

FINANCIAL STATEMENTS – STATUTORY BASIS
AND SUPPLEMENTAL SCHEDULES

Citizens Property Insurance Corporation
Years Ended December 31, 2005 and 2004

Citizens Property Insurance Corporation

Financial Statements – Statutory Basis
and Supplemental Schedules

Years Ended December 31, 2005 and 2004

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Report of Independent Certified Public Accountants

The Board of Governors and Management
Citizens Property Insurance Corporation

We have audited the accompanying statement of admitted assets, liabilities and accumulated surplus (deficit) of Citizens Property Insurance Corporation (Citizens) as of December 31, 2005 and 2004, and the related statements of operations, changes in accumulated surplus (deficit) and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included 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 the Company'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, Citizens presents its financial statements in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Florida, whose practices differ from accounting principles generally accepted in the United States. The variances between such practices and accounting principles generally accepted in the United States and the effects on the accompanying financial statements are described in Note 14.

In our opinion, because of the effects of the matter described 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, the financial position of Citizens Property Insurance Corporation at December 31, 2005 and 2004, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Property Insurance Corporation at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Florida.

Ernst + Young LLP

May 17, 2006

Citizens Property Insurance Corporation

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

	December 31	
	2005	2004
	<i>(In Thousands)</i>	
Admitted assets		
Cash and invested assets:		
Bonds	\$ 2,197,038	\$ 2,629,460
Cash and short-term investments	487,005	1,562,152
Total cash and invested assets	<u>2,684,043</u>	<u>4,191,612</u>
Investment income due and accrued	19,418	23,848
Premiums receivable, net	9,083	2,699
Other receivables under reinsurance contracts	23,848	3,327
Assessment receivable	96,644	–
Other admitted assets	747	176
Total admitted assets	<u>\$ 2,833,783</u>	<u>\$ 4,221,662</u>
Liabilities and accumulated surplus (deficit)		
Liabilities:		
Loss reserves	1,267,635	1,458,495
Loss adjustment expense reserves	217,381	148,555
Unearned premiums, net of unearned ceded premiums of \$57,385 and \$36,300	705,192	631,085
Taxes and fees payable	30,995	30,972
Federal income taxes payable	54,899	54,899
Provision for reinsurance	10,890	–
Notes payable	2,148,130	2,149,754
Interest payable	37,178	36,550
Advance premiums and suspended cash	76,193	67,653
Other liabilities	96,405	27,225
Total liabilities	<u>4,644,898</u>	<u>4,605,188</u>
Accumulated surplus (deficit):	<u>(1,811,115)</u>	<u>(383,526)</u>
Total liabilities and accumulated surplus (deficit)	<u>\$ 2,833,783</u>	<u>\$ 4,221,662</u>

See accompanying notes.

Citizens Property Insurance Corporation
 Statements of Operations – Statutory Basis

	Year Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Premiums earned	\$ 1,055,746	\$ 1,022,503
Losses incurred	2,401,939	2,493,127
Loss adjustment expenses incurred	326,232	212,887
Other underwriting expenses incurred	197,994	180,501
Underwriting loss	<u>(1,870,419)</u>	<u>(1,864,012)</u>
Net investment income	118,068	143,493
Interest expense, net	(124,390)	(117,574)
Line of credit fees and note issuance costs	(1,579)	(14,986)
Takeout bonus expense, net	(48,843)	(34,633)
Assessment income	515,514	—
Other income (expense)	150	(165)
Loss before federal income taxes	<u>(1,411,499)</u>	<u>(1,887,877)</u>
Federal income taxes	—	—
Net loss	<u><u>\$ (1,411,499)</u></u>	<u><u>\$ (1,887,877)</u></u>

See accompanying notes.

Citizens Property Insurance Corporation

Statements of Changes in Accumulated Surplus (Deficit) – Statutory Basis

(In Thousands)

Balance at January 1, 2004	\$ 1,507,356
Net loss	(1,887,877)
Change in nonadmitted assets	(3,005)
Balance at December 31, 2004	<u>(383,526)</u>
Net loss	(1,411,499)
Change in nonadmitted assets	(5,125)
Provision for reinsurance	(10,890)
Other	(75)
Balance at December 31, 2005	<u><u>\$ (1,811,115)</u></u>

See accompanying notes.

Citizens Property Insurance Corporation

Statements of Cash Flows – Statutory Basis

	Year Ended December 31	
	2005	2004
	<i>(In Thousands)</i>	
Operating activities		
Premiums collected, net of reinsurance	\$ 1,157,414	\$ 1,088,254
Loss and loss adjustment expenses paid	(2,850,205)	(1,237,669)
Underwriting expenses paid	(165,559)	(173,385)
Net investment income received	12,663	27,080
Other expenses paid	452,667	(34,798)
Net cash used in operations	(1,393,020)	(330,518)
 Investing activities		
Proceeds from investments sold, matured or repaid	1,930,246	2,802,157
Investments acquired	(1,510,781)	(2,990,666)
Net cash provided by (used in) investing	419,465	(188,509)
 Financing and miscellaneous activities		
Borrowed funds received	–	750,000
Borrowed funds repaid	–	(275,000)
Other miscellaneous cash applications	(101,592)	(17,074)
Net cash (used in) provided by financing and miscellaneous	(101,592)	457,926
 Net decrease in cash and short-term investments	(1,075,147)	(61,101)
 Cash and short-term investments:		
Beginning of year	1,562,152	1,623,253
End of year	\$ 487,005	\$ 1,562,152

See accompanying notes.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (In Thousands)

December 31, 2005

1. General

Citizens Property Insurance Corporation (Citizens) was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property and casualty 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. Citizens is not required to obtain or to hold a certificate of authority issued by the Department of Financial Services (the Department).

Citizens operates pursuant to a Plan of Operation (the Plan) approved by the Department and under the supervision of the Board of Governors 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. The executive director and senior managers of Citizens are engaged by the board, as recommended by the Chief Financial Officer, and serve at the pleasure of the board.

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

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

1. General (continued)

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 that enacted 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.

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 Department (SAP). The Department 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 Department.

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

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

- 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.
- b. Certain assets are defined by the NAIC and the Department as “nonadmitted”, principally furniture and equipment, leasehold improvements, certain prepaids, computer software and amounts in the course of collection with balances more than 90 days past due. For GAAP, an allowance for doubtful receivables is recorded to reserve for past due balances. The net change in such nonadmitted assets during the year is charged or credited directly to accumulated surplus.
- c. Debt securities are valued at cost and are amortized under the valuation standards of the NAIC. For GAAP, 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 expense, are charged to operations as incurred, rather than deferred and amortized over the periods to which the expenses relate.
- e. Reserves for losses and loss adjustment expenses and unearned premiums ceded to reinsurers have been reported as reductions of the related reserves rather than as assets as would be required under GAAP.
- f. Commissions paid by reinsurers on business ceded are reported as income when received rather than being 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.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

Other significant accounting practices are as follows:

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.

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. 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 including prepayments.

Realized Gains and Losses

Realized gains and losses on sales of investments are recognized on the specific identification basis.

Interest Rate Swap Terminations

The gains or losses from terminations of interest rate swap agreements used in prior years for hedging are recognized over the life of the terminated agreements.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 \$1,010 and \$628 for the years ended December 31, 2005 and 2004 and accumulated depreciation for EDP equipment at December 31, 2005 and 2004 was \$3,382 and \$2,391. These assets were non-admitted in 2005.

Loss Reserves and Loss Adjustment Expense Reserves

Liabilities for loss reserves and loss adjustment expense reserves are based on claims adjusters' evaluations and on independent outside actuarial evaluations, using Citizens' loss experience and industry statistics. While the ultimate amount of losses incurred and loss adjustment expenses incurred is dependent on future developments, in management's opinion, these reserves are adequate to cover the 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.

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 is 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 in the period approved by the Board of Governors and the Department and levied by Citizens.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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, due from affiliates, producer commissions payable, reinsurance premiums payable and accounts payable and accrued expenses approximates fair value given their short-term nature.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)
(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Market Risk

Citizens underwrites residential property and casualty 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 24%, 14%, 4% and 13% of Citizens' insurance coverage exposure lies in Miami-Dade, Broward, Monroe and Palm Beach counties, respectively, as of December 31, 2005. Severe storm activity in any of these counties could have a significant impact on Citizens' future financial position and results of operations.

3. Bonds

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and U.S. Government Securities	\$ 864,222	\$ 1,127	\$ (12,877)	\$ 852,472
Corporate Bonds	438,544	326	(7,410)	431,460
Loan Backed and Structured Securities	894,272	634	(16,738)	878,168
Total	\$ 2,197,038	\$ 2,087	\$ (37,025)	\$ 2,162,100

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

3. Bonds (continued)

The amortized cost and aggregate fair value of bonds at December 31, 2004 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and U.S. Government Securities	\$ 997,230	\$ 4,814	\$ (6,777)	\$ 995,267
Corporate Bonds	604,430	4,006	(3,218)	605,218
Loan Backed and Structured Securities	1,027,800	2,961	(6,789)	1,023,972
Total	<u>\$ 2,629,460</u>	<u>\$ 11,781</u>	<u>\$ (16,784)</u>	<u>\$ 2,624,457</u>

Proceeds from maturities and sales of bonds during 2005 and 2004 were \$1,930,246 with realized gains of \$3,326 and gross realized losses of \$17,502 and \$2,802,157 with realized gains of \$15,380 and gross realized losses of \$10,583, respectively.

The amortized cost and fair value of securities at December 31, 2005, 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	\$ 131,809	\$ 130,812
Due after one year through five years	1,156,532	1,138,607
Due after five years through ten years	14,425	14,513
Loan-backed securities	894,272	878,168
Total	<u>\$ 2,197,038</u>	<u>\$ 2,162,100</u>

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

3. Bonds (continued)

The Company held certain securities in an unrealized loss position at December 31, 2005, as summarized in the following table. 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 the Company has the capacity and intent to hold the security until the scheduled maturity date.

	Total		Less than 12 months		More than 12 months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	<i>In Thousands</i>					
Bonds:						
U.S. Treasury and U.S. Government Securities	\$ 852,472	\$ (12,877)	\$ 59,400	\$ (503)	\$ 793,072	\$ (12,374)
Corporate Bonds	431,460	(7,410)	71,412	(566)	360,048	(6,844)
Loan Backed and Structured Securities	878,168	(16,738)	0	0	878,168	(16,738)
Total	\$ 2,162,100	\$ (37,025)	\$ 130,812	\$ (1,069)	\$ 2,031,288	\$ (35,956)

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, 2005 and 2004 are as follows:

	2005	2004
Loss reserves and loss adjustment expense reserves, beginning of year	\$ 1,607,050	\$ 138,705
Incurred related to:		
Current year	2,138,004	2,721,512
Prior years	590,167	(15,498)
Total incurred	2,728,171	2,706,014
Paid related to:		
Current year	1,005,019	1,145,602
Prior years	1,845,186	92,067
Total paid	2,850,205	1,237,669
Loss reserves and loss adjustment expense reserves, end of year	\$ 1,485,016	\$ 1,607,050

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

4. Liability for Loss Reserves and Loss Adjustment Expense Reserves (continued)

As a result in changes in estimates of insured events in prior years, primarily due to the underestimation of costs relating to demand surge on hurricane losses, the provision for loss and loss adjustment expenses increased by \$590,167 in 2005 and decreased by \$15,498 in 2004.

The increase in loss and loss adjustment expenses incurred and paid is directly related to catastrophic losses sustained from hurricanes Dennis, Katrina, Rita and Wilma during the current year. Total incurred and paid losses and loss adjustment expenses related to the four storms were \$2,915,479 for the year ended December 31, 2005.

Citizens entered into agreements with several companies that provide claim adjustment services. These agreements provide for compensation to the companies based on a graduated fee schedule, based on the cost and type of losses handled by the companies. Compensation for claim services performed during a catastrophe are paid based upon a fee schedule plus an additional amount based on a percentage of paid losses. 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.

5. Notes 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 million and \$1 billion 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 will be facilitated through premium and surcharge revenues, unused proceeds of the bonds, amounts available under the High-Risk Account Line of Credit, Regular Assessments and Emergency Assessments, 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. The principal reduction on these notes during the years ended December 31, 2005 and 2004 was \$0 and \$150,000. Outstanding maturities on these notes were \$1,300,000 at December 31, 2005 and 2004. The fair market value of these bonds approximate \$1.467 billion.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

5. Notes Payable (continued)

Series 1997A, issued May 13, 1997 – In May 1997, the pre-merger FRPCJUA issued \$500 million 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. 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 8). 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. The principal reduction on these notes during the years ended December 31, 2005 and 2004 was \$0 and \$125,000. Outstanding maturities on these notes were \$100,000 at December 31, 2005 and 2004. The fair market value of these bonds approximate \$100 million.

Series 2004A through 2004I Bonds – During May 2004, Citizens issued \$750 million 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 the bonds approximate \$750 million.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)
(In Thousands)

5. Notes Payable (continued)

Interest rates and maturities of Citizens' bonds outstanding at December 31, 2005 are as follows:

	2005
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 March 31, 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
	2,150,000
Less - unamortized discount	(1,870)
Total	\$ 2,148,130

The total interest expense on the Notes for the years ended December 31, 2005 and 2004 was \$126,419 and \$120,372 including discount amortization of \$405 and \$552 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, 2005 and 2004. 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 million. 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 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 year ended December 31, 2005 and 2004 was \$2,029 and \$2,798, respectively.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

5. Notes Payable (continued)

Citizens is planning on issuing \$3 billion of debt sometime during the summer of 2006.

6. Producer Commissions and Servicing Company Fees

Citizens contracted with various licensed producers in the State of Florida. These agreements provide for commissions paid to the producers at rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges.

Additionally, Citizens 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" based upon the number of transactions processed in a monthly cycle. Service carrier fees expensed during 2005 and 2004 were \$5,739 and \$11,731, respectively.

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, FWUA transferred its assets and liabilities to Citizens in accordance with Florida Statute 627.351(6). Citizens filed a federal income tax refund claim in excess of \$182 million related to the transfer. During 2004 and 2003, Citizens received federal and state refunds for approximately \$8 million and \$69 million, respectively, related to the 2002 taxable year. The amount has been recorded as a liability in the accompanying statement of admitted assets, liabilities and accumulated surplus (deficit). Citizens has not recorded any other anticipated refund as the claim for refund is being contested by the IRS due to the size of the refund and the refund's relationship to Citizens as the former FRPCJUA. The IRS has filed a counterclaim assessment of the past due taxes and interest in the amount of approximately \$93 million. The Company believes that it will prevail in this matter.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

8. Line of Credit Agreements

Line of Credit, Personal and Commercial Lines Accounts – Effective December 29, 2005 Citizens entered into a \$600 million credit agreement (the Line of Credit) with a syndication of banks. The 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 is 364 days from December 29, 2005. Citizens is required to pay an annual Facility Fee of .10% 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. The first Facility Fee payment will be March 31, 2006.

Effective May 13, 1997, the pre-merger FRPCJUA entered into a \$1.5 billion credit agreement (the Line of Credit) with a syndication of banks. The Line of Credit was secured by a security interest in emergency assessments. Under certain circumstances, the Line of Credit was also secured by and payable by regular assessments or reimbursements received by or on behalf of Citizens from the FHCF. Pursuant to the amendment dated March 25, 2003, the available borrowing amount was reduced to \$675 million. The expiration date of the amended credit agreement was March 24, 2004. Citizens was required to pay an annual commitment fee of .37% of the daily amount by which the aggregate amount of the commitment exceeds the outstanding principal amount of the loan. The commitment fee percentage was based on Moody's and S&P ratings of A and A2, respectively, on the Personal and Commercial Lines Accounts long-term debt. Annual commitment fee associated with this credit agreement was \$591 for the year ended December 31, 2004. This agreement was not renewed after March 24, 2004.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

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 \$193,633 and \$177,075, respectively, during 2005 and 2004 and are included in “Net written premiums” 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:

	2005		2004	
	Coverage Amounts	Retention Amounts	Coverage Amounts	Retention Amounts
Personal and Commercial Lines Accounts	\$ 578 million	\$ 178 million	\$ 958 million	\$ 283 million
High-Risk Account	3,375 million	1,041 million	3,404 million	1,007 million

Citizens purchased 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 per occurrence in the High Risk Account. Premiums ceded to private reinsurance, net of refunds received, totaled \$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

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)
(In Thousands)

9. Reinsurance Agreements (continued)

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

	2005		2004	
	Written	Earned	Written	Earned
Direct	\$ 1,609,085	\$ 1,513,894	\$ 1,401,086	\$ 1,304,700
Ceded	(479,232)	(458,148)	(313,118)	(282,197)
Net premiums	<u>\$ 1,129,853</u>	<u>\$ 1,055,746</u>	<u>\$ 1,087,968</u>	<u>\$ 1,022,503</u>

Citizens is entitled to \$895,202 in FHCF reimbursements and \$64,420 in the High Risk Account private reinsurance reimbursements related to losses incurred and paid as a result of hurricane Wilma in 2005. Citizens is also entitled to \$91,458 in the Personal Lines Account private reinsurance reimbursement 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. No recoveries were received as of December 31, 2005.

Amounts recoverable from reinsurers on unpaid losses and LAE are estimates based on the allocation of estimated unpaid losses and LAE among the Company's coverage lines. Actual amounts recoverable could significantly vary based on the ultimate settlement of losses and LAE.

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

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

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 \$823 and \$470 for the years ended December 31, 2005 and 2004, and are included in "Administrative expenses" in the accompanying statements of operations.

11. Depopulation

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Department, 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.

Policies may be removed from Citizens at policy renewal or as part of a bulk assumption (Assumption Agreement). If the Takeout Companies are unable to meet their obligations to policyholders, Citizens may be liable for losses incurred prior to the policy expiration date. In the opinion of management, any losses relating to these transactions will not have a material adverse effect on Citizens' financial position and results of operations.

During 2005 and 2004, Citizens ceded \$232,472 and \$136,042 in premiums to Takeout Companies pursuant to Assumption Agreements which is included in "Net written premiums" in the accompanying statements of operations.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

11. Depopulation (continued)

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, producer commissions, and premium taxes. At December 31, 2005 and 2004, assumed premiums in the amount of \$7,646 and \$3,327 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 2005, Citizens paid out of escrow \$6,470 in accordance with the policy takeout agreements for policies removed in 2002. As of December 31, 2005, \$83,477 is held in escrow.

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 2005, Citizens paid into escrow \$0 for underfunded accounts and received \$669 for overfunded accounts. These amounts are included in “takeout bonus income (expense), net” in the accompanying statements of operations.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

12. Operating Leases

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to \$3,078 and \$1,943 for the years ended December 31, 2005 and 2004. At December 31, 2005, future minimum payments under operating leases are as follows:

2006	\$	1,998
2007		2,455
2008		2,462
2009		2,235
2010		1,592
After 2010		4,017
Total	\$	<u>14,759</u>

13. Commitments and Contingencies

Citizens is involved in legal proceedings incidental to the conduct of its business. Management of Citizens does not believe that the outcome of any of these legal proceedings will have a material adverse effect on the financial condition or results of operations of Citizens.

ZIMMERMAN V. CITIZENS

This class action litigation was filed in the Broward County Circuit Court as a renewed challenge to windstorm insurance rate increases implemented between July 2000 and June 2002 by Citizens' predecessor, the Florida Windstorm Underwriting Association ("FWUA") pursuant to an arbitration hearing in February 2000. The court has failed to grant relief, directing the Plaintiffs to the Office of Insurance Regulation ("OIR").

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

13. Commitments and Contingencies (continued)

On June 9, 2005, Plaintiffs filed a petition with the OIR requesting the relief they originally sought in the Broward County action. On June 24, 2005, OIR required the Zimmerman Plaintiffs to first seek relief from Citizens. Citizens reviewed the Plaintiff's petition and on February 9, 2006 denied the Petition. As such, the Petition is back at OIR for review. Plaintiffs have also served an Extraordinary Writ Petition on Citizens' counsel asking the First District Court of Appeal to assume jurisdiction over the matter. However, this Petition has not been filed with First District Court of Appeal. Citizens' management does not believe that an unfavorable outcome is likely.

SCYLLA V. CITIZENS

This case was filed in the Leon County Circuit Court as a putative class action brought by two property owners seeking damages arising from losses to their residences during the recent hurricane season. Summary Judgment was entered against Citizens and the case is currently pending on appeal at the First District Court of Appeal.

The First District Court of Appeals will decide if the *Mierzwa* case, which held that the valued policy law requires an insurer to tender full policy limits in the event of a total loss even if perils not covered under the insurance policy (i.e., flood) contributed to the total loss applies to Citizens or conflicts with its enabling legislation. Citizens Reply Brief was due on Monday, March 6, 2006. No date has been set for oral argument at the First District Court of Appeals at this time. The Company is unable to determine the outcome at this time.

AIKENS V. CITIZENS

Brought by the same attorneys as the Scylla case, the Aikens putative class action seeks to certify all flood/wind total loss claims in the Fourth District which were carved out of the Scylla case.

CARL J. FERRO, D/B/A ITALIA, INC., ET AL. V. FLORIDA WINDSTORM UNDERWRITING ASSOCIATION

This case, originally brought against the FWUA, is a putative class action which claims coverage for wind driven rain.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

13. Commitments and Contingencies (continued)

A class certification hearing was held on February 3, 2006 and the Court has reserved ruling on the matter. Citizens believes that class certification is not warranted in this case.

PARADELA V. CITIZENS

Paradela, a Citizens policyholder, filed a putative class action complaint in Broward County Circuit Court seeking damages and declaratory relief against Citizens alleging that Citizens improperly applied a deductible to his claim for “Loss Assessment Coverage” under Citizens’ policy.

There is currently no hearing date for class certification. The potential financial exposure is yet undetermined.

SCHIRMER V. CITIZENS

These Citizens’ insureds have filed two proposed class actions in Pinellas County seeking, in companion cases, damages and declaratory relief arising from alleged breaches of their respective insurance contracts for Citizens’ alleged failure to pay general contractor’s overhead and profit (“O&P”) benefits in their claims. The potential financial exposure is currently undetermined.

Citizens is also involved in certain litigation and disputes incidental to its operations. Upon the basis of information presently available, Citizens believes that there are substantial defenses to such litigation and disputes and that, in any event, any ultimate liability will not materially adversely affect the financial position or results of operations of Citizens.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)
(In Thousands)

14. Reconciliation of SAP to GAAP

Reconciliation of Citizens' 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) is as follows:

	2005	2004
Net loss - Statutory basis	\$ (1,411,499)	\$ (1,887,877)
Adjustments:		
Policy acquisition costs	1,350	(2,416)
Line of credit fees & note issuance costs	(2,248)	12,090
Takeout bonuses	18,223	26,596
Allowance for doubtful accounts	(478)	(214)
Unrealized loss on investments	(29,841)	(36,905)
Change in net assets - GAAP basis	\$ (1,424,493)	\$ (1,888,726)

	2005	2004
Accumulated surplus (deficit) - Statutory basis	\$ (1,811,115)	\$ (383,526)
Adjustments:		
Policy acquisition costs	65,331	63,981
Nonadmitted assets, net	12,411	7,763
Provision for Reinsurance – Sch F Penalty	10,890	-
Line of credit fee and note issuance costs	26,881	29,130
Takeout bonuses	54,965	36,742
Cumulative unrealized (loss) gain on investments	(34,964)	(5,123)
Total (deficit) net assets – GAAP Basis	\$ (1,675,601)	\$ (251,033)

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued) (In Thousands)

15. Assessments

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

When a deficit is incurred in any account in a given plan year, regular assessments are levied on assessable 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, 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.

The adjusted GAAP deficit was \$87,181, \$4,564 and \$1,673,836 for the Personal Lines Account, Commercial Lines Account and High Risk Account, respectively, for a combined adjusted GAAP deficit of \$1,765,581 as of the year ended December 31, 2005. The Personal Lines Account and Commercial Lines Account deficits will be fully funded with a regular assessment. The High Risk Account will be fully funded with regular and emergency assessments. Citizens' determination of the amount of regular assessments and emergency assessments to be levied is subject to verification and approval by the Citizens' Board of Governors and the Department of Financial Services, which has not occurred as of the audit report date.

Citizens Property Insurance Corporation

Notes to Financial Statements – Statutory Basis (continued)

(In Thousands)

16. Reconciliation to Statutory Annual Statements

The following is a reconciliation of amounts previously reported to state regulatory authorities in the 2005 Annual Statement, to those reported in the accompanying statutory-basis financial statements:

	<u>December 31, 2005</u>
Balance Sheet:	
Assets as reported in the Company's Annual Statement	\$ 2,835,769
Decrease premiums due from assuming companies	(1,986)
Assets as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 2,833,783</u>
Liabilities as reported in the Company's Annual Statement	\$ 4,612,943
Increase reinsurance payable	4,340
Increase unearned premiums	27,615
Liabilities as reported in the accompanying audited statutory-basis balance sheet	<u>\$ 4,644,898</u>
Deficit as reported in the Company's Annual Statement	\$ (1,777,174)
Decrease premiums due from assuming companies	(1,986)
Increase reinsurance payable	(4,340)
Increase unearned premiums	(27,615)
Total deficit as reported in the accompanying audited statutory-basis balance sheet	<u>\$ (1,811,115)</u>
Statements of Operations:	
Statutory net loss reported in the Company's Annual Statement	\$ (1,377,558)
Decrease premiums due from assuming companies	(1,986)
Increase reinsurance payable	(4,340)
Increase unearned premiums	(27,615)
Total statutory net loss per financial statements	<u>\$ (1,411,499)</u>

Supplemental Schedules

Report of Independent Certified Public Accountants on Other Financial Information

The Board of Directors
Citizens Property Insurance Corporation

Our audits were conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying supplemental schedules 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 state insurance departments 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.

Ernst & Young LLP

May 17, 2006

Citizens Property Insurance Corporation

Supplemental Statement of Admitted Assets, Liabilities and Accumulated
Surplus (Deficit) by Account – Statutory Basis

December 31, 2005

	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
<i>(In Thousands)</i>				
Admitted assets				
Cash and invested assets:				
Bonds	\$ 2,197,038	\$ 98,910	\$ 8,228	\$ 2,089,900
Cash and short-term investments	487,005	277,287	108,346	101,372
Total cash and invested assets	<u>2,684,043</u>	<u>376,197</u>	<u>116,574</u>	<u>2,191,272</u>
Investment income due and accrued	19,418	2,378	460	16,580
Premiums receivable, net	9,083	8,377	(248)	954
Other receivables under reinsurance contracts	23,848	23,291	321	236
Assessment receivable	96,644	—	—	96,644
Other admitted assets	747	358	14	375
Inter-account receivable (payable)	—	165,902	(17,933)	(147,969)
Total admitted assets	<u>\$ 2,833,783</u>	<u>\$ 576,503</u>	<u>\$ 99,188</u>	<u>\$ 2,158,092</u>
Liabilities and accumulated surplus (deficit)				
Liabilities:				
Loss reserves	\$ 1,267,635	\$ 152,454	\$ 40,849	\$ 1,074,332
Loss adjustment expense reserves	217,381	58,053	17,462	141,866
Unearned premiums, net of unearned ceded	705,192	280,166	29,035	395,991
Taxes and fees payable	30,995	3,546	367	27,082
Federal income taxes payable	54,899	—	—	54,899
Provision for reinsurance	10,890	7,838	—	3,052
Notes payable	2,148,130	95,062	7,908	2,045,160
Interest payable	37,178	3,520	293	33,365
Advance premiums and suspended cash	76,193	26,880	10,226	39,087
Other liabilities	96,405	66,799	545	29,061
Total liabilities	<u>4,644,898</u>	<u>694,318</u>	<u>106,685</u>	<u>3,843,895</u>
Accumulated surplus (deficit):	<u>(1,811,115)</u>	<u>(117,815)</u>	<u>(7,497)</u>	<u>(1,685,803)</u>
Total surplus (deficit)	<u>(1,811,115)</u>	<u>(117,815)</u>	<u>(7,497)</u>	<u>(1,685,803)</u>
Total liabilities and accumulated surplus	<u>\$ 2,833,783</u>	<u>\$ 576,503</u>	<u>\$ 99,188</u>	<u>\$ 2,158,092</u>

Citizens Property Insurance Corporation

Supplemental Statement of Operations by Account – Statutory Basis

December 31, 2005

	Consolidated	Personal Lines Account	Commercial Lines Account	High Risk Account
	<i>(In Thousands)</i>			
Premiums earned	\$ 1,055,746	\$ 408,098	\$ 47,445	\$ 600,203
Losses incurred	2,401,939	460,738	57,194	1,884,007
Loss adjustment expenses incurred	326,232	103,338	16,907	205,987
Other underwriting expenses incurred	197,994	77,783	9,188	111,023
Underwriting loss	(1,870,419)	(233,761)	(35,844)	(1,600,814)
Net investment income	118,068	25,157	4,870	88,041
Interest expense, net	(124,390)	(5,166)	(430)	(118,794)
Line of credit fees and note issuance	(1,579)	(607)	(49)	(923)
Takeout bonus expense, net	(48,843)	(35,334)	-	(13,509)
Assessment income	515,514	-	-	515,514
Other income (expenses)	150	381	(8)	(223)
Loss before federal income taxes	(1,411,499)	(249,330)	(31,461)	(1,130,708)
Federal income taxes	-	-	-	-
Net loss	<u>\$ (1,411,499)</u>	<u>\$ (249,330)</u>	<u>\$ (31,461)</u>	<u>\$ (1,130,708)</u>



SUPPLEMENTAL EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2005

(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. \$ 2,835,768,971.00
2. Ten largest exposures to a single issuer/borrower/investment.

Table with 4 columns: Issuer, Description of Exposure, Amount, Percentage of Total Admitted Assets. Rows include The State of Florida, General Electric Capital Corporation, GE Capital Corporation, Morgan Stanley, Goldman Sachs Group, Harbor VW Mortgage, New York Life, GSR Mortgage Loan, Structured Mortgage, and Bottling Group, LLC.

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

Table with 6 columns: Bonds (NAIC-1 to NAIC-6), Preferred Stocks (P/RP-1 to P/RP-6), Amount, Percentage. NAIC-1 amount is 2,254,267,918.00.

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 \$ 0.00
4.03 Foreign-currency-denominated investments \$ 0.00
4.04 Insurance liabilities denominated in that same foreign currency \$ 0.00

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

SUPPLEMENTAL EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

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:

7. Aggregate unhedged foreign currency exposure..... $\$$ 1 2
.....0.000.0 %

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 EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

11.01 Are assets held in Canadian investments less than 2.6% 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

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

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?..... Yes No

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

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

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

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

SUPPLEMENTAL EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes 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 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 No
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

SUPPLEMENTAL EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

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 in less than 2.5% of the reporting entity's total admitted assets? Yes No
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

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

	At Year-end		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
19.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$.....0.000.0	% \$.....	\$.....	\$.....
19.02 Repurchase agreements.....	\$.....0.000.0	% \$.....	\$.....	\$.....
19.03 Reverse repurchase agreements.....	\$.....0.000.0	% \$.....	\$.....	\$.....
19.04 Dollar repurchase agreements.....	\$.....0.000.0	% \$.....	\$.....	\$.....
19.05 Dollar reverse repurchase agreements.....	\$.....0.000.0	% \$.....	\$.....	\$.....

SUPPLEMENTAL EXHIBIT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

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

	Owned		Written	
	1	2	3	4
20.01 Hedging	\$ 0.00	0.0 %	\$ 0.0	0.0 %
20.02 Income generation	\$ 0.00	0.0 %	\$ 0.0	0.0 %
20.03 Other	\$ 0.00	0.0 %	\$ 0.0	0.0 %

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

	At Year-end		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
21.01 Hedging	\$ 0.00	0.0 %	\$	\$	\$
21.02 Income generation	\$ 0.00	0.0 %	\$	\$	\$
21.03 Replications	\$ 0.00	0.0 %	\$	\$	\$
21.04 Other	\$ 0.00	0.0 %	\$	\$	\$

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

	At Year-end		1st Qtr 3	At End of Each Quarter	
	1	2		2nd Qtr 4	3rd Qtr 5
22.01 Hedging	\$ 0.00	0.0 %	\$	\$	\$
22.02 Income generation	\$ 0.00	0.0 %	\$	\$	\$
22.03 Replications	\$ 0.00	0.0 %	\$	\$	\$
22.04 Other	\$ 0.00	0.0 %	\$	\$	\$

ANNUAL STATEMENT FOR THE YEAR 2005 OF THE CITIZENS PROPERTY INSURANCE CORPORATION

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	429,989,288.00	16.020	429,989,288.00	16.020
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	333,920,917.00	12.441	333,920,917.00	12.441
1.22 Issued by U.S. government sponsored agencies	100,310,782.00	3.737	100,310,782.00	3.737
1.3 Foreign government (including Canada, excluding mortgaged-backed securities)		0.000		0.000
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations		0.000		0.000
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations		0.000		0.000
1.43 Revenue and assessment obligations		0.000		0.000
1.44 Industrial development and similar obligations		0.000		0.000
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	2,352,233.00	0.088	2,352,233.00	0.088
1.512 Issued or guaranteed by FNMA and FHLMC	287,274,264.00	10.703	287,274,264.00	10.703
1.513 All other		0.000		0.000
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	97,746,737.00	3.642	97,746,737.00	3.642
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	506,899,271.00	18.886	506,899,271.00	18.886
1.523 All other		0.000		0.000
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVC)	430,738,482.00	16.048	430,738,482.00	16.048
2.2 Unaffiliated foreign securities	7,805,910.00	0.291	7,805,910.00	0.291
2.3 Affiliated securities		0.000		0.000
3. Equity interests:				
3.1 Investments in mutual funds	285,901,139.00	10.652	285,901,139.00	10.652
3.2 Preferred stocks:				
3.21 Affiliated		0.000		0.000
3.22 Unaffiliated		0.000		0.000
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated		0.000		0.000
3.32 Unaffiliated		0.000		0.000
3.4 Other equity securities:				
3.41 Affiliated		0.000		0.000
3.42 Unaffiliated		0.000		0.000
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated		0.000		0.000
3.52 Unaffiliated		0.000		0.000
4. Mortgage loans:				
4.1 Construction and land development		0.000		0.000
4.2 Agricultural		0.000		0.000
4.3 Single family residential properties		0.000		0.000
4.4 Multifamily residential properties		0.000		0.000
4.5 Commercial loans		0.000		0.000
4.6 Mezzanine real estate loans		0.000		0.000
5. Real estate investments:				
5.1 Property occupied by the company		0.000	0.00	0.000
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)		0.000	0.00	0.000
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)		0.000	0.00	0.000
6. Contract loans		0.000	0.00	0.000
7. Receivables for securities		0.000	0.00	0.000
8. Cash, cash equivalents and short-term investments	201,103,733.00	7.493	201,103,733.00	7.493
9. Other invested assets		0.000		0.000
10. Total invested assets	2,684,042,756.00	100.000	2,684,042,756.00	100.000

Citizens Property Insurance Corporation

Note to Supplemental Schedules
(In Thousands)

December 31, 2005

The accompanying schedules and interrogatories present selected statutory-basis financial data as of December 31, 2005 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 2005 Statutory Annual Statement as filed with the Department of Insurance of the State of Florida.