Financial Statements - Statutory Basis and Supplemental Schedules

Citizens Property Insurance Corporation

December 31, 2006 and 2005

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Financial Statements – Statutory Basis and Supplemental Schedules
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Report of Independent Certified Public Accountants

The Board of Governors
Citizens Property Insurance Corporation

We have audited the accompanying statutory statement of admitted assets, liabilities and accumulated surplus (deficit) of Citizens Property Insurance Corporation (Citizens) as of December 31, 2006, and the related statutory statements of operations, changes in accumulated surplus (deficit) and cash flows for the year then ended. These financial statements are the responsibility of Citizens' management. Our responsibility is to express an opinion on these financial statements based on our audit. The statutory financial statements of Citizens as of December 31, 2005, were audited by other auditors whose report dated May 17, 2006, expressed an adverse opinion as to conformity with generally accepted accounting principles in the United States of America and an unqualified opinion as to conformity with statutory accounting practices on those statutory financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Citizen's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, Citizens prepared these financial statements using accounting practices prescribed or permitted by the Florida Office of Insurance Regulation, which practices differ from generally accepted accounting principles in the United States of America. The variances between such practices and accounting principles generally accepted in the United States of America and the effects on the accompanying financial statements are described in Note 14.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Citizens Property Insurance Corporation at December 31, 2006, or the results of its operations or its cash flows for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and accumulated surplus (deficit) of Citizens Property Insurance Corporation as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting practices prescribed or permitted by the Florida Office of Insurance Regulation.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
April 18, 2007

Financial Statements

Citizens Property Insurance Corporation

Statements of Admitted Assets, Liabilities and Accumulated Surplus (Deficit) – Statutory Basis

	December 31 2006	December 31 2005
	(In Thousands)	
Admitted assets		
Cash and invested assets:		
Bonds	**$ 3,619,873**	$ 2,197,038
Cash and short-term investments	**3,636,689**	487,005
Total cash and invested assets	**7,256,562**	2,684,043
Investment income due and accrued	**37,349**	19,418
Premiums receivable, net	**229,622**	9,083
Other receivables under reinsurance contracts	**12,134**	7,646
Reinsurance recoverable	**129,044**	16,202
Income tax recoverable	**168,060**	-
Assessment receivable	**971,985**	96,644
Other admitted assets	**7,388**	747
Total admitted assets	**$ 8,812,144**	$ 2,833,783
Liabilities and accumulated surplus (deficit)		
Liabilities:		
Loss reserves	**$ 506,438**	$ 1,267,635
Loss adjustment expense reserves	**81,168**	217,381
Unearned premiums, net of unearned ceded premiums of $11,338 and $57,385	**1,601,576**	705,192
Taxes and fees payable	**15,767**	30,995
Federal income taxes payable	**-**	54,899
Provision for reinsurance	**5,282**	10,890
Bonds payable	**5,196,573**	2,148,130
Interest payable	**43,340**	37,178
Advance premiums and suspended cash	**175,357**	76,193
Other liabilities	**64,187**	96,405
Total liabilities	**7,689,688**	4,644,898
Accumulated surplus (deficit)	**1,122,456**	(1,811,115)
Total liabilities and accumulated surplus (deficit)	**$ 8,812,144**	$ 2,833,783

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Operations – Statutory Basis

	Years Ended December 31	
	2006	**2005**
	(In Thousands)	
Premiums earned	**$ 2,054,285**	$ 1,055,746
Losses incurred	**589,744**	2,401,939
Loss adjustment expenses incurred	**70,109**	326,232
Other underwriting expenses incurred	**386,239**	197,994
Underwriting income (loss)	**1,008,193**	(1,870,419)
Net investment income	**210,193**	118,068
Interest expense, net	**(224,299)**	(124,390)
Line of credit fees and note issuance costs	**(48,076)**	(1,579)
Takeout bonus income (expense), net	**2,853**	(48,843)
Assessment income	**1,765,581**	515,514
Other income	**2,115**	150
Income (loss) before federal income tax benefit	**2,716,560**	(1,411,499)
Federal income tax benefit	**220,459**	-
Net income (loss)	**$ 2,937,019**	$ (1,411,499)

See accompanying notes to financial statements.

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

	(In Thousands)
Balance at January 1, 2005	$ (383,526)
Net loss	(1,411,499)
Change in nonadmitted assets	(5,125)
Provision for reinsurance	(10,890)
Other	(75)
Balance at December 31, 2005	(1,811,115)
Net income	2,937,019
Change in nonadmitted assets	(9,131)
Provision for reinsurance	5,608
Other	75
Balance at December 31, 2006	$ 1,122,456

See accompanying notes to financial statements.

Citizens Property Insurance Corporation
Statements of Cash Flows – Statutory Basis

	Years Ended December 31 2006	2005
	(In Thousands)	
Operating activities		
Premiums collected, net of reinsurance	**$ 2,788,952**	$ 1,157,414
Loss and loss adjustment expenses paid	**(1,557,263)**	(2,850,205)
Underwriting expenses paid	**(407,325)**	(165,559)
Net investment income received	**(6,862)**	12,663
Other expenses paid	**1,611,027**	452,667
Net cash provided by (used in) operating activities	**2,428,529**	(1,393,020)
Investing activities		
Proceeds from investments sold, matured or repaid	**2,359,288**	1,930,246
Investments acquired	**(3,804,379)**	(1,510,781)
Net cash (used in) provided by investing activities	**(1,445,091)**	419,465
Financing and miscellaneous activities		
Borrowed funds received	**3,050,000**	-
Other miscellaneous cash applications	**(883,754)**	(101,592)
Net cash provided by (used in) financing and miscellaneous activities	**2,166,246**	(101,592)
Net increase (decrease) in cash and short-term investments	**3,149,684**	(1,075,147)
Cash and short-term investments:		
Beginning of year	**487,005**	1,562,152
End of year	**$ 3,636,689**	$ 487,005

See accompanying notes to financial statements.

NOTE 1 - GENERAL

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

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Financial Services Commission (the Commission) of the State of Florida. The Commission is composed of the Governor, the Chief Financial Officer, the Attorney General and the Commissioner of Agriculture of the State. Prior to October 1, 2006, the Plan was subject to the approval of the Office.

Citizens is supervised by a Board of Governors (the Board) which consists of eight individuals who reside in the state of Florida, from different geographical areas of the state. The Governor, 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 (executive director) and senior managers are engaged by and serve at the pleasure of the Board. The president (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 High-Risk Account. A brief history of each account follows:

Personal Lines Account history - The FRPCJUA began operations on January 21, 1993, after Hurricane Andrew, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property insurance coverage to qualified risks in the State of Florida (on a statewide basis) to applicants who are in good faith entitled to procure insurance through the private market but are 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 exclude

NOTE 1 - GENERAL (CONTINUED)

windstorm coverage on property within eligible areas. This portion of the FRPCJUA's activities became the Personal Lines Account under Citizens.

Commercial Lines Account history – The Florida Property and Casualty Joint Underwriting Association (FPCJUA) was activated in early 1994 to provide commercial residential coverage, i.e., coverage for condominium associations, apartment buildings and homeowner associations, to organizations unable to obtain such coverage from a private insurer. During 1995, legislation was enacted to transfer all obligations, rights, assets, and liabilities related to commercial residential coverage from the FPCJUA to the FRPCJUA. The legislation required that the premiums, losses, assets and liabilities be accounted for separately from the FRPCJUA's personal residential business. These policies excluded windstorm coverage on properties within eligible areas. This portion of the FRPCJUA's activities became the Commercial Lines Account under Citizens.

High-Risk Account history – The FWUA, which was a residual market mechanism for windstorm and hail coverage in selected areas of the State, was created by an act of the Florida Legislature in 1970 pursuant to Section 627.351(2), Florida Statutes. FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State. FWUA provided policies of windstorm insurance for property owners within the eligible areas who were unable to obtain such coverage from private insurers. Insured properties include personal residential, commercial residential and commercial non-residential properties. This portion of the FWUA's activities became the High Risk Account under Citizens.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Citizens prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the Office. The Office requires that insurance companies domiciled in the State of Florida prepare their statutory basis financial statements in accordance with National Association of Insurance Commissioners' (the NAIC) Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the Office.

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

a. Acquisition costs incurred in connection with acquiring new business, such as commissions, certain servicing company fees, and other costs of acquiring, renewing and servicing the business are charged to operations as incurred rather than deferred and amortized over the policy term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Certain assets are defined by the NAIC and the Office as "nonadmitted". These include furniture and equipment, leasehold improvements, certain prepaid assets, computer software and amounts in the course of collection with balances more than 90 days past due. The net change in such nonadmitted assets during the year is charged or credited directly to accumulated surplus. GAAP, on the otherhand, includes these as assets and an allowance for doubtful receivables is recorded to reserve for past due balances.

c. Investments in debt securities are valued at cost and are amortized under the valuation standards of the NAIC. According to GAAP, investments in debt securities are reported at fair value with unrealized holding gains and losses reported in operations.

d. Certain expenses associated with multiple periods, such as line of credit fees, note issuance costs and takeout bonus expenses, are charged to operations as incurred, rather than deferred and amortized over the periods to which the expenses relate as required under GAAP.

e. Reserves for losses and loss adjustment expenses ceded to reinsurers and unearned premiums ceded to reinsurers are reported as reductions of the related reserves and unearned premiums rather than as assets as required under GAAP.

f. Commissions paid by reinsurers on business ceded are reported as income when received rather than deferred and amortized with deferred policy acquisition costs, as required under GAAP.

g. Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Also under GAAP, short-term investments are disclosed separately from cash and include investments with remaining maturities of one year or less.

Other significant accounting practices are as follows:

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. Loan-backed debt securities and structured securities are stated at amortized cost using the interest method and include prepayments. Debt securities not backed by other loans are stated at amortized cost using the interest method.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Short-term Investments

Cash consists of highly liquid investments with original maturities of three months or less. Short-term investments are investments with original maturities of one year or less (excluding those investments classified as cash) and are recorded at admitted asset values, as prescribed by the NAIC's valuation procedures.

Short-term investments consist of amounts invested in the State of Florida Chief Financial Officer's Special Purpose Investment Trust Account (the Special Purpose Account), various money market funds, commercial paper, and U.S. government agency short-term bonds. The Special Purpose Account consists of pooled funds invested by the Chief Financial Officer of the State of Florida under the guidelines provided by Section 18.10, Florida Statutes.

Net Investment Income

Net investment income includes realized gains and losses on sales of investments which are recognized on the specific identification basis. Net investment income also includes the gains or losses from terminations of interest rate swap agreements used in prior years for hedging. Such gains or losses are recognized over the life of the terminated agreements.

Electronic Data Processing Equipment, Net

Depreciation of electronic data processing (EDP) equipment is computed using the straight-line method over the equipment's estimated useful life of three years. Depreciation expense for EDP equipment amounted to $1,945 and $1,010 for the years ended December 31, 2006 and 2005 and accumulated depreciation for EDP equipment at December 31, 2006 and 2005 was $5,202 and $3,382. These assets were non-admitted in 2005.

Loss Reserves and Loss Adjustment Expense Reserves

Liabilities for loss reserves and loss adjustment expense reserves are estimated based on claims adjusters' evaluations and on actuarial evaluations, using Citizens' loss experience and industry statistics. While the ultimate amount of losses and loss adjustment expenses incurred is dependent on future development, in management's opinion, the estimated reserves are adequate to cover the expected future payment of losses. However, no assurance can be given that the ultimate settlement of losses may not vary significantly from the reserves provided. Adjustments, if any, to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. Citizens does not discount liabilities for loss reserves and loss adjustment expense reserves.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums

Premiums are recorded as earned on a daily pro rata basis over the policy period. The portion of premiums not earned at the end of the period are recorded as unearned premiums.

Premiums receivable includes amounts due from policyholders for billed premiums. Billings are calculated using estimated annual premiums for each policy and are paid either through an installment plan offered by Citizens or in their entirety at the inception of the policy.

Assessments

Assessments made pursuant to the Act and the Plan are recognized as revenue and recorded as receivable in the period approved by the Board of Governors and the Office and levied by Citizens (See Note 15). Assessment receivables are considered to be fully collectible.

Reinsurance

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums over the hurricane season covered by the agreement. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverables on paid losses are recorded as receivables. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Assumed premiums are recorded at their respective assumed amounts.

Takeout Bonuses

Takeout bonuses are expensed when paid into escrow (See Note 11).

Use of Estimates

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

Financial Instruments

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made to the 2005 amounts to make them conform to the 2006 presentation.

Market Risk

Citizens underwrites residential and commercial property insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 53.45% of Citizens' insurance coverage exposure lies in the Southeast Florida counties of Miami-Dade, Broward, Monroe and Palm Beach as of December 31, 2006. Approximately 12.36% of Citizens' insurance coverage lies in Pinellas and Hillsborough counties as of December 31, 2006. Severe storm activity in any of these counties could have a significant impact on Citizens' future financial position and results of operations.

NOTE 3 - BONDS

The amortized cost and aggregate fair value of bonds at December 31, 2006 were as follows:

	Amortized Cost	Unrealized Gain (Loss)	Fair Value
U.S. Treasury and U.S. Government Securities	$ 1,128,360	$ (4,224)	$ 1,124,136
Special Revenue	17,217	2	17,219
Public Utilities	1,073	1	1,074
Industrial & Miscellaneous	1,151,887	(7,427)	1,144,460
Loan Backed and Structured Securities:			
U.S. Government	18,004	19	18,023
Special Revenue	513,356	(3,773)	509,583
Industrial & Miscellaneous	789,976	(1,820)	788,156
Total	$ 3,619,873	$ (17,222)	$ 3,602,651
U.S. Treasury and U.S. Government Securities	$ 1,146,363	$ (4,205)	$ 1,142,158
Special Revenue	530,573	(3,771)	526,802
Public Utilities	1,073	1	1,074
Industrial & Miscellaneous	1,941,864	(9,247)	1,932,617
Total	$ 3,619,873	$ (17,222)	$ 3,602,651

NOTE 3 - BONDS (CONTINUED)

The amortized cost and aggregate fair value of bonds at December 31, 2005 were as follows:

	Amortized Cost	Unrealized Gain (Loss)	Fair Value
U.S. Treasury and U.S. Government Securities	$ 864.221	$ (11.750)	$ 852,471
Special Revenue	-	-	-
Public Utilities	-	-	-
Industrial & Miscellaneous	438.545	(7.083)	431,462
Loan Backed and Structured Securities:			
U.S. Government	2,352	40	2,392
Special Revenue	389.211	(8,773)	380,438
Industrial & Miscellaneous	502.709	(7.372)	495,337
Total	$ 2.197,038	$ (34.938)	$ 2,162,100
U.S. Treasury and U.S. Government Securities	$ 866,573	$ (11.709)	$ 854,864
Special Revenue	389.211	(8,773)	380,438
Public Utilities	-	-	-
Industrial & Miscellaneous	941,254	(14.456)	926,798
Total	$ 2.197,038	$ (34,938)	$ 2,162,100

Fair value was determined based on market prices published by the NAIC Securities Valuation Office (SVO), if the securities are priced by the NAIC. When prices are not available from the NAIC, fair market value is based on the market prices provided by the custodian. Proceeds from maturities and sales of bonds during 2006 and 2005 were $2,359,288 with realized gains of $798 and gross realized losses of $23,842 and $1,930,246 with realized gains of $3,326 and gross realized losses of $17,502, respectively.

The amortized cost and fair value of securities at December 31, 2006, 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	Fair Value
Due in one year or less	$ 489,354	$ 486,986
Due after one year through five years	1,415,529	1,409,126
Due after five years through ten years	301,200	298,340
Due after 10 years	92.454	92,437
Loan-backed securities	1.321,336	1.315,762
Total	$ 3.619,873	$ 3.602.651

NOTE 3 - BONDS (CONTINUED)

Citizens held certain securities in an unrealized loss position at December 31, 2006, as summarized in the table above. After an evaluation of each security, management concluded that these securities have not suffered an other-than-temporary impairment in value. Each fixed maturity security has paid all scheduled contractual payments. Management believes that each issuer has the capacity to meet the remaining contractual obligations of the security, including payment at maturity, and that Citizens has the capacity and intent to hold the security until the scheduled maturity date.

NOTE 4 - LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and loss adjustment expense reserves for the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Loss reserves and loss adjustment expense reserves, beginning of year	$ 1,485,016	$ 1,607,050
Incurred related to:		
Current year	339,770	2,138,004
Prior years	320,083	590,167
Total incurred	659,853	2,728,171
Paid related to:		
Current year	157,640	1,005,019
Prior years	1,399,623	1,845,186
Total paid	1,557,263	2,850,205
Loss reserves and loss adjustment expense reserves, end of year	$ 587,606	$ 1,485,016

As a result of changes in estimates of insured events in prior years, primarily due to the underestimation of costs relating to multi-causational hurricane claims, the provision for loss and loss adjustment expenses increased by $320,083 and $590,167 in 2006 and 2005, respectively.

The decrease in loss and loss adjustment expenses incurred and paid is directly related to the lack of catastrophic losses during 2006 compared to catastrophic losses sustained from hurricanes Dennis, Katrina, Rita and Wilma during 2005.

NOTE 4 - LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES (CONTINUED)

Citizens has entered into agreements with several outside companies that provide claims adjustment services. These agreements provide for compensation to the companies based on a graduated fee schedule. The fee schedule is based on the gross claim amount and type of loss handled by the companies. Compensation for claims services performed during a catastrophe is paid pursuant to a catastrophe specific fee schedule, which may be graduated based upon demand surge following large catastrophic events. The agreements are effective for one year, with provisions for automatic renewal for successive one-year periods. In the opinion of management, any additional liability that may ultimately result from unusual loss adjustment expenses will not have a material adverse effect on the financial position or results of operations of Citizens.

NOTE 5 - BONDS PAYABLE

Series 1997A issued August 25, 1997 and Series 1999A issued March 31, 1999 – In August 1997 and March 1999, the pre-merger FWUA issued $750,000 and $1,000,000 of secured notes, respectively. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. Repayment and annual debt service of the High-Risk Account bonds is facilitated through premium and surcharge revenues, unused proceeds of the bonds, amounts available under the High-Risk Account Line of Credit (See Note 8), Regular Assessments and Emergency Assessments (See Note 15), as necessary.

The bonds bear interest ranging from 6.70% to 7.125% per annum. The interest on the bonds is payable semi-annually on February 25th and August 25th. No principal payments were made during 2006 and 2005. Outstanding maturities on these notes were $1,300,000 at December 31, 2006 and 2005. The fair market value of these bonds approximates $1,448,850.

Series 1997A, issued May 13, 1997 – In May 1997, the pre-merger FRPCJUA issued $500,000 of Series 1997A Notes for the Personal Lines Account and Commercial Lines Account. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. The bonds are secured by a security interest in emergency assessments (See Note 15). Under certain circumstances the bonds will also be secured by and payable by regular assessments or reimbursements received by or on behalf of Citizens from the Florida Hurricane Catastrophe Fund (FHCF - see Note 9). The Trust Indenture contains covenants that impose restrictions on Citizens' ability to sell, lease, pledge, assign or otherwise encumber or dispose of its security interest. The bonds are a direct and general obligation of Citizens and are secured ratably and without preference with Citizen's Personal Lines Account and Commercial Lines Account line of credit agreement (see Note 8).

The bonds bear interest ranging from 7.45% to 7.625% per annum. The interest on the bonds is payable semi-annually on January 1st and July 1st. No principal payments were made during 2006 and 2005. Outstanding maturities on these notes were $100,000 at December 31, 2006 and 2005. The fair market value of these bonds approximates $100,856.

NOTE 5 - BONDS PAYABLE (CONTINUED)

Series 2004A through 2004I Bonds – During May 2004, Citizens issued $750,000 of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates, based on the 30-day LIBOR, for generally successive 28-day auction periods. These bonds are secured by pledged revenues which consist of moneys and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. The fair market value of these bonds approximates $750,000.

Series 2006A1 through 2006A22 Bonds – During July 2006, Citizens issued $3,050,000 of senior secured bonds for the purpose of funding losses in the High-Risk account in the event of a future catastrophe. The bonds were issued in multiple series and bear interest at variable, auctioned rates for generally successive 7-day and 28-day auction periods. The bonds are secured by pledged revenues which consist of moneys and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF. No principal payments were made during 2006. The fair market value of these bonds approximates $3,050,000.

Interest rates and maturities of Citizens' bonds outstanding at December 31, 2006 are as follows:

		2006
Series 1997A, interest at 7.625%, due July 1, 2007	$	100,000
Series 1997A, interest at 6.85%, due August 25, 2007		300,000
Series 1999A, interest at 7.125%, due February 25, 2019		1,000,000
Series 2004A, variable interest rate, due July 1, 2016		75,000
Series 2004B, variable interest rate, due July 1, 2017		75,000
Series 2004C, variable interest rate, due July 1, 2018		100,000
Series 2004D, variable interest rate, due July 1, 2019		75,000
Series 2004E, variable interest rate, due July 1, 2020		75,000
Series 2004F, variable interest rate, due July 1, 2021		100,000
Series 2004G, variable interest rate, due July 1, 2022		75,000
Series 2004H, variable interest rate, due July 1, 2023		75,000
Series 2004I, variable interest rate, due July 1, 2024		100,000
Series 2006A1, variable interest rate, due July 1, 2017		100,000
Series 2006A11, variable interest rate, due July 1, 2017		175,000
Series 2006A2, variable interest rate, due July 1, 2018		100,000
Series 2006A12, variable interest rate, due July 1, 2018		175,000
Series 2006A3, variable interest rate, due July 1, 2019		100,000
Series 2006A13, variable interest rate, due July 1, 2019		175,000
Series 2006A4, variable interest rate, due July 1, 2020		100,000
Series 2006A14, variable interest rate, due July 1, 2020		175,000
Series 2006A5, variable interest rate, due July 1, 2021		100,000

NOTE 5 - BONDS PAYABLE (CONTINUED)

Series 2006A15, variable interest rate, due July 1, 2021		175,000
Series 2006A6, variable interest rate, due July 1, 2022		100,000
Series 2006A16, variable interest rate, due July 1, 2022		175,000
Series 2006A7, variable interest rate, due July 1, 2023		100,000
Series 2006A17, variable interest rate, due July 1, 2023		175,000
Series 2006A8, variable interest rate, due July 1, 2024		100,000
Series 2006A18, variable interest rate, due July 1, 2024		175,000
Series 2006A9, variable interest rate, due July 1, 2025		100,000
Series 2006A19, variable interest rate, due July 1, 2025		175,000
Series 2006A21, variable interest rate, due July 1, 2025		150,000
Series 2006A10, variable interest rate, due July 1, 2026		100,000
Series 2006A20, variable interest rate, due July 1, 2026		175,000
Series 2006A22, variable interest rate, due July 1, 2026		150,000
		5,200,000
Less - unamortized discount		(3,427)
Total	$	5,196,573

The total interest expense on the Bonds for the years ended December 31, 2006 and 2005 was $226,289 and $126,419 including discount amortization of $434 and $405, respectively, and is included in "Interest expense, net" in the accompanying statements of operations.

Interest Rate Swap Agreements – Citizens had no interest rate exchange agreements outstanding at December 31, 2006 and 2005. However, in connection with the issuance of the Series 1997A Notes issued May 13, 1997, Citizens entered into interest rate exchange agreements with various counterparties for notional amounts of $500,000. The interest rate exchange agreements were terminated during 1998, 2001 and 2002, for which Citizens received termination payments of $7,304, $7,632, and $10,250, respectively. In accordance with the provisions of SAP, the gain on the terminated interest rate swap agreements has been deferred and is being amortized over the remaining term of the terminated agreements using the effective interest method. The total amount of deferred gain and accrued interest amortized and recognized as a reduction of interest expense for the years ended December 31, 2006 and 2005 was $1,990 and $2,029, respectively.

NOTE 6 - AGENT COMMISSIONS AND SERVICING COMPANY FEES

Citizens has contracted with various licensed insurance agents, 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. Agent commissions included in other underwriting expenses incurred were $259,710 and $132,166 during 2006 and 2005, respectively.

Additionally, Citizens has entered into agreements with servicing companies to provide underwriting and policy management services. These agreements provide for monthly compensation to the companies based on a "Per Transaction Fee" applied to the number of transactions processed in a monthly cycle. Servicing carrier fees included in other underwriting expenses incurred were $10,407 and $5,739, during 2006 and 2005, respectively.

NOTE 7 - INCOME TAXES

Pursuant to a determination letter received from the Internal Revenue Service, Citizens is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt.

During 2002, the FWUA transferred its assets and liabilities to Citizens in accordance with Florida Statute 627.351(6). At that time, Citizens filed a federal income tax refund claim in excess of $182,000 related to the transfer. Citizens initially received a refund of approximately $54,899 from the Internal Revenue Service (the IRS). However, the Internal Revenue Service filed a counterclaim against Citizens seeking payment of past due taxes and interest in the amount of approximately $93,000. Given the uncertainty surrounding its tax position, Citizens recorded the $54,899 refund as a liability. In 2005, Citizens on behalf of the FWUA, filed suit against the IRS asserting that for tax years 1999-2002, the FWUA was a non-taxable entity. In September 2006, Citizens and the IRS mediated a settlement of the suit. Under the settlement, the IRS would relinquish any claim against the FWUA for back taxes and also agreed to pay the FWUA a refund of approximately $120,000 of previous taxes paid plus accrued interest. Citizens adopted the provisions of FASB Interpretation No. 48, Accounting for Income Taxes, on January 1, 2006. As a result of the implementation of Interpretation 48, Citizens recorded a tax benefit of $220,459, which includes interest of $45,000. In addition, a gain of $28,000 was recognized for the expected refund of state income taxes resulting from the federal settlement which is included in Other income (expense) in the accompanying financial statements.

NOTE 8 - LINE OF CREDIT AGREEMENTS

Effective August 30, 2006 Citizens entered into a $708,000 credit agreement (the 2006 Line of Credit) with a syndication of banks to pay claims and liabilities and expenses related to claims under the Personal and Commercial Lines Accounts. The 2006 Line of Credit is secured by a security interest in anticipation of Revenues consisting of FHCF reimbursements and/or regular assessments. The expiration of the agreement is 364 days from August 30, 2006. Citizens is required to pay an annual Facility Fee of .25% on the unused portion of the facility. This rate is based on Moody's and S&P ratings of A+ and A2, respectively, on Personal and Commercial Lines Accounts long-term debt. Annual unused facility fees associated with this credit agreement were $305 and closing fees were $618 for the year ended December 31, 2006.

Effective December 29, 2005 Citizens entered into a $600,000 credit agreement (the 2005 Line of Credit) with a syndication of banks to pay claims and liabilities and expenses related to claims under the Personal and Commercial Lines Accounts. The 2005 Line of Credit was secured by a security interest in anticipation of Revenues consisting of FHCF reimbursements and/or regular assessments. The expiration of the agreement was 364 days from December 29, 2005. Citizens was required to pay an annual Facility Fee of .10% on the unused portion of the facility. This rate was based on Moody's and S&P ratings of A and A2, respectively, on Personal and Commercial Lines Accounts long-term debt. Annual unused facility fees associated with this credit agreement were $458 and closing fees were $100 for the year ended December 31, 2006.

NOTE 9 - REINSURANCE AGREEMENTS

Citizens participates in the Florida Hurricane Catastrophe Fund (the FHCF). The FHCF will reimburse Citizens a specified percentage of losses incurred relating to a hurricane in Florida if a prescribed retention is reached. Premiums ceded to the FHCF, net of refunds received, totaled $390,130 and $193,633, respectively, during 2006 and 2005 and are included in "Premiums earned" in the accompanying statements of operations - statutory basis. The High-Risk Account is treated for all FHCF purposes as if it were a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the Personal and Commercial Lines Accounts are viewed together for FHCF purposes, as if the two accounts were one and represent a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. The FHCF coverages and retention amounts by account are as follows:

	2006		2005	
	Coverage Amounts	Retention Amounts	Coverage Amounts	Retention Amounts
Personal and Commercial Lines Accounts	$ 2,022 million	$ 756 million	$ 578 million	$ 178 million
High-Risk Account	3,475 million	1,300 million	3,375 million	1,041 million

Citizens did not purchase private reinsurance in 2006. However, Citizens did purchase private reinsurance for the Personal Lines Account and the High Risk Account in 2005. The private reinsurance will reimburse Citizens a specified percentage of losses incurred relating to hurricanes in Florida if a prescribed retention is reached. Reinsurance is on the aggregate level for the Personal Lines Account and on a per occurrence basis in the High Risk Account. Premiums ceded to private reinsurance, net of refunds received, totaled $6,705 during 2006 and $52,897 during 2005 and are included in "Net written premiums" in the accompanying statements of operations - statutory basis. The private reinsurance coverages and retention amounts by account are as follows:

	2005	
	Coverage Amounts	Retention Amounts
Personal Lines Accounts	$ 175 million	$ 225 million
High-Risk Account	282 million	775 million

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

	2006		2005	
	Premiums		Premiums	
	Written	Earned	Written	Earned
Direct	$ 3,400,400	$ 2,550,063	$ 1,609,085	$ 1,513,894
Ceded	(449,731)	(495,778)	(479,232)	(458,148)
Net premiums	$ 2,950,669	$ 2,054,285	$ 1,129,853	$ 1,055,746

NOTE 9 - REINSURANCE AGREEMENTS (CONTINUED)

Citizens is entitled to $697,204 in FHCF reimbursements and to $34,070 in private reinsurance reimbursements in the High Risk Account related to losses incurred and paid as a result of hurricane Wilma in 2005. Citizens is also entitled to $66,232 in private reinsurance reimbursement in the Personal Lines Account related to losses incurred and paid as a result of all four hurricanes (Dennis, Katrina, Rita and Wilma) in 2005. The losses incurred and the loss adjustment expenses incurred are presented net of these anticipated recoveries in the accompanying statements of operations - statutory basis. FHCF recoveries of $432,720 and private reinsurance recoveries of $78,338 were received as of December 31, 2006.

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

Reinsurance contracts do not relieve Citizens from its obligation to policyholders. Citizens remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under their reinsurance agreements.

NOTE 10 - RETIREMENT PLAN

Deferred Compensation Plan

Citizens sponsors a 457(b)/401(a) deferred 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 $1,273 and $823 for the years ended December 31, 2006 and 2005, and are included in "Other underwriting expenses incurred" in the accompanying statements of operations.

NOTE 11 - DEPOPULATION

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Office, for the reduction of both new and renewal writings. Both of the pre-merger entities, the FRPCJUA and the FWUA, were also authorized to adopt and did enact such programs. However, the FRPCJUA was the only entity authorized to pay bonuses related to such programs. Agreements were entered into with various insurance companies (the Takeout Company or Companies) licensed in the State of Florida to remove policies from the FRPCJUA or the FWUA.

NOTE 11 - DEPOPULATION (CONTINUED)

Policies may be removed from Citizens at policy renewal or as part of a bulk assumption (Assumption Agreement). In an assumption, the Takeout Company is responsible for losses occurring from the assumption date through the expiration of the Citizens policy period (the "assumption period"). Although the law had been unsettled, Citizens believes that the Florida Insurance Guaranty Association (FIGA), rather than Citizens, is liable for such losses occurring during the assumption period if a Takeout Company were liquidated and unable to meet its obligations to policyholders. In January 2007, Florida law was amended to state that assumed policies are the direct insurance of the Takeout Company, clarifying that FIGA is liable for assumption period losses.

During 2006 and 2005, Citizens ceded $52,897 and $232,472 in premiums to Takeout Companies pursuant to Assumption Agreements which is included in "Premiums earned" in the accompanying statements of operations.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, agent commissions, and premium taxes. At December 31, 2006 and 2005, assumed premiums in the amount of $12,134 and $7,646 were due from certain Takeout Companies.

Certain agreements provide for a policy takeout bonus of up to 25% of policy premium to be paid to the Takeout Companies. Such takeout bonuses have been placed into escrow bank accounts pursuant to an escrow agreement. After three years, funds placed in escrow will be released to the Takeout Companies in accordance with the policy takeout agreement. During 2006 and 2005, Citizens paid $19,428 and $6,470, respectively, out of escrow (net of certain recoveries). During 2006 and 2005, Citizens paid $8,200 and $49,512 into escrow in accordance with the policy takeout agreements for policies removed in 2006 and 2005.

At the end of the three-year period, Citizens requires the Takeout Companies to have an independent audit of the policies for which they are claiming a bonus to determine if the policy is properly classified and is eligible for payment. Based upon results of that audit, Citizens evaluates the original amounts placed into escrow to determine if the escrow account is over or underfunded. During 2006 and 2005, Citizens paid into escrow $0 for underfunded accounts and received $11,028 and $669, respectively, for overfunded accounts. These amounts are included in "takeout bonus income (expense), net" in the accompanying statements of operations.

NOTE 12 - OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $3,332 and $3,078 for the years ended December 31, 2006 and 2005. At December 31, 2006, future minimum payments under operating leases are as follows:

2007	$	2,484
2008		2,461
2009		2,235
2010		1,592
2011		1,206
After 2011		2,811
Total	$	12,789

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Citizens is involved in certain litigation and disputes incidental to its operations, including the potentially material litigation described below. In the opinion of management, after consultation with legal counsel, there are substantial defenses to such litigation and disputes and any ultimate liability, in excess of reserves resulting therefrom, will not have a material adverse effect on the financial condition or results of operations of Citizens.

A summary of significant litigation follows:

Scylla Properties, LLC v. Citizens Property Ins. Corp. This putative class action lawsuit is brought by insureds seeking damages arising from claimed total losses (or constructive total losses) to their residences during the 2004 hurricane season. The plaintiffs' position is that Florida's "Valued Policy Law" required Citizens to pay the policy limits for losses caused by a combination of wind and flood (multi-causation) damage; even though flood damage is excluded by Citizens' policies and the wind damage alone would not have caused a total loss. This has been the ruling by the Fourth District Court of Appeal in *Mierzwa v. Florida Windstorm Underwriting Ass'n.*, and by the First District Court of Appeal in *Cox v. Florida Farm Bureau Ins. Co.* There are many other non-class action cases against Citizens that raise the same issue.

In Scylla, a class was previously certified by the trial court to include all persons whose Citizens-insured structures were damaged in the 2004 hurricanes by a combination of wind and flood in an amount giving rise to an actual or constructive total loss of the insured structures, other than those whose Citizens-insured structures were located in the counties of Broward, Indian River, Martin, Okeechobee, Palm Beach or St. Lucie. The trial court denied Citizens' motion for declaratory judgment and entered final partial summary judgments in favor of the two named plaintiffs equal to the amount of their policy limits. Citizens appealed those final orders to the First District Court of Appeal.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

On procedural grounds, the First District Court of appeal de-certified the class and reversed the declaratory judgment and the final partial summary judgments on procedural grounds, remanding the case back to the trial court.

The Florida Supreme Court will likely resolve the ultimate merits of this issue. The Cox case was appealed to the Florida Supreme Court and briefing is under way. There is an argument that, even if the Florida Supreme Court agrees with the First District Court of Appeal in the Cox case, Citizens would not be bound by that decision because of unique language in Citizens' enabling legislation. In another case, however, *Ueberschaer v. Citizens Insurance Property Corporation*, the First District Court of Appeal recently held in its majority opinion that the Valued Policy Law does apply to Citizens. However, the court held that the Valued Policy Law does not apply to claims for ordinance and law coverage. The dissenting opinion stated that, because of its enabling statute, Citizens is not subject to the Valued Policy Law and is not liable for flood damage. Citizens is seeking to have the Florida Supreme Court accept an appeal of this decision.

Poe Financial Group, Inc., et al v. Citizens. This adversarial proceeding is currently pending in the Bankruptcy Court of the Middle District of Florida. In this proceeding, Poe Financial Group, Inc.; Poe Insurance Managers, LLC; Poe & Associates, LLC; and Mariah Claims Services, LLC (the Poe Affiliates) have asserted multiple counts against Citizens under state and federal law. The principal claim is that Citizens unlawfully terminated its Agent Appointment Agreement with Poe & Associates after Citizens was ordered by the Leon County Circuit Court to take over policies of the following insurance companies after they were ordered into liquidation: Southern Family Insurance Company; Florida Preferred Insurance Company; and Atlantic Preferred Insurance Company. All three companies were owned by Poe Financial Group, Inc. and were affiliates of Poe & Associates.

Citizens intends to vigorously contest all causes of action presented in this case. The Poe Affiliates have claimed that they are seeking $60 million in damages. Citizens believes it will ultimately prevail on all claims presented and that the Poe Affiliates will not be awarded any damages.

Schirmer v. Citizens. This involves two class action suits seeking, in companion cases, damages and declaratory relief for Citizens' alleged failure to pay general contractor's overhead and profit as part of actual cash value claims. Currently this case is in the discovery stage. Citizens intends to vigorously defend the class action claim. Citizens has not been able to determine the potential financial exposure, if any, of this lawsuit.

Jimenez v. Citizens. This putative class action lawsuit filed in February 2007 seeks damages based on Citizens' alleged failure to pay claims by certain Citizens' policyholders for properties located in Miami-Dade and Broward counties for damage from Hurricane Wilma. Such claims sought replacement windows that would meet the high-impact standards of the Florida Building Code and High Velocity Hurricane Zone Standards. Citizens has not been able to determine the potential financial exposure, if any, of this lawsuit.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Schlegal v. Citizens. This putative class action lawsuit served in March 2007, seeks damages based on Citizens' alleged failure to pay non-incurred construction permitting fees. Citizens has not been able to determine the impact, if any, of this lawsuit.

NOTE 14 - RECONCILIATION OF SAP TO GAAP

Reconciliation of Citizens' 2006 and 2005 statutory basis net income and accumulated surplus (deficit) to its GAAP basis (as determined by the Governmental Accounting Standards Board) change in net assets and total net assets (deficit), respectively, is as follows:

	2006	2005
Net income (loss) - Statutory basis	$ 2,937,019	$ (1,411,499)
Adjustments:		
Policy acquisition costs	87,498	1,350
Line of credit fees & note issuance costs	40,632	(2,248)
Takeout bonuses	(22,090)	18,223
Allowance for doubtful accounts	(5,659)	(478)
Unrealized loss on investments	25,282	(29,841)
Change in net assets - GAAP basis	$ 3,062,682	$ (1,424,493)

	2006	2005
Accumulated surplus (deficit) - Statutory basis	$ 1,122,456	$ (1,811,115)
Adjustments:		
Policy acquisition costs	152,829	65,331
Nonadmitted assets, net	15,883	12,411
Provision for Reinsurance – Sch F Penalty	5,282	10,890
Line of credit fee and note issuance costs	67,514	26,881
Takeout bonuses	32,875	54,965
Cumulative unrealized (loss) gain on investments	(9,682)	(34,964)
Total (deficit) net assets – GAAP Basis	$ 1,387,157	$ (1,675,601)

NOTE 15 - ASSESSMENTS

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

When a deficit is incurred in any account in a given plan year, regular assessments are levied on assessable insurers (admitted insurers), as defined in Section 627.351(6), Florida Statutes, based upon their 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, as reduced by any credits for voluntary writings for that year. Regular assessments on assessable insureds (surplus lines policyholders), collectively, are based on the ratio of the amount being assessed for an account to the aggregate statewide direct written premiums for the subject lines of business for the preceding year.

Citizens may levy an Emergency Assessment when it incurs a deficit exceeding the amount to be collected under the Regular Assessment. An assessable insurer is required to collect the Emergency Assessment from a policyholder with a policy that is issued or renewed at the same time it collects a premium payment.

The legislature, in Section 44 of 2006 SB 1980, appropriated $715,000 to reduce Citizens' 2005 plan year deficit. The appropriation first eliminated the deficits in the Personal and Commercial Lines Accounts of $87,181 and $4,564, respectively. The balance of $623,255 then partially reduced the High Risk Account deficit and Regular Assessment. The remaining $163,079 High Risk Account Regular Assessment and the $887,502 Emergency Assessment were approved in 2006.

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS

In 2006, the Florida Legislature amended Citizens' enabling statute to provide that, if ordered by a court of competent jurisdiction, Citizens could "assume policies or otherwise provide coverage for policyholders of an insurer placed in liquidation under chapter 631 under such forms, rates, terms, and conditions as the corporation deems appropriate, subject to approval by the Office and ordered by the liquidation court.

Southern Family Insurance Company, Atlantic Preferred Insurance Company, and Florida Preferred Property Insurance Company of Poe Financial Group (the "Poe Insurers") were placed into liquidation by court order. The Florida Department of Financial Services, Division of Rehabilitation and Liquidation, was named the Receiver of the Poe Insurers. Under the court order and Florida law, coverage with the Poe Insurers ended on July 1, 2006.

NOTE 16 - POE FINANCIAL GROUP POLICYHOLDERS (CONTINUED)

A liquidation plan was approved by the Office of Insurance Regulation (OIR) and ordered by the court whereby, effective July 1, 2006, Citizens has been providing transition insurance coverage ("Transition Policies") to eligible policyholders of the Poe Insurers who could not obtain private coverage. Policy claims on losses occurring during the transition period (i.e. from July 1, 2006 until the expiration of the original Poe Insurer policy period), are being processed and paid by Citizens. Any losses incurred on policies of the Poe Insurers prior to July 1, 2006 are being processed and paid by FIGA.

Under a 2006 amendment to the statute governing the Florida Hurricane Catastrophe Fund (FHCF), Citizens was able to purchase FHCF coverage for the Transition Policies at a cost of about $75,000 for $1,000,000 of coverage.

Citizens received approximately 308,000 homeowner and 1,700 commercial residential policies as a result of the Transition Policies. To assist with the increased business to Citizens, Citizens hired an additional 160 employees who were formerly employees of affiliates of the Poe Insurers in Tampa.

As the Transition Policies expire, policyholders are required to reapply to Citizens for coverage under Citizens policy forms and eligibility requirements.

The Unearned Premium Due to Citizens for providing the transition coverage will be calculated by the Receiver, i.e. the Department of Financial Services, and then paid by FIGA. The Department of Financial Services (DFS), estimates that the unearned premium due Citizens will not exceed $269,000, but may be less once the final calculation is completed. Once the calculation is finalized, DFS will inform FIGA of the amount. Under the Plan of Liquidation, FIGA must pay the unearned premium due to Citizens in six installments over three years. Citizens has received payments of $49,750 from FIGA through April 2007.

Citizens recorded an estimate of the unearned premium as of July 1, 2006 and has been recognizing an estimate of the earned premium each month thereafter. Additionally, Citizens has recorded an estimated receivable due from FIGA. As of December 31, 2006, the estimated receivable due from FIGA was $205,796 and is included in Premiums receivable, net in the accompanying financial statements.

NOTE 17 - SUBSEQUENT EVENTS

On February 26, 2007 Citizens issued $1,062,540 of High-Risk Account Senior Secured Refunding Bonds, Series 2007A for the purpose of financing the current refunding and redemption of the outstanding 7.125% Series 1999A Senior Secured Insured Notes due 2019 previously issued by the FWUA, a predecessor of Citizens. Unlike previous bond issuances, this pre-event issuance was tax exempt. The bonds bear interest ranging from 3.75% to 5.00% per annum, payable semi-annually on March 1st and September 1st. The bonds are secured by pledged revenues which consist of moneys and investments held in accounts established under the trust indenture, proceeds from any regular assessment and/or reimbursements received from the FHCF.

NOTE 17 - SUBSEQUENT EVENTS (CONTINUED)

On April 5, 2007, Citizens' Board of Governors approved a pre-event financing plan to provide additional liquidity for the Personal Lines Account and the Commercial Lines Account prior to the 2007 hurricane season. The financing plan would be accomplished through a bank financing of approximately $1,000,000 combined with a capital markets component of approximately $900,000.

Supplementary Information

CRI
CARR
RIGGS &
INGRAM

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Report of Independent Certified Public Accountants on Other Financial Information

The Board of Governors
Citizens Property Insurance Corporation

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental schedule of selected statutory-basis financial data is presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and is not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the statutory-basis financial statements taken as a whole.

This report is intended solely for the information and use of the Company and the Florida Office of Insurance Regulation to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
April 18, 2007

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

December 31, 2006

	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
		(In Thousands)		
Admitted assets				
Cash and invested assets:				
Bonds	$ 3,619,873	$ 44,133	$ 3,900	$ 3,571,840
Cash and short-term investments	3,636,689	1,083,135	556,601	1,996,953
Total cash and invested assets	7,256,562	1,127,268	560,501	5,568,793
Investment income due and accrued	37,349	4,620	1,852	30,877
Premiums receivable, net	229,622	195,587	8,640	25,395
Other receivables under reinsurance contracts	12,134	6,526	-	5,608
Reinsurance recoverable	129,044	25,723	20,598	82,723
Income tax recoverable	168,060	-	-	168,060
Assessment receivable	971,985	-	-	971,985
Other admitted assets	7,388	5,366	-	2,022
Inter-account receivable (payable)	-	343,380	(64,851)	(278,529)
Total admitted assets	$ 8,812,144	$ 1,708,470	$ 526,740	$ 6,576,934
Liabilities and accumulated surplus (deficit)				
Liabilities:				
Loss reserves	$ 506,438	$ 191,522	$ 13,212	$ 301,704
Loss adjustment expense reserves	81,168	54,696	1,468	25,004
Unearned premiums, net of unearned ceded	1,601,576	777,844	244,790	578,942
Taxes and fees payable	15,767	9,910	2,335	3,522
Federal income taxes payable	-	-	-	-
Provision for reinsurance	5,282	5,282	-	-
Bonds payable	5,196,573	92,780	8,200	5,095,593
Interest payable	43,340	3,503	310	39,527
Advance premiums and suspended cash	175,357	56,505	57,591	61,261
Other liabilities	64,187	43,972	1,369	18,846
Total liabilities	7,689,688	1,236,014	329,275	6,124,399
Accumulated surplus:	1,122,456	472,456	197,465	452,535
Total surplus	1,122,456	472,456	197,465	452,535
Total liabilities and accumulated surplus	$ 8,812,144	$ 1,708,470	$ 526,740	$ 6,576,934

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

	December 31, 2006			
	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
		(In Thousands)		
Premiums earned	**$ 2,054,285**	$ 979,120	$ 265.810	$ 809.355
Losses incurred	**589,744**	260,477	10,968	318.299
Loss adjustment expenses incurred	**70,109**	73,459	(8,979)	5.629
Other underwriting expenses incurred	**386,239**	177.894	71,879	136,466
Underwriting income	**1,008,193**	467.290	191,942	348.961
Net investment income	**210,193**	33.769	14,357	162.067
Interest expense, net	**(224,299)**	(5.178)	(457)	(218.664)
Line of credit fees and note issuance costs	**(48,076)**	(1,759)	(155)	(46.162)
Takeout bonus income (expense), net	**2,853**	7,388	-	(4.535)
Assessment income	**1,765,581**	87.181	4,564	1.673,836
Other income (expenses)	**2,115**	2.565	(281)	(169)
Income before federal income tax benefit	**2,716,560**	591.256	209,970	1,915.334
Federal income tax benefit	**220,459**	-	-	220.459
Net income	**$ 2,937,019**	$ 591,256	$ 209,970	$ 2,135,793

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2006

(To Be Filed by April 1)

OF The CITIZENS PROPERTY INSURANCE CORPORATION

Address (City, State and Zip Code) Tallahassee, FL 32301

NAIC Group Code 0000 NAIC Company Code 10064 Employer's ID Number 59-3164851

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

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

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement $ 8,812,143,900
2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	The Florida State Board of Administration ("SBA")	Local Government Investment Pool	$ 1,371,031,436	15.6 %
2.02	Chief Financial Officer's Special Purpose Investment A/C ("SPIA")	State Government Investment Fund	$ 871,064,419	9.9 %
2.03	Wells Fargo Bank/WF Prime Institutional Fund	Money Market and Bonds	$ 339,393,789	3.9 %
2.04	US Bank/First American Funds Prime Fund	Money Market and Bonds	$ 264,170,319	3.0 %
2.05	Wachovia Bank/Evergreen Institutional Prime Fund	Money Market and Bonds	$ 154,795,000	1.8 %
2.06	XL Funding Asset Corporation	Guaranteed Investment Contract	$ 132,675,000	1.5 %
2.07	Morgan Stanley	Bonds and Commercial Paper	$ 89,639,957	1.0 %
2.08	General Electric	Bonds and Commercial Paper	$ 76,628,602	0.9 %
2.09	Goldman Sachs Group	Bonds and Commercial Paper	$ 72,966,013	0.8 %
2.10	Federated Government Obligation Fund	Money Market	$ 67,446,276	0.8 %

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

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 4,767,766,059	54.1 %	3.07	P/RP-1	$	%
3.02	NAIC-2	$ 627,498	0.0 %	3.08	P/RP-2	$	%
3.03	NAIC-3	$	%	3.09	P/RP-3	$	%
3.04	NAIC-4	$	%	3.10	P/RP-4	$	%
3.05	NAIC-5	$	%	3.11	P/RP-5	$	%
3.06	NAIC-6	$	%	3.12	P/RP-6	$	%

4. Assets held in foreign investments:

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

4.02 Total admitted assets held in foreign investments $ %

4.03 Foreign-currency-denominated investments $ %

4.04 Insurance liabilities denominated in that same foreign currency $ %

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

6. Two largest foreign investment exposures in a single country, categorized by NAIC sovereign rating:

		1	2	
7. Aggregate unhedged foreign currency exposure	$			%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

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

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

	1	2
11.02 Total admitted assets held in Canadian Investments	$	%
11.03 Canadian-currency-denominated investments	$	%
11.04 Canadian-denominated insurance liabilities	$	%
11.05 Unhedged Canadian currency exposure	$	%

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, responses are 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 interest less than 2.5% of the reporting entity's total admitted assets Yes [X] No [ ]

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

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

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

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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 investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

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

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

	At Year-end 1	At Year-end 2	At End of Each Quarter 1st Quarter 3	At End of Each Quarter 2nd Quarter 4	At End of Each Quarter 3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$	%	$	$	$
20.02 Repurchase agreements	$	%	$	$	$
20.03 Reverse repurchase agreements	$	%	$	$	$
20.04 Dollar repurchase agreements	$	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	%	$	$	$

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

	Owned 1	Owned 2	Written 3	Written 4
21.01 Hedging	$	%	$	%
21.02 Income generation	$	%	$	%
21.03 Other	$	%	$	%

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

	At Year-end 1	At Year-end 2	At End of Each Quarter 1st Quarter 3	At End of Each Quarter 2nd Quarter 4	At End of Each Quarter 3rd Quarter 5
22.01 Hedging	$	%	$	$	$
22.02 Income generation	$	%	$	$	$
22.03 Replications	$	%	$	$	$
22.04 Other	$	%	$	$	$

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

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

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings 1 Amount	Gross Investment Holdings 2 Percentage	Admitted Assets as Reported in the Annual Statement 3 Amount	Admitted Assets as Reported in the Annual Statement 4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	360,795,487	4.971	360,795,487	4.971
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	520,289,662	7.168	520,289,662	7.168
1.22 Issued by U.S. government sponsored agencies	247,014,609	3.403	247,014,609	3.403
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations	17,217,194	0.237	17,217,194	0.237
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	18,003,482	0.248	18,003,482	0.248
1.512 Issued or guaranteed by FNMA and FHLMC	133,304,441	1.837	133,304,441	1.837
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	380,051,182	5.236	380,051,182	5.236
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	790,236,223	10.887	790,236,223	10.887
1.523 All other				
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)	1,152,960,449	15.885	1,152,960,449	15.885
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds	553,998,821	7.633	553,998,821	7.633
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by the company				
5.2 Property held for the production of income (including $ ______ of property acquired in satisfaction of debt)				
5.3 Property held for sale (including $ ______ property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	1,685,000	0.023	1,685,000	0.023
8. Cash, cash equivalents and short-term investments	3,082,690,270	42.472	3,082,690,270	42.472
9. Other invested assets				
10. Total invested assets	7,258,246,820	100.000	7,258,246,820	100.000

The accompanying schedules and interrogatories present selected statutory-basis financial data as of December 31, 2006 and for the year then ended for purposes of complying with the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and agrees to or is included in the amounts reported in the Company's 2006 Statutory Annual Statement as filed with the Florida Office of Insurance Regulation.