

LOUISIANA CITIZENS
PROPERTY INSURANCE CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
(STATUTORY BASIS)

DECEMBER 31, 2017 AND 2016

LOUISIANA CITIZENS
PROPERTY INSURANCE CORPORATION

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DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

May 15, 2018

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To the Board of Directors of
Louisiana Citizens Property Insurance Corporation
Metairie, Louisiana

We have audited the accompanying statutory financial statements of Louisiana Citizens Property Insurance Corporation (the "Company"), which comprise the statutory statements of admitted assets, liabilities, surplus, and other funds as of December 31, 2017 and 2016, and the related statutory statements of income, changes in accumulated surplus and other funds, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with the basis of accounting described in Note 1.

Emphasis-of-Matter

Basis of Accounting

As described in Note 1 to the financial statements, the financial statements were prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the reporting requirements of Louisiana. Our opinion is not modified with respect to this matter.

Other Information

Our audit was conducted for the purpose of forming an opinion on the statutory financial statements taken as a whole. The supplementary information listed in the index to the report 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 basic statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory basis financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Company and the Louisiana Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Duplantier, Hrapmann, Hogan & Maher, LLP

New Orleans, Louisiana

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 STATUTORY STATEMENTS OF ADMITTED ASSETS,
 LIABILITIES, SURPLUS, AND OTHER FUNDS
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ADMITTED ASSETS</u>		
Cash and invested assets:		
Bond investments	\$ 81,607,410	\$ 984,010
Cash and short-term investments	186,053,964	233,881,607
Total cash and invested assets	267,661,374	234,865,617
Interest and dividends receivable	911,302	247,577
Premium receivable and agent's balances, net	9,594,018	12,727,077
Reinsurance receivable	385,207	4,107,910
Admitted electronic data processing equipment and software, at cost less accumulated depreciation of approximately \$17,518,971 and \$17,149,099 at December 31, 2017 and 2016, respectively.	143,689	357,417
Emergency assessments receivable - 2005	506,790,570	558,989,223
Emergency assessments receivable - companies	15,000,000	18,000,000
Other receivables	108,471	108,472
	108,471	108,472
TOTAL ADMITTED ASSETS	\$ 800,594,631	\$ 829,403,293

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 STATUTORY STATEMENTS OF ADMITTED ASSETS,
 LIABILITIES, SURPLUS, AND OTHER FUNDS
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND ACCUMULATED SURPLUS</u>		
Liabilities:		
Loss reserves	\$ 37,059,763	\$ 37,088,073
Loss adjustment expense reserves	3,427,063	3,333,624
Commissions payable to agents	2,128,846	2,601,197
Unearned premiums	36,895,696	50,549,056
Taxes, licenses, and fees due or accrued	3,152,604	3,878,096
Provision for reinsurance	276,658	1,393,252
Accounts payable and other accrued expenses	11,694,382	14,261,357
Amounts retained or withheld from others	4,062	109,021
Ceded reinsurance premiums payable, net of ceding commissions	295,039	1,868,395
Unearned tax exempt surcharge	1,288,138	1,738,669
Interest payable	1,832,119	2,012,285
Bonds payable	516,528,343	572,007,219
Liability for funds restricted for debt service	<u>32,511,987</u>	<u>31,857,180</u>
Total liabilities	<u>647,094,700</u>	<u>722,697,424</u>
Surplus:		
Unassigned surplus	<u>153,499,931</u>	<u>106,705,869</u>
Total accumulated surplus	<u>153,499,931</u>	<u>106,705,869</u>
TOTAL LIABILITIES AND ACCUMULATED SURPLUS	<u><u>\$ 800,594,631</u></u>	<u><u>\$ 829,403,293</u></u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATUTORY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUES:		
Premiums earned	\$ 55,401,461	\$ 79,278,265
LOSSES AND UNDERWRITING EXPENSES:		
Losses incurred	14,716,579	(26,513,750)
Loss adjustment expenses incurred	8,149,292	4,641,218
Other underwriting expenses	14,815,080	18,929,759
Total losses and underwriting expenses	<u>37,680,951</u>	<u>(2,942,773)</u>
Net underwriting gain	17,720,510	82,221,038
Net investment income	1,447,278	301,376
Debt issuance cost	-	(1,750,757)
Interest expense	(10,647,382)	(45,911,202)
Emergency assessment income	10,482,688	47,692,664
Application and other miscellaneous fees	680,575	1,588,199
Finances and service charges not included in premiums	322,878	426,462
Non-claim related litigation expense	(80)	(40)
Net loss from agents or premium balances charged off	<u>(92,549)</u>	<u>(10,033)</u>
NET INCOME	<u>\$ 19,913,918</u>	<u>\$ 84,557,707</u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 STATUTORY STATEMENTS OF CHANGES IN
 ACCUMULATED SURPLUS AND OTHER FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
UNASSIGNED SURPLUS, BEGINNING OF YEAR	\$ 106,705,869	\$ 38,653,231
Net income	19,913,918	84,557,707
Change in nonadmitted assets	22,645,625	(19,204,155)
Change in provision for reinsurance	1,116,594	(1,378,484)
Tax exempt surcharge	2,667,394	3,501,473
Other gains and losses in surplus	<u>450,531</u>	<u>576,097</u>
UNASSIGNED SURPLUS, END OF YEAR	<u>\$ 153,499,931</u>	<u>\$ 106,705,869</u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
STATUTORY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES:		
Premiums, policy proceeds, and other considerations received, net of reinsurance	\$ 47,320,449	\$ 64,447,168
Underwriting expenses paid	(24,068,777)	(27,219,269)
Net investment loss	(8,787,532)	(47,606,119)
Other revenues received	11,393,512	49,697,252
Losses and loss adjustment expenses paid	7,240,694	(17,951,666)
Net cash provided by operating activities	<u>33,098,346</u>	<u>21,367,366</u>
INVESTING ACTIVITIES:		
Proceeds from investments sold or matured	425,000	377,066,189
Cost of investments acquired	(82,124,695)	(231,119,449)
Net cash provided (used) by investing activities	<u>(81,699,695)</u>	<u>145,946,740</u>
FINANCING ACTIVITIES:		
Payments on borrowed funds	(55,659,043)	(65,925,251)
Other cash provided	56,432,749	40,391,826
Net cash provided (used) by financing activities and miscellaneous sources	<u>773,706</u>	<u>(25,533,425)</u>
Net change in cash and short-term investments	(47,827,643)	141,780,681
Cash and short-term investments, beginning of year	<u>233,881,607</u>	<u>92,100,926</u>
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	<u>\$ 186,053,964</u>	<u>\$ 233,881,607</u>

See notes to statutory financial statements.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

Louisiana Citizens Property Insurance Corporation was created in accordance with provisions of Louisiana Revised Statute (LRS) 22:2293 and began operations on January 1, 2004. The Company operates solely in Louisiana. The Company's principal business activity is to operate insurance plans which provide property insurance for residential and commercial property, solely for applicants who in good faith are entitled, but are unable to procure insurance through the voluntary market. The Company operates residual market insurance programs designated as the Coastal Plan and the Fair Access to Insurance Requirements Plan (FAIR Plan). The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway and the FAIR Plan is for property insurance written on locations above the Intracoastal Waterway.

Louisiana Citizens Property Insurance Corporation (the "Company") is a component unit of the State of Louisiana.

The Company is governed by a Board of Directors consisting of fifteen members, who serve without compensation. The Board consists of the Commissioner of the Department of Insurance, the State Treasurer, the chairman of the House Committee on Insurance, the chairman of the Senate Committee on Insurance or their designees, six representatives appointed by the Governor, two members appointed by the Commissioner of the Louisiana Department of Insurance, and three members appointed by the Governor.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation and Accounting:

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance. The State of Louisiana generally requires that insurance companies domiciled in the State of Louisiana prepare their statutory basis financial statements in accordance with the National Association of Insurance Commissioners (NAIC) Accounting Practices and Procedures Manual. Such practices vary from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP are as follows:

- Commissions and other costs of acquiring insurance are expensed when incurred rather than capitalized and amortized over the terms of the related policies as required by GAAP.
- Certain assets designated as "nonadmitted" are excluded from the balance sheet and are charged directly to unassigned surplus.
- Reserves for losses and loss adjustment expenses are reported net, rather than gross, of certain reinsurance recoverables.
- Gains and losses on the defeasance of debt are reported in the period the debt was extinguished rather than being amortized over the shorter of the remaining life of the old bonds or the life of the new bonds.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Presentation and Accounting: (Continued)

- The statement of cash flows is presented in the required statutory format. This format differs from the format specified by GAAP which requires a reconciliation of net income to net cash flow from operating activities and supplemental schedules of noncash financing and investing activities.
- 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.

The aggregate effect on the accompanying statutory financial statements of the variations from GAAP is outlined in Note 13 to the financial statements.

Estimates:

The financial statements are prepared in conformity with accounting practices prescribed or permitted by the Louisiana Department of Insurance which require 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 reported period. Actual results could differ from those estimates.

Statement of Cash Flows:

For the purpose of reporting cash flows, cash includes cash and short-term investments. Short-term investments include all liquid investments with a maturity of one year or less when purchased.

Bond Investments:

Bonds, which consist solely of debt securities, are recorded as admitted asset values as prescribed by NAIC valuation procedures, and are rated in accordance with current NAIC guidelines. Debt securities are stated at amortized cost using the interest method. Bonds with a maturity of one year or less are recorded as cash and short-term investments within the Statutory Statements of Admitted Assets, Liabilities, Surplus, and Other Funds. Bonds with a maturity of greater than one year when purchased are recorded as bond investments.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Money Market Mutual Fund Investments:

Money market mutual funds consist of investments in traditional money market funds and investments in exempt money market funds. Investments in money market mutual funds are classified as cash equivalents. Money market mutual fund investments are stated at fair value.

EDP Equipment and Operating System Software:

Electronic Data Processing (EDP) equipment and software purchased or developed for internal use with an original cost of over \$1,000,000 is capitalized and depreciated using the straight line method over the software's useful life of three years for operating software and five years for non-operating software.

Depopulation:

The Company is required to undertake a depopulation effort annually per Louisiana Revised Statute R.S. 22:2314. The Company accounts for premiums of depopulated policies as a reduction of direct premiums written. Losses and other costs associated with depopulated policies are assumed by the acquiring entity and thus are removed from the Company's financial statements.

Loss Reserves and Loss Adjustment Expense Reserves:

The liabilities for losses and loss adjustment expenses include an amount determined from loss reports and individual cases and an amount, based on historical data, for losses incurred but not reported. Such liabilities are based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current earnings.

Premiums:

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

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

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Market Risk:

The Company underwrites residential and commercial property insurance policies in the State of Louisiana through the Coastal Plan and the FAIR Plan. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

The Coastal Plan is for property insurance written on locations between the Gulf of Mexico and the Intracoastal Waterway. The FAIR Plan is for property insurance above the Intracoastal Waterway. Therefore, severe storm activity in any of these areas or throughout the State of Louisiana could have a significant impact on the Company's future financial position and results of operations.

Assessments:

In the event that the Governing Board of the Company determines that a deficit exists in either the Coastal Plan or the FAIR Plan, the Company may levy a regular assessment for each affected Plan in order to remedy any deficit. All insurers who become authorized and then engage in writing property insurance within the State of Louisiana shall participate in regular assessment of the Coastal and FAIR Plans in the proportion that the net direct premium of such participant written in the state during the preceding calendar year bears to the aggregate net direct premiums written in the state by all insurers during the preceding calendar year as certified to the Governing Board by the Louisiana Insurance Rating Commission.

When the deficit incurred in a particular calendar year is not greater than ten percent of the aggregate statewide direct written premium for the subject lines of business for the prior calendar year, the entire deficit will be recovered through regular assessments. When the deficit incurred exceeds ten percent, the regular assessment may not exceed the greater of ten percent of the calendar year deficit or ten percent of the aggregate statewide direct written premium for the subject lines of business for the prior calendar year. Any remaining deficit shall be recovered through an emergency assessment.

Upon determination by the Governing Board of the Company that a deficit exceeds the amount allowed to be recovered through regular assessment, the Governing Board shall levy an emergency assessment for as many years as necessary to cover all deficits. The amount of emergency assessment levied in a particular year shall be a uniform percentage of that year's direct written premium for the subject lines of business. The total amount of emergency assessment levied in any calendar year will not exceed the greater of: (a) ten percent of the amount needed to cover the original deficit plus interest, fees, commissions, required reserves, and other costs associated with the financing of the original deficit, or (b) ten percent of the aggregate statewide direct written premiums for subject lines of business and for all plan

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Assessments: (Continued)

accounts of the Company for the prior year, plus interest, fees, commissions, required reserves, and other costs associated with financing the original deficit. To the extent the aggregate amount of the emergency assessment will not exceed the greater of (a) or (b) above, the Governing Board shall impose an emergency assessment in the amount required by any applicable loan agreement, trust indenture, or other financing agreement.

All persons who procure a policy of insurance of one or more subject lines of business from an insurer who becomes authorized and then engages in writing property insurance within the State of Louisiana are subject to emergency assessment by the Company.

Liability for Funds Restricted For Debt Service and Related Accounting Changes:

The Commissioner of Insurance has the right to permit other specific practices that deviate from prescribed practices. During the second quarter of 2009, with agreement from the Louisiana Department of Insurance ("the Department"), the Company received permission from the Department to reclassify, as a liability, the excess emergency assessments collected that were greater than the debt service costs since the inception of the bond debt in 2006 with the cumulative excess amount being \$32,511,987 and \$31,857,180 at December 31, 2017 and 2016, respectively. The Company will record emergency assessment collections and costs through net income only in amounts sufficient to offset interest costs and amortization of bond issuance costs.

Reinsurance and Reinsurance Recoverables:

All catastrophe reinsurance premiums are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Reinsurance recoverables on unpaid losses are recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverable on paid losses is recorded as an asset in the accompanying statutory statements of admitted assets, liabilities, surplus, and other funds. Premiums ceded include catastrophe reinsurance purchased.

Income Taxes:

The Company is exempt from federal income tax pursuant to Private Letter Ruling 160165-03 from the Internal Revenue Service. Obligations issued by the Company constitute obligations of the State of Louisiana within the meaning of section 103(c)(1) of the Internal Revenue Code.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Instruments:

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

Unlike private insurers that are subject to liquidation in the event of insolvency, the Company is able (and statutorily required) to levy assessments in the event of a deficit in any or all of its accounts.

2. CASH AND INVESTED ASSETS:

Cash and Short-Term Investments:

Cash and short-term investments as of December 31, 2017 and 2016 in the amount of \$186,053,964 and \$233,881,607, respectively, consisted of cash held in financial institutions, exempt money market mutual funds, and bond investments with remaining maturities of one year or less at the time of acquisition. Exempt money market mutual funds are reported at fair market value and short-term bond investments are reported at amortized cost. Cash and short-term investments as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Cash and Short-Term Investments:		
Cash	\$ 39,187,535	\$ 67,360,368
Cash Equivalents	451,945	250,460
Exempt Money Market Funds	142,725,629	133,629,859
Short-Term Bonds	3,688,855	32,640,921
Total Cash and Short-Term Investments	<u>\$ 186,053,964</u>	<u>\$ 233,881,608</u>

Bond Investments:

Bond investments as of December 31, 2017 and 2016 in the amount of \$81,607,410 and \$984,010, respectively, consisted of bonds with remaining maturities of one year or greater at the time of acquisition. Bond investments are reported at amortized cost.

Fair Value Measurements:

FASB ASC Topic, *Fair Value Measurements and Disclosures* (FASB ASC 820), and FASB ASC Topic, *Financial Instruments* (FASB ASC 825), requires disclosure of fair value information about financial instruments, whether or not recognized in the Statutory Statements of Admitted Assets, Liabilities, Surplus, and Other Funds. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. CASH AND INVESTED ASSETS: (Continued)

Fair Value Measurements: (Continued)

determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. FASB ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Level 1 classification is applied to assets that have readily available quoted prices in active markets where significant transparency exists in the executed/quoted price.

Level 2 classification is applied to assets that have evaluated prices received from fixed income vendors with data inputs which are observable either directly or indirectly, but do not represent quoted prices from an active market for each individual security.

Level 3 classification is applied to assets for which prices are not derived from existing market data.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Money market mutual funds: Fair values of both traditional and exempt money market mutual funds are based on quoted market prices for identical assets in active markets.

The valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Investments at fair value:				
Money Market Mutual				
Funds	\$ 142,725,629	\$ 142,725,629	\$ 133,629,859	\$ 133,629,859

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. CASH AND INVESTED ASSETS: (Continued)

Fair Value Measurements: (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2017:				
Short-Term Investments:				
Money Market Mutual Funds	\$ <u>142,725,629</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>142,725,629</u>
As of December 31, 2016:				
Short-Term Investments:				
Money Market Mutual Funds	\$ <u>133,629,859</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>133,629,859</u>

The carrying amounts in the preceding table are included in the accompanying Statutory Statements of Admitted Assets, Liabilities, Surplus, and Other Funds under the applicable captions.

Net investment income for the years ended December 31, 2017 and 2016 consisted of:

Years ended December 31,	<u>2017</u>	<u>2016</u>
Interest earned on money market mutual funds	\$ 600,444	\$ 152,906
Interest earned on bond investments	518,514	2,222
Interest earned on cash and short-term investments	391,766	185,616
Investment expenses	<u>(63,446)</u>	<u>(39,368)</u>
Total Net Investment Income	<u>\$ 1,447,278</u>	<u>\$ 301,376</u>

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2017 and 2016, no declines were deemed to be other-than-temporary.

3. ELECTRONIC DATA PROCESSING EQUIPMENT AND SOFTWARE:

Electronic Data Processing (EDP) equipment and software with an original cost of \$18,109,087 and \$18,101,777 at December 31, 2017 and 2016, respectively, is being depreciated using the straight-line method over the asset's useful life of three years for operating software and five years for non-operating software, in accordance with NAIC statutory requirements. Depreciation expense for admitted EDP equipment and operating system software totaled \$371,355 and \$370,404 for the years ended December 31, 2017 and 2016, respectively.

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4. LIABILITIES FOR LOSS AND LOSS ADJUSTMENT EXPENSES:

Activity in the liabilities for loss and loss adjustment expenses, net of reinsurance recoverables on unpaid losses, are summarized as follows for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Balance at January 1,	\$ <u>40,421,697</u>	\$ <u>66,262,699</u>
Incurred related to:		
Current year	21,490,908	22,706,420
Prior years	<u>1,374,963</u>	<u>(44,578,954)</u>
Total incurred	<u>22,865,871</u>	<u>(21,872,534)</u>
Paid related to:		
Current year	18,812,030	18,228,381
Prior years	<u>3,988,712</u>	<u>(14,259,913)</u>
Total paid	<u>22,800,742</u>	<u>3,968,468</u>
Balance at December 31,	<u>\$ 40,486,826</u>	<u>\$ 40,421,697</u>

For both catastrophic and non-catastrophic claims, the loss adjusting function is performed by the Company through its employees and through contracted independent adjusting firms. The Company compensates the independent adjusting firms, depending upon the type or nature of the claims, either on a per-day rate or on a graduated fee scheduled based on the gross claim amount, consistent with industry standard methods of compensation.

The Company is involved in a number of class action lawsuits and other legal proceedings arising out of various aspects of its business which have been reserved for above. See Note 14 for a description of these class action claims.

5. AGENT COMMISSIONS:

The Company policies are written by various insurance agents licensed in the State of Louisiana. These agents are compensated at commission rates established by the Board and calculated as a percentage of direct written premiums, net of certain surcharges and assessments. Agent commissions are reported in the statutory statement of income as other underwriting expenses. Agent commissions incurred were approximately \$6,967,672 and \$9,717,079 during the years ended December 31, 2017 and 2016, respectively. Agent commissions payable were \$2,128,846 and \$2,601,197 for the years ended December 31, 2017 and 2016, respectively.

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6. CAPITAL AND UNASSIGNED SURPLUS:

Changes in balances of surplus from the prior year are, in part, due to collections made by the Company during the normal course of collecting policy component charges. The policy component charge affecting surplus funds is the tax exempt surcharge.

In 2005, the Company suffered losses of \$1.8 billion as a result of Hurricanes Katrina and Rita. In 2006, the Company issued \$978.2 million of bonds to pay for these losses. Under R.S. 22:2307, the Company may assess, in any one year, up to 10% of the total property premiums assessable statewide to pay the debt service on the bonds. The total statewide assessable premiums are approximately \$2.6 billion.

Emergency assessments were as follows:		<u>2017</u>	<u>2016</u>
2007	3.6% assessment rate	\$ 78,012,088	\$ 78,012,088
2008	5.0% assessment rate	99,751,686	99,751,686
2009	5.0% assessment rate	116,753,866	116,753,866
2010	4.3% assessment rate	103,046,094	103,046,094
2011	4.0% assessment rate	101,027,353	101,027,353
2012	3.9% assessment rate	92,242,635	92,242,635
2013	3.7% assessment rate	95,503,384	95,503,384
2014	3.5% assessment rate	94,979,546	94,979,546
2015	3.4% assessment rate	91,158,917	91,158,917
2016	2.9% assessment rate	77,527,977	77,527,977
2017	2.5% assessment rate	63,336,149	-
Total assessments		<u>1,013,339,695</u>	<u>950,003,546</u>
Plus: cumulative bond earnings		33,678,440	33,494,519
Less: cumulative debt service		(1,014,506,148)	(951,640,885)
Liability for funds restricted for debt service		<u>\$ 32,511,987</u>	<u>\$ 31,857,180</u>

The unassigned surplus as of December 31, 2017 and 2016 was \$153,499,931 and \$106,705,869, respectively.

7. REINSURANCE AGREEMENTS:

The Company purchases private reinsurance through Guy Carpenter & Company, LLC, as licensed reinsurance intermediaries. The participating reinsurance companies will reimburse the Company, through the intermediary, a specified percentage of losses incurred if a prescribed retention is reached.

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7. REINSURANCE AGREEMENTS: (Continued)

The Company purchases reinsurance based on levels of loss. The Company is liable for the first amount of ultimate net loss, shown in the table below as "Company Retention", arising out of each loss occurrence. The reinsurer is then liable, as respects each excess layer, for the amount by which such ultimate net loss exceeds the Company's applicable retention for that layer. However, the liability of the reinsurer under any excess layer of reinsurance coverage provided does not exceed either of the following: (1) the amount shown below as "Reinsurer Per Occurrence Limit" for that excess layer as respect to loss or losses arising out of any one loss occurrence or (2) the amount shown as "Reinsurer's Term Limit" for that excess layer. Each excess layer of reinsurance coverage provided is as follows.

During the year ended December 31, 2017 (in thousands):

	January 1, 2017 to May 31, 2017			June 1, 2017 to December 31, 2017		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's Retention	\$ 35,000	\$ 75,000	\$ 140,000	\$ 35,000	\$ 75,000	\$ 200,000
Reinsurer's Per Occurrence Limit	\$ 40,000	\$ 65,000	\$ 162,000	\$ 40,000	\$ 125,000	\$ 150,000
Reinsurer's Term Limit	Unlimited	\$ 130,000	\$ 324,000	Unlimited	\$ 250,000	\$ 300,000
Annual Minimum Premium	\$ 6,780	\$ 7,150	\$ 8,100	\$ 5,600	\$ 9,570	\$ 7,500

During the year ended December 31, 2016 (in thousands):

	January 1, 2016 to May 31, 2016			June 1, 2016 to December 31, 2016		
	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>	<u>First Excess</u>	<u>Second Excess</u>	<u>Third Excess</u>
Company's Retention	\$ 50,000	\$ 75,000	\$ 175,000	\$ 35,000	\$ 75,000	\$ 140,000
Reinsurer's Per Occurrence Limit	\$ 25,000	\$ 100,000	\$ 44,000	\$ 40,000	\$ 65,000	\$ 162,000
Reinsurer's Term Limit	\$ 50,000	\$ 200,000	\$ 88,000	Unlimited	\$ 130,000	\$ 324,000
Annual Minimum Premium	\$ 4,125	\$ 12,000	\$ 3,740	\$ 6,780	\$ 7,150	\$ 8,100

The premiums can also potentially be adjusted if the total insurable value is greater than 10% or less than 5% of the estimated total insurable value used to calculate the contract premium. In the event that all or any portion of the reinsurance under the excess layer above is exhausted by loss, the amount exhausted will be reinstated immediately upon payment of a reinstatement premium. The Company has entered into a Reinstatement Premium Protection (RPP) contract related to the second and third layers which guarantees payment of the reinstatement premium.

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7. REINSURANCE AGREEMENTS: (Continued)

As of December 31, 2017, the Company had additional coverage through two catastrophe bonds. In 2013, the Company purchased coverage through a \$140 million, four-year catastrophe bond providing coverage for 93.3% of up to \$539 million in losses in excess of \$389 million covered by retention, traditional reinsurance and the 2012 catastrophe bond. In 2015, the Company purchased additional coverage through a \$100 million, three-year catastrophe bond that provides coverage for 69.4% of up to \$319 million in losses in excess of \$175 million covered by retention and traditional reinsurance. In 2017, the Company purchased additional coverage through a \$100 million, three-year catastrophe bond that provides coverage for 100% of up to \$450 million in losses in excess of \$350 million covered by retention and traditional reinsurance. The 2013 catastrophe bonds were retired during the year ended December 31, 2017.

The effect of reinsurance on premiums written and earned during the years ended December 31, 2017 and 2016, were as follows:

	<u>2017 Premiums</u>		<u>2016 Premiums</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 75,918,644	\$ 89,249,311	\$ 105,098,108	\$ 122,192,212
Ceded	<u>(33,847,850)</u>	<u>(33,847,850)</u>	<u>(42,913,947)</u>	<u>(42,913,947)</u>
Net premiums	<u>\$ 42,070,794</u>	<u>\$ 55,401,461</u>	<u>\$ 62,184,161</u>	<u>\$ 79,278,265</u>

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 coverage lines. Actual amount recoverable will depend on the ultimate settlement of losses and loss adjustment expenses. 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.

The reserve for uncollectable reinsurance recoverables at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Endurance Specialty Insurance Ltd	\$ 272,565	\$ 719,691
Colisee Re	-	568,653
Hanover Re Bermuda Ltd	-	690
Hanover Rueck SE	4,093	3,766
Mapfre RE Compania DE	-	78,144
New Castle Reinsurance Company	-	16,623
PXRE Reinsurance Ltd	-	5,685
Total Provision for Reinsurance	<u>\$ 276,658</u>	<u>\$ 1,393,252</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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8. LINE OF CREDIT:

The Company maintains a line of credit providing for a maximum borrowing of \$50,000,000 and \$100,000,000 at December 31, 2017 and 2016, respectively. Interest on these notes is payable monthly at a variable rate based on the 30-day London Interbank Offered Rate (LIBOR) plus 2.0% for the first 90 days following the date drawn and 30-day LIBOR plus 2.35% commencing on the 91st day. LIBOR at December 31, 2017 and 2016 was 1.56% and 0.77%, respectively. The line of credit is secured by all premiums and accounts receivable and revenue from all sources, exclusive of emergency assessments resulting from the 2005 catastrophes levied pursuant to LA R.S. 22:2307E. There was no balance outstanding on the line of credit at December 31, 2017 and 2016.

9. BONDS PAYABLE:

Series 2006C1 through 2006C4:

During April 2006, the Company issued \$300,000,000 of assessment revenue bonds at auction rate for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay cost of issuance. The bonds were issued in denominations of \$25,000 or any integral multiple thereof. Prior to their remarketing explained below, interest on the bonds are adjusted based upon 35-day auction periods. Generally, the interest payment date for an auction period was the business day immediately following each auction period. The length of the auction period with respect to the bonds could be changed at the option of the Company in accordance with the auction agreement. The bonds are secured, together with additional bonds, if any, by pledged revenues, which include primarily the 2005 Emergency Assessments. The bonds are not secured by the full faith and credit of the State of Louisiana. Payment of the principal and interest on the bonds when due is insured by a bond insurance policy. The bonds were reoffered in March 2009 after the Auction Rate Securities market collapsed.

During March 2009, the 2006C1 through 2006C4 series were reoffered in connection with the conversion of the interest rate from the auction mode rate to the long-term interest rate and the remarketing of the 2006C bonds. In connection with the conversion and remarketing of the Series 2006C bonds, the original seventh supplement indenture was amended and restated by the amended and restated seventh supplemental indenture of trust dated as of April 1, 2009.

The Series 2006C bonds were remarketed in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. On and after the respective conversion date of each subseries of the Series 2006C bonds, interest on the bonds is payable on each June 1st and December 1st commencing June 1, 2009, until maturity or prior redemption and the bonds were converted to the long-term interest rate on May 6, 2009. The 2006C bonds bear interest ranging from 2.75% to 6.75% per annum. On and after the

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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7. REINSURANCE AGREEMENTS: (Continued)

Series 2006C1 through 2006C4: (Continued)

respective conversion dates of each subseries of the series 2006C bonds, the scheduled payment of principal and interest on such subseries of the bonds, when due, is guaranteed under a financial guaranty insurance policy issued concurrently with the delivery of such subseries of the 2006C bonds by Assured Guaranty Corp. The Series 2006C bonds are subject to optional redemption prior to maturity.

On April 1, 2012, the 2006C4 bonds were paid with the issuance of the 2012R bonds proceeds. Bond maturity dates range from June 1, 2009 to June 1, 2026. Principal payments, including the refinanced amount, were \$0 and \$216,350,000 during the years ended December 31, 2017 and 2016, respectively. During the year ending December 31, 2016, the Company refinanced the Series 2006C1 through 2006C3 revenue bonds. The outstanding balance due on these bonds as of December 31, 2017 and 2016 was \$0.

Series 2012R:

During April 2012, the Company issued \$53,620,000 of assessment revenue refunding bonds in order to advance refund \$54,235,000 principal amount of a catastrophe bond, issued in the original aggregate principal amount of \$75,000,000, and to pay the cost of issuance of the Series 2012R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2012R bonds bear interest ranging from 2.00% to 5.00% per annum, payable semiannually on June 1st and December 1st of each year, commencing June 1, 2012. The bond maturity dates range from June 1, 2012 to June 1, 2024. Bond principal payments of \$0 and \$50,730,000 were made during the years ended December 31, 2017 and 2016, respectively. During the year ending December 31, 2016, the Company refinanced the Series 2012R revenue bonds. The outstanding balance due on this bond as of December 31, 2017 and 2016 was \$0.

Series 2015R:

During July 2015, the Company issued \$333,295,000 of assessment revenue refunding bonds in order to advance refund \$415,290,000 principal amount of the Assessment Revenue Bonds Series 2006B, issued in the original aggregate principal amount of \$678,205,000, and to pay the cost of issuance of the Series 2015R bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2015R bonds bear interest of 5.00% per annum, payable semiannually on June 1st and December 1st of each year, commencing December 1, 2015. The bond maturity dates range from June 1, 2016 to June 1, 2022. Bond principal payments of \$43,240,000 and \$41,500,000 were made during the years ended December 31, 2017 and 2016, respectively. The outstanding balance due on these bonds as of December 31, 2017 and 2016 was \$248,555,000 and \$291,795,000, respectively.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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9. BONDS PAYABLE: (Continued)

Series 2016AB:

During July 2016, the Company issued \$217,510,000 of assessment revenue refunding bonds in order to advance refund \$213,195,000 principal amount of the Assessment Revenue Bonds Series 2006C1 through 2006C3, issued in the original aggregate principal amount of \$225,000,000, and \$49,785,000 principal amount of the Assessment Revenue Bond Series 2012R, issued in the original aggregate principal amount of \$53,620,000, and to pay the cost of issuance of the Series 2016AB bonds. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2016A bonds bear interest of 5.00% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2016. The bond maturity dates range from June 1, 2023 to June 1, 2026. The 2016B bonds bear interest of 2.64% and 2.74% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2016. The bond maturity dates range from June 1, 2024 to June 1, 2025. No principal payments were made during the years ended December 31, 2017 and 2016. The outstanding balance due on these bonds as of December 31, 2017 and 2016 was \$217,510,000.

A schedule of debt service requirements, including bond premiums and discounts as of December 31, 2017 was as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Premium/ Discount</u>	<u>Total</u>
2018	\$ 44,380,000	\$ 10,993,177	\$ 55,373,177
2019	47,620,000	9,680,376	57,300,376
2020	50,000,000	8,289,882	58,289,882
2021	51,480,000	6,846,757	58,326,757
2022	55,075,000	5,326,635	60,401,635
2023-2027	217,510,000	9,326,516	226,836,516
	<u>\$ 466,065,000</u>	<u>\$ 50,463,343</u>	<u>\$ 516,528,343</u>

Net unamortized premium at December 31, 2017 and 2016 was approximately \$50.5 and \$62.7 million, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2017 and 2016 was \$10,647,382 and \$45,911,202, respectively, including annual amortized premiums of \$12,238,876 and \$13,726,138, respectively, and was recorded as interest expense in the accompanying Statutory Statements of Income.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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10. RETIREMENT PLANS:

Defined Benefit Plan:

Prior to September 1, 2008, the Company sponsored a non-contributory defined benefit pension plan covering all employees that were hired prior to April 1, 2008, through a services agreement with Property Insurance Association of Louisiana (PIAL) in which retirement expenses were previously reimbursed to PIAL.

The table below sets forth the changes in projected benefit obligations, changes in plan assets, and components of the net periodic benefit costs for fiscal year ending December 31:

	<u>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Beginning projected benefit obligation, January 1,	\$ 2,101,937	\$ 2,035,416
Interest cost	88,627	89,947
Actuarial gain	158,441	41,668
Benefit payments	<u>(63,010)</u>	<u>(65,094)</u>
Ending projected benefit obligation, December 31,	<u>\$ 2,285,995</u>	<u>\$ 2,101,937</u>

	<u>2017</u>	<u>2016</u>
Change in plan assets:		
Fair value of plan assets, January 1,	\$ 1,948,586	\$ 1,891,745
Employer contributions	10,821	-
Benefit payments	(63,010)	(65,094)
Actual return on plan assets	<u>256,405</u>	<u>121,935</u>
Fair value of plan assets, December 31,	<u>2,152,802</u>	<u>1,948,586</u>
Funded status	<u>\$ (133,193)</u>	<u>\$ (153,351)</u>

Assumptions used to determine projected benefit obligations and pension costs at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	4.25%	4.50%
Long-term rate of return on assets	5.50%	5.50%
Rate of compensation increase	N/A	N/A

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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DECEMBER 31, 2017 AND 2016

10. RETIREMENT PLANS: (Continued)

Defined Benefit Plan: (Continued)

Net periodic benefit cost for the years ended December 31, 2017 and 2016 included the following components:

	<u>2017</u>	<u>2016</u>
Interest cost	\$ 88,627	\$ 89,947
Expected return on plan assets	(105,214)	(101,340)
Amortization net prior service cost	1,445	1,445
Amortization net loss	<u>9,977</u>	<u>8,985</u>
Ending net periodic benefit cost, December 31,	\$ <u>(5,165)</u>	\$ <u>(963)</u>

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Unrecognized balances, January 1,	\$ 553,045	\$ 542,402
Net prior service credit recognized	(1,445)	(1,445)
Net gain recognized	(9,977)	(8,985)
Actuarial loss occurring	<u>7,250</u>	<u>21,073</u>
Ending unrecognized balances, December 31,	\$ <u>548,873</u>	\$ <u>553,045</u>

The fair value of assets as of December 31, 2017 was determined in a manner similar to the allocation method used for the ERISA funding valuation for the Pension Plan for Insurance Organizations (PPIO). The asset allocation method, in general, projects the assets from the prior year using the actual return on the PPIO fund for the years ending December 31, 2017 and 2016 and adjusting for actual payments and contributions. The fund return for the years ending December 31, 2017 and 2016 was 14.22% and 8.09%, respectively.

Future benefit payments expected to be paid in each of the next five years and in the aggregate for the following five years:

Years ending December 31,	
2018	\$ 81,247
2019	90,039
2020	91,356
2021	97,511
2022	108,723
2023-2027	<u>613,722</u>
Total	\$ <u>1,082,598</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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DECEMBER 31, 2017 AND 2016

10. RETIREMENT PLANS: (Continued)

Defined Benefit Plan: (Continued)

As of September 1, 2008, the Company froze its defined benefit pension plan and in its place established a defined contribution plan. The Company contributes 11% of each employee's wages to the defined contribution plan. Contributions are expensed each month and the Company carried no assets or liabilities for the defined contribution plan on its statement of admitted assets, liabilities and surplus. The Company's contribution to the plan was approximately \$657,124 and \$643,340 during the years ended December 31, 2017 and 2016, respectively.

In addition, the Company sponsors a contributory 401k plan covering eligible employees for which the Company matches 75% of employee contributions up to a maximum of 6% of eligible compensation. Contributions by the Company to the 401k plan during the years ended December 31, 2017 and 2016 totaled \$198,246 and \$180,326, respectively.

11. OTHER POSTEMPLOYMENT BENEFITS:

Plan Description:

The Company provides postretirement medical and life insurance for qualified employees hired prior to January 1, 2010. Employees may qualify for participation in the plan by a) attaining age 55 and completing 14 years and one hour of service or b) attaining age 60; completing at least five years of service, two of which occur after October 28, 2010, be employed with the Company at the time of retirement and retire in good status.

Contribution Rates:

Plan members contribute 25% of medical premiums, including Medicare supplement, dental and vision coverage, and 100% of supplemental life insurance. Plan members are not required to contribute for basic life insurance.

Funding Policy:

The Company's plan is administered by the Company. The table below sets forth the changes in accumulated postretirement benefit obligation (APBO) for eligible participants, changes in plan assets, and components of the net periodic benefit costs for fiscal year ending December 31:

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DECEMBER 31, 2017 AND 2016

11. OTHER POSTEMPLOYMENT BENEFITS: (Continued)

Funding Policy:

	<u>2017</u>	<u>2016</u>
Change in benefit obligation:		
Beginning APBO, January 1,	\$ 2,889,206	\$ 2,716,346
Interest on net benefit obligation	121,576	120,763
Service cost	112,367	129,761
Plan participants' contributions	22,489	22,991
Actuarial gain/(loss)	347,531	(8,692)
Benefit payments	(90,050)	(91,963)
Ending APBO, December 31,	<u>\$ 3,403,119</u>	<u>\$ 2,889,206</u>
Change in plan assets:		
Fair value of plan assets, January 1,	\$ -	\$ -
Employer contributions	67,561	68,972
Plan participants' contributions	22,489	22,991
Benefit payments	(90,050)	(91,963)
Fair value of plan assets, December 31,	<u>-</u>	<u>-</u>
Funded status	<u>\$ (3,403,119)</u>	<u>\$ (2,889,206)</u>

Assumptions used to determine projected benefit obligations at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.75%	4.25%
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend rate during first year	7.00%	7.00%
Ultimate health care cost trend	5.00%	5.00%
Year ultimate health care cost trend reached	2024	2023

Net periodic benefit cost for the years ended December 31, 2017 and 2016 included the following components:

	<u>2017</u>	<u>2016</u>
Service cost	\$ 112,367	\$ 129,761
Interest cost	121,576	120,763
Net prior service cost amortization	114,917	114,917
Amortization net loss	89,461	99,122
Ending net periodic benefit cost, December 31,	<u>\$ 438,321</u>	<u>\$ 464,563</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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DECEMBER 31, 2017 AND 2016

11. OTHER POSTEMPLOYMENT BENEFITS: (Continued)

Funding Policy: (Continued)

Assumptions used to determine projected benefit costs at December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	4.25%	4.50%
Long-term rate of return on assets	N/A	N/A
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend during first year	7.00%	7.00%
Ultimate health care cost trend rate	5.00%	5.00%
Year ultimate health care cost trend reached	2023	2021

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2017 and 2016 are included in the table below:

	<u>2017</u>	<u>2016</u>
Change in unrecognized balances:		
Unrecognized balances, January 1,	\$ 1,202,793	\$ 1,425,524
Net prior service cost recognized	(114,917)	(114,917)
Net gain recognized	(89,461)	(99,122)
Actuarial loss/(gain) occurring	<u>347,531</u>	<u>(8,692)</u>
Ending unrecognized balances, December 31,	<u>\$ 1,345,946</u>	<u>\$ 1,202,793</u>

Funded Status and Funding Progress:

During the years ended December 31, 2017 and 2016, the Company made no contributions to its postemployment benefits plan. The plan has no assets, and hence has a funded ratio of zero.

Future benefit payments expected to be paid in each of the next five years and in the aggregate for the following five years:

Years ending December 31,	
2018	\$ 91,206
2019	103,670
2020	118,344
2021	126,186
2022	135,787
2023-2027	<u>737,352</u>
Total	<u>\$ 1,312,545</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
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12. LEASES:

The Company is obligated under certain non-cancelable operating leases for office space that will expire in September 2023. The future minimum payments as of December 31, 2017 were as follows:

Years ending December 31,		
2018	\$	483,943
2019		489,190
2020		494,436
2021		499,681
2022		504,928
2023		381,647
	\$	<u><u>2,853,825</u></u>

Rental expense for the years ended December 31, 2017 and 2016 was approximately \$516,941 and \$515,460, respectively.

13. RECONCILIATION OF GAAP AND STATUTORY BASIS OF ACCOUNTING (UNAUDITED):

Accounting principles generally accepted in the United States of America (GAAP basis) differ in certain respects from the accounting practices prescribed or permitted by insurance regulatory authorities (statutory basis).

A reconciliation between the change in net assets and the deficiency in net assets as reported under GAAP basis and statutory basis for the years ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Change in net position - GAAP basis	\$ 62,973,269	\$ 134,976,011
Adjustments to:		
Pension plan expense	(361,775)	(7,170)
Other	(130,783)	228,557
Interest expense	13,404,593	(16,720,322)
Excess emergency assessments	(52,853,461)	(29,835,313)
Tax exempt surcharge	<u>(3,117,925)</u>	<u>(4,084,056)</u>
Net income - statutory basis	<u>\$ 19,913,918</u>	<u>\$ 84,557,707</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

13. RECONCILIATION OF GAAP AND STATUTORY BASIS OF ACCOUNTING
(UNAUDITED): (Continued)

	<u>2017</u>	<u>2016</u>
Total deficiency in net assets - GAAP basis	\$ (302,173,362)	\$ (365,146,631)
Adjustments to:		
Non-admitted assets	(3,838,503)	(26,484,129)
Deferral of loss on advanced refunding	(13,212,790)	(26,617,382)
Net pension asset	(466,449)	(471,490)
Other accrued liabilities	(1,562,802)	(1,195,986)
Excess emergency assessments	(32,511,987)	(31,857,180)
Allowance for doubtful accounts	751,912	882,696
Emergency assessments receivable	506,790,570	558,989,223
Provision for reinsurance receivable	<u>(276,658)</u>	<u>(1,393,252)</u>
Accumulated surplus - statutory basis	<u>\$ 153,499,931</u>	<u>\$ 106,705,869</u>

14. COMMITMENTS AND CONTINGENCIES:

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

The Company is also involved in other potentially significant litigation described below; any of which could have a material adverse effect on the financial condition or results of operations. These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including the underlying facts of each matter; novel legal issues; variations between jurisdictions in which matters are being litigated, heard, or investigated; differences in applicable laws and judicial interpretations; the length of time before many of these matters might be resolved by settlement, through litigation or otherwise; and the current legal environment faced by large corporations and insurance companies.

The outcome of these matters may be affected by decisions, verdicts, settlements, and the timing of such in other individual and class action lawsuits that involve the Company, other insurers, or other entities and by other legal, governmental, and regulatory actions that involve the Company, other insurers, or other entities. The outcome may also be affected by future state legislation, the timing, or substance of which cannot be predicted.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

14. COMMITMENTS AND CONTINGENCIES: (Continued)

In lawsuits, plaintiffs seek a variety of remedies. In some cases, the monetary damages sought include punitive or treble damages. Often specific information about the relief sought, such as the amount of damages is not available. When specific monetary demands are made, they are often set just below a state court jurisdictional limit in order to seek the maximum amount available regardless of the specifics of the case.

For the reasons previously specified, it is often not possible to make meaningful estimates of the amount or range of loss that could result from the known and unknown matters described. The Company reviews these matters on an ongoing basis and follows appropriate accounting guidance when making accrual and disclosure decisions. When assessing "reasonably possible" and "probable" outcomes, the Company bases its decisions on its assessment of the ultimate outcome following all appeals. Additionally, in instances where a judgment, assessment or fine has been rendered against the Company, there is a presumption that criteria in reaching a "reasonably possible" and "probable" outcome has been met. In such instances, the amount of liability recorded by the Company will include the anticipated settlement amount, legal costs, insurance recoveries and other related amounts and take into account factors such as the nature of the litigation, progress of the case, opinions of legal counsel, and management's intended response to the litigation, claim, or assessment.

Due to the complexity and scope of the matters disclosed below and the many uncertainties that exist, the ultimate outcome of these matters cannot be reasonably predicted. In the event of an unfavorable outcome in any one or more of these matters, the ultimate liability may be in excess of amounts currently reserved.

A summary of potentially significant litigation is as follows:

Oubre v. Louisiana Citizens Property Insurance Corporation. The plaintiffs in this suit allege that the Company failed to timely initiate loss adjustment as required by Louisiana statutory law exposing the Company to mandatory penalties in the amount of \$5,000 per claim. On July 23, 2012, the Company settled the majority of this class action suit with a payment of \$104.7 million to the plaintiff counsel for distribution to the current class members. The Company entered into a settlement with the class for the remaining Oubre claims. At December 31, 2017 and 2016, the Company had a reserve of \$33.7 million for this case for resolution of the remaining claims which the Company believes is adequate. The reserve is included in loss and loss adjustment reserves on the accompanying Statement of Admitted Assets, Liabilities, Surplus, and Other Funds.

Various other lawsuits against the Company have arisen in the course of the Company's business, including approximately 107 first-party suits of which majority are related to Hurricane Isaac. The Company believes it has established appropriate reserves for all lawsuits, in addition to class action claims described above. The Company has no assets that it considers to be impaired.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

14. COMMITMENTS AND CONTINGENCIES: (Continued)

In addition to claims under the insurance policies it issues, the Company is potentially exposed to various risks of loss, including those related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. As of the years ended December 31, 2017 and 2016, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers' compensation, property loss, employee liability, general liability, directors' and officers' liability, business auto, and cyber insurance. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

15. DEPOPULATION:

The Louisiana State Legislature created the Company to operate insurance plans as a residual market for residential and commercial property. The legislature further intended that the Company work toward the ultimate depopulation of these residual market plans also known as the Coastal Plan and the FAIR plan. To encourage the ultimate depopulation of these residual market plans, the Louisiana Citizens Property Insurance Corporation Policy Take-Out Program was created.

Under the take-out plan guidelines, not less than once per calendar year, the Company will offer its in-force policies for removal to the voluntary market. The Company will include offers for depopulation policies with all available geographic and risk characteristics that serve to reduce the exposure of the corporation. Each insurer admitted to write homeowners insurance or insurance, insuring one or two family owner occupied premises for fire and allied lines or insurance which covers commercial structures in the State of Louisiana may apply to the Company to become a take-out company. Insurers will be approved to participate in the depopulation of the Company based on statutory guidelines set forth in accordance with LRS 22:2314(C).

Policies may be removed from the Company at policy renewal or as part of a bulk assumption. In an assumption, the take-out company is responsible for losses occurring from the assumption date through the expiration of the Company's policy period.

Unearned premiums remitted to take-out companies pursuant to assumption agreements is reflected as a reduction in "Premiums earned" in the Statutory Statements of Income and totaled \$12,205,293 and \$15,537,510 for the years ended December 31, 2017 and 2016, respectively.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

15. DEPOPULATION: (Continued)

The Company provides administration services with respect to the assumed policies. All agreements provide for the take-out company to adjust losses. The take-out company pays a ceding commission to the Company to compensate for policy acquisition costs, which includes servicing company fees and agent commissions. While the Company is not liable to cover claims after the assumption, the Company continues to service policies for items such as policyholder endorsements or cancellation refunds. Should the Company process and provide a refund to policyholders, such amount is subsequently collected from the take-out company. At December 31, 2017 and 2016, there were no assumed premiums due from certain take-out companies.

16. RECONCILIATION TO ANNUAL STATEMENT:

When differences exist between the audited statutory financial statements and the annual statement filed pursuant to R.S. 22:571 and R.S. 22.252, a reconciliation accompanied with a written description of the nature of these differences are required to be included in the notes to statutory financial statements.

The reconciliation between the audited statutory financial statements and the annual statement filed with the Insurance Department of the State of Louisiana for the year ended December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Net Income – Statutory Financial Statements	\$ 19,913,918	\$ 84,557,707
Adjustments to:		
Premiums Earned	<u>-</u>	<u>(528,801)</u>
Net Income – Annual Statement	<u>\$ 19,913,918</u>	<u>\$ 84,028,906</u>

On the annual statement for the year ended December 31, 2015, the Company wrote off receivables related to claims on a commuted reinsurance contract as they were paid. Subsequent to filing the 2015 annual statement, an adjustment was made on the statutory financial statements to accrue the total estimated exposure to the Company related to the commutation as opposed to writing off losses as claims were filed. The adjustment resulted in a difference in net income for the years ended December 31, 2017 and 2016 of \$0 and \$528,801, respectively, with the difference being eliminated when all claims related to the commuted reinsurance contract are paid.

There were no differences in the surplus as reported in the audited statutory financial statements and the annual statement for the years ended December 31, 2017 and 2016.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

17. SUBSEQUENT EVENTS:

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through May 15, 2018, which was the date the financial statements were available to be issued.

On May 11, 2018, the Company paid another \$21.1 million to settle a portion of the claims outstanding on the Oubre Class Action lawsuit, as further noted in Note 14. The payment was adequately reserved as of December 31, 2017.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 SUPPLEMENTARY INFORMATION
 SUMMARY INVESTMENT INFORMATION
DECEMBER 31, 2017

	<u>Gross investment holdings</u>		<u>Admitted assets as reported in the annual statement</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Money market mutual funds	\$ -	- %	\$ 142,725,629	53.32 %
Bond investments	81,607,410	30.49 %	81,607,410	30.49 %
Cash, cash equivalents, short-term investments	<u>186,053,964</u>	<u>69.51 %</u>	<u>43,328,335</u>	<u>16.19 %</u>
Total invested assets	<u>\$ 267,661,374</u>	<u>100.00 %</u>	<u>\$ 267,661,374</u>	<u>100.00 %</u>

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
 SUPPLEMENTARY INFORMATION
 SUPPLEMENTAL INVESTMENT RISK INTERROGATORIES
DECEMBER 31, 2017

The following is a summary of certain statutory financial data included in the supplemental investment risk interrogatories.

1. Total admitted assets as reported on the statutory assessments of admitted assets, liabilities, surplus, and other funds \$800,594,631

2. By investment category, the ten largest exposures to a single issuer/borrower/investment, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *SVO Purposes and Procedures Manual*, as exempt, (ii) property occupied by the Company, and (iii) policy loans.

Issuer	Description of Exposure	Amount	% of Total Admitted Assets
Louisiana State Gas & Fuels Tax Revenue	Bonds	\$ 18,855,032	2.36%
Louisiana State	Bonds	9,579,653	1.20%
Louisiana State Local Govt Envrnmntl Facs	Bonds	9,304,026	1.16%
Louisiana State	Bonds	7,321,956	0.91%
Lafayette LA Public Improvement Sales Tax	Bonds	6,735,854	0.84%
Louisiana State Office Facs Corp	Bonds	3,634,514	0.45%
Ernest N Morial New Orleans LA	Bonds	3,124,682	0.39%
Lafayette LA Communications System	Bonds	3,087,248	0.39%
Louisiana St University & Agric & Mech	Bonds	2,638,218	0.33%
Shreveport LA Water & Sewer Revenue	Bonds	2,134,209	0.27%

3. Amounts and percentages of total admitted assets held in bonds and preferred stocks.

Exposure	Amount	% of Total Admitted Assets
Bonds	\$ 85,748,211	10.71%