the PLA or CLA.

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

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

In November 2012, Citizens received notice of an assessment from the FIGA totaling $27,759. Amounts recouped from policyholders relating to this assessment were $2,133 and $6,250 during 2015 and 2014, respectively. Remaining balances due on FIGA assessments of $3,330 and $5,530 as of December 31, 2015 and 2014, respectively, are reported as assessment receivable on the statutory-basis statements of admitted assets, liabilities and accumulated surplus.

Effective March 5, 2015, the 2005 Emergency Assessment was terminated for all policies with effective dates on or after July 1, 2015. The 2005 Emergency Assessment was anticipated to be collected over a ten year period commencing July 1, 2007. However, as of December 31, 2015 and 2014, Citizens collected approximately $146,095 and $38,246 in excess of the original Emergency Assessment receivable, respectively. These balances are reported as the reserve for future assessments on the statutory-basis statements of admitted assets, liabilities and accumulated surplus until such time as the Board approves a change to direct these excess collections to be used for any lawful purpose available within the Plan.

15. Subsequent Events

Subsequent events have been considered through May 31, 2016, the date of issuance of these statutory-basis financial statements. There were no events occurring subsequent to the end of the year that merit recognition or disclosure in these statements.

Supplementary Information

Citizens Property Insurance Corporation
Supplemental Combining Statutory-Basis Statement of Admitted Assets, Liabilities, and Accumulated Surplus by Account
December 31, 2015
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
ADMITTED ASSETS				
Cash and invested assets:				
Bonds	$ 11,484,293	$ 3,723,250	$ 1,766,170	$ 5,994,873
Cash, cash equivalents, and short-term investments	1,665,225	372,110	166,494	1,126,621
Receivable for securities	5,829	-	5,829	-
Total cash and invested assets	13,155,347	4,095,360	1,938,493	7,121,494
Investment income due and accrued, net	74,733	20,847	7,774	46,112
Premiums receivable, net	89,889	40,790	3,205	45,894
Reinsurance recoverable on paid losses and loss adjustment expenses	2,606	2,708	-	(102)
Other receivables under reinsurance contracts	32,435	19,794	1,118	11,523
Assessment receivable	3,330	3,104	(20)	246
Other admitted assets	4,657	4,652	-	5
Inter-account receivable (payable)	-	15,633	6,691	(22,324)
Total admitted assets	$ 13,362,997	$ 4,202,888	$ 1,957,261	$ 7,202,848
LIABILITIES AND ACCUMULATED SURPLUS				
Liabilities:				
Loss reserves, net	$ 522,740	$ 348,405	$ 91,649	$ 82,686
Loss adjustment expense reserves, net	209,872	148,451	24,252	37,169
Retroactive reinsurance ceded	(1,433)	(1,316)	-	(117)
Unearned premiums, net	513,335	229,458	24,262	259,615
Reserve for future assessments	146,095	-	-	146,095
Taxes and fees payable	1	510	121	(630)
Reinsurance payable	133,138	12,429	1,822	118,887
Provision for reinsurance	11	-	-	11
Bonds payable	4,318,932	916,353	162,852	3,239,727
Interest payable	16,592	3,617	643	12,332
Advance premiums and suspended cash	32,247	12,838	3,041	16,368
Other liabilities	81,776	59,232	7,237	15,307
Total liabilities	5,973,306	1,729,977	315,879	3,927,450
Accumulated surplus:				
Restricted	20,950	-	-	20,950
Unrestricted	7,368,741	2,472,911	1,641,382	3,254,448
Total accumulated surplus	7,389,691	2,472,911	1,641,382	3,275,398
Total liabilities and accumulated surplus	$ 13,362,997	$ 4,202,888	$ 1,957,261	$ 7,202,848

See independent auditors' report on the supplementary information.

Citizens Property Insurance Corporation
Supplemental Combining Statutory-Basis Statement of Income by Account
Year Ended December 31, 2015
(Dollars in thousands)

	Combined	Personal Lines Account	Commercial Lines Account	Coastal Account
Underwriting income:				
Net premiums earned	$ 760,750	$ 464,560	$ 61,721	$ 234,469
Underwriting expense:				
Net losses incurred	402,515	331,790	(12,043)	82,768
Net loss adjustment expenses incurred	86,538	61,196	(1,931)	27,273
Other underwriting expenses incurred	278,787	121,869	15,790	141,128
Total underwriting expense	767,840	514,855	1,816	251,169
Net underwriting (loss) income	(7,090)	(50,295)	59,905	(16,700)
Investment (expense) income:				
Net interest income	141,084	47,935	23,803	69,346
Net realized capital gains	19,047	10,714	3,275	5,058
Interest expense	(165,800)	(30,118)	(5,352)	(130,330)
Total investment (expense) income, net	(5,669)	28,531	21,726	(55,926)
Other income (expense):				
Assessment income	19,326	-	-	19,326
Other (expense) income	(863)	275	(2)	(1,136)
Total other income (expense)	18,463	275	(2)	18,190
Net income (loss)	$ 5,704	$ (21,489)	$ 81,629	$ (54,436)

See independent auditors' report on the supplementary information.

Citizens Property Insurance Corporation
Summary Investment Schedule
December 31, 2015
(Dollars in thousands)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	**Percentage**	**Amount**	**Percentage**
Bonds				
U.S. Treasury securities	$ 1,364,383	10.4%	$ 1,364,383	10.4%
U.S. government agency and corporate obligations (excluding mortgage-backed securities)				
Issued by U.S. government agencies	21,284	0.2%	21,284	0.2%
Issued by U.S. government-sponsored agencies	1,428,748	10.8%	1,428,748	10.9%
Non-U.S. government (including Canada, excluding mortgage-backed securities)	67,948	0.5%	67,948	0.5%
Securities issued by states, territories and possessions and political subdivisions in the U.S.				
States, territories and possessions general obligations	712,526	5.4%	712,526	5.4%
Political subdivisions of states, territories and possessions and political subdivisions general obligations	807,282	6.1%	807,282	6.1%
Revenue and assessment obligations	2,433,885	18.5%	2,433,885	18.5%
Mortgage-backed securities (includes residential and commercial MBS)				
Pass-through securities				
Issued or guaranteed by GNMA	125	0.0%	125	0.0%
Issued or guaranteed by FNMA and FHLMC	74,424	0.6%	74,424	0.6%
CMOs and REMICs				
Issued or guaranteed by GNMA, FNMA, FHLMC or VA	160,145	1.2%	160,145	1.2%
Other debt and other fixed income securities (Excluding short-term)				
Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	3,370,268	25.5%	3,368,703	25.6%
Unaffiliated foreign securities	1,044,840	7.9%	1,044,840	7.9%
Receivables for securities	5,829	0.0%	5,829	0.0%
Cash, cash equivalents and short-term investments	1,701,916	12.9%	1,665,225	12.7%
Total invested assets	$ 13,193,603	100.0%	$ 13,155,347	100.0%

(Dollars in thousands)

1. Reporting entity's total admitted assets: $ 13,362,997

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

	Issuer	Description of Exposure	Carrying Amount	Percentage of Total Admitted Assets
2.01	State of New York	Bonds	$ 222,156	1.7%
2.02	State of California	Bonds	187,089	1.4%
2.03	State of New Jersey	Bonds	158,714	1.2%
2.04	State of Illinois	Bonds	149,050	1.1%
2.05	City of New York, New York	Bonds	146,987	1.1%
2.06	Commonwealth of Pennsylvania	Bonds	126,107	0.9%
2.07	State of Texas	Bonds	118,787	0.9%
2.08	American Express Bank FSB	Bonds	110,959	0.8%
2.09	Wells Fargo & Co.	Bonds	109,681	0.8%
2.10	JPMorgan Chase & Co.	Bonds	105,176	0.8%

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

		Carrying Amount	Percentage of Total Admitted Assets
	Bonds:		
3.01	NAIC-1	$ 12,616,008	94.4%
3.02	NAIC-2	535,068	4.0%
3.03	NAIC-3	-	0.0%
3.04	NAIC-4	-	0.0%
3.05	NAIC-5	-	0.0%
3.06	NAIC-6	89,356	0.7%
	Preferred Stocks:		
3.07	P/RP-1	-	0.0%
3.08	P/RP-2	-	0.0%
3.09	P/RP-3	-	0.0%
3.10	P/RP-4	-	0.0%
3.11	P/RP-5	-	0.0%
3.12	P/RP-6	-	0.0%

(Dollars in thousands)

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?
Yes [ ] No [X]

		Carrying Amount	Percentage of Total Admitted Assets
4.02	Total admitted assets held in foreign investments	$ 883,271	6.6%
4.03	Foreign currency-denominated investments	-	0.0%
4.04	Insurance liabilities denominated in that same foreign currency	-	0.0%

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

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

		Carrying Amount	Percentage of Total Admitted Assets
5.01	Countries designated NAIC 1	$ 831,750	6.2%
5.02	Countries designated NAIC 2	26,068	0.2%
5.03	Countries designated NAIC-3 or below	25,454	0.2%

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

		Carrying Amount	Percentage of Total Admitted Assets
	Countries designated NAIC 1:		
6.01	United Kingdom	$ 207,675	1.6%
6.02	Australia	153,377	1.1%
	Countries designated NAIC 2:		
6.03	Mexico	21,164	0.2%
6.04	Panama	4,904	0.0%
	Countries designated NAIC 3 or below:		
6.05	Ukraine	10,467	0.1%
6.06	British Virgin Islands	9,295	0.1%

7. Aggregate unhedged foreign currency exposure:

Not applicable.

(Dollars in thousands)

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

Not applicable.

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

Not applicable.

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	Issuer	NAIC Designation	Carrying Amount	Percentage of Total Admitted Assets
10.01	Shell International Finance BV	1	$ 27,599	0.2%
10.02	Astrazeneca PLC	1	18,146	0.1%
10.03	Credit Suisse AG/New York, New York	1	18,050	0.1%
10.04	Sanofi	1	17,474	0.1%
10.05	Astrazeneca PLC	1	16,721	0.1%
10.06	BNP Paribas	1	16,590	0.1%
10.07	Total Capital International SA	1	15,510	0.1%
10.08	Diageo Capital PLC	1	15,202	0.1%
10.09	Glaxosmithkline Capital PLC	1	13,521	0.1%
10.10	Westpac Banking Corp	1	13,100	0.1%

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

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

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

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No [ ]

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

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes [X] No [ ]

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

(Dollars in thousands)

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

		At Year End		At End of Each Quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
20.01	Securities lending agreements (do not include assets held as collateral for such transactions)	$ -	0.0%	$ -	$ -	$ -
20.02	Repurchase agreements	-	0.0%	-	-	-
20.03	Reverse repurchase agreements	-	0.0%	-	-	-
20.04	Dollar repurchase agreements	-	0.0%	-	-	-
20.05	Dollar reverse repurchase agreements	-	0.0%	-	-	-

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
21.01	Hedging	$ -	0.0%	$ -	0.0%
21.02	Income generation	-	0.0%	-	0.0%
21.03	Other	-	0.0%	-	0.0%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year End		At End of Each Quarter 1st Qtr.	2nd Qtr.	3rd Qtr.
22.01	Hedging	$ -	0.0%	$ -	$ -	$ -
22.02	Income generation	-	0.0%	-	-	-
22.03	Replications	-	0.0%	-	-	-
22.04	Other	-	0.0%	-	-	-

23. Amounts and percentages of the reporting entity's total admitted assets of potential for future contracts:

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

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes [ ] No [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retention from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [ ] No [X]

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [ ] No [X]

9.4 Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (U.S. GAAP); or

(b) Accounted for that contract as reinsurance under U.S. GAAP and as a deposit under SAP?

Yes [ ] No [X]