

**Louisiana Citizens
Property Insurance Corporation**

**Financial Statements and
Supplementary Information
(Statutory Basis)**

December 31, 2014 and 2013



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Louisiana Citizens Property Insurance Corporation
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December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

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, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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, 2014 and 2013, 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.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the 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 requirements of Louisiana. Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic 2014 and 2013 statutory financial statements taken as a whole. The supplementary information included in Schedules I and II as of and for the year ended December 31, 2014 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 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-based 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

May 21, 2015

Louisiana Citizens Property Insurance Corporation
Statutory Statements of Admitted Assets,
Liabilities, Surplus and Other Funds

<i>December 31,</i>	2014	2013
Admitted Assets		
Cash and invested assets:		
Stocks	\$ 170,371,481	\$ 176,757,647
Cash and short-term investments	71,815,593	108,372,222
<hr/>		
Total cash and invested assets	242,187,074	285,129,869
Premium receivable and agent's balances, net	19,246,068	22,275,223
Reinsurance receivable	5,074,144	3,235,785
Admitted electronic data processing equipment and software, at cost less accumulated depreciation of approximately \$16,824,715 and \$16,761,027 at December 31, 2014 and 2013, respectively.	552,542	485,941
Emergency assessments receivable - 2005	761,906,939	824,914,781
Emergency assessments receivable - companies	18,500,000	20,000,000
Other receivables	110,160	118,038
<hr/>		
Total admitted assets	\$ 1,047,576,927	\$ 1,156,159,637

(continued)

See notes to statutory financial statements.

Louisiana Citizens Property Insurance Corporation
Statutory Statements of Admitted Assets,
Liabilities, Surplus and Other Funds (Continued)

<i>December 31,</i>	2014	2013
Liabilities and Accumulated Surplus		
Liabilities:		
Loss reserves	\$ 63,846,136	\$ 60,029,794
Loss adjustment expense reserves	6,165,480	6,270,567
Commissions payable to agents	3,600,855	4,166,018
Unearned premiums	83,610,484	93,358,850
Taxes, licenses, and fees due or accrued	4,266,365	3,791,325
Provision for reinsurance	19,307	19,830
Accounts payable and other accrued expenses	8,325,215	37,155,702
Amounts retained or withheld from others	4,454	4,457
Ceded reinsurance premiums payable, net of ceding commissions	2,309,031	2,260,254
Unearned tax exempt surcharge	2,690,320	2,963,357
Interest payable	3,233,860	3,422,780
Bonds payable	742,651,458	789,694,265
Liability for funds restricted for debt service (Note 7)	150,551,674	158,304,181
Total liabilities	1,071,274,639	1,161,441,380
Commitments and contingencies (Note 14)		
Surplus:		
Unassigned deficit	(23,697,712)	(5,281,743)
Total accumulated deficit	(23,697,712)	(5,281,743)
Total liabilities and accumulated deficit	\$ 1,047,576,927	\$ 1,156,159,637

See notes to statutory financial statements.

Louisiana Citizens Property Insurance Corporation
Statutory Statements of Income

<i>Years ended December 31,</i>	2014	2013
Revenues		
Premiums earned	\$ 115,302,411	\$ 115,730,784
Losses and underwriting expenses		
Losses incurred	106,281,803	38,191,459
Loss adjustment expenses incurred	10,853,682	14,136,694
Other underwriting expenses	27,536,339	30,594,248
Total losses and underwriting expenses	144,671,824	82,922,401
Net underwriting gain (loss)	(29,369,413)	32,808,383
Net investment income	1,581,974	1,624,223
Interest expense	(37,148,116)	(39,151,335)
Emergency assessment income	35,667,820	37,682,280
Application and other miscellaneous fees	1,821,351	6,395,333
Finances and service charges not included in premiums	625,950	657,946
Non-claim related litigation recovery (expense)	2,618,595	(13,000,000)
Net loss from agents or premium balances charged off	(3,219)	(131,955)
Net income (loss)	\$ (24,205,058)	\$ 26,884,875

See notes to statutory financial statements.

Louisiana Citizens Property Insurance Corporation
Statutory Statements of Changes in
Accumulated Surplus and Other Funds

<i>Years ended December 31,</i>	2014	2013
UNASSIGNED DEFICIT , beginning of year	\$ (5,281,743)	\$ (36,848,515)
Net income (loss)	(24,205,058)	26,884,875
Change in nonadmitted assets	62,360	(1,185,386)
Change in provision for reinsurance	523	68,079
Tax exempt surcharge	5,453,177	5,793,748
Other gains and losses in surplus	273,029	5,456
UNASSIGNED DEFICIT , end of year	\$ (23,697,712)	\$ (5,281,743)

See notes to statutory financial statements.

Louisiana Citizens Property Insurance Corporation
Statutory Statements of Cash Flows

<i>Years ended December 31,</i>	2014	2013
Operating Activities		
Premiums, policy proceeds, and other considerations received, net of reinsurance	\$ 107,028,711	\$ 104,162,605
Underwriting expenses paid	(38,585,238)	(45,250,361)
Investment income received	(35,566,142)	(37,495,903)
Other revenues received	40,730,498	31,603,606
Losses and loss adjustment expenses paid	(102,778,988)	(48,331,735)
Net cash (used in) provided by operating activities	(29,171,159)	4,688,212
Investing Activities		
Proceeds from investments sold or matured	355,593,902	186,461,207
Cost of investments acquired	(349,207,737)	(185,300,428)
Net cash provided by investing activities	6,386,165	1,160,779
Financing Activities		
Payments on borrowed funds	(47,231,727)	(45,315,740)
Other cash provided	33,460,092	84,344,187
Net cash (used in) provided by financing activities and miscellaneous	(13,771,635)	39,028,447
Net change in cash and short-term investments	(36,556,629)	44,877,438
Cash and short-term investments, beginning of year	108,372,222	63,494,784
Cash and short-term investments, end of year	\$ 71,815,593	\$ 108,372,222

See notes to statutory financial statements.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 1 – ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION

Louisiana Citizens Property Insurance Corporation (the “Company”) is a component unit of the State of 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. 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 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 above the Intracoastal Waterway.

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.

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.
- 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.
- Comprehensive income and its components are not presented in the financial statements as is required by Accounting Standards Codification (ASC) 220, *Comprehensive Income*.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 1 – ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION (Continued)

- 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

In connection with the preparation of the financial statements, management of the Company evaluated subsequent events through May 21, 2015, which was the date the financial statements were available to be issued. During this period, the Company did not have any material recognizable subsequent events that required recognition in the disclosures to the December 31, 2014 financial statements.

Cash and Short-Term Investments

For the purpose of reporting cash flows, cash and short-term investments include all liquid investments with a maturity of one year or less when purchased. Short-term investments are stated at cost, which approximates fair value. The Company holds cash of approximately \$44 million and short-term investments of approximately \$28 million.

Bonds

Bonds, which consist solely of debt securities, are recorded at 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 are recorded in cash and short-term investments within the Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity Investments

Equity investments held by the Company represent money market mutual funds. Shares of mutual funds, regardless of the underlying security, are considered to be shares of common stock and are reported as such as designated by NAIC reporting requirements. These funds, for fair value purposes are stated at cost, which approximated 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. EDP equipment and software with an original cost of \$17,377,257 and \$17,246,968 at December 31, 2014 and 2013, respectively, is being depreciated using the straight-line method over the software's useful life of three years, in accordance with NAIC statutory requirement. Depreciation expense for admitted EDP equipment and operating system software approximated \$63,688 and \$339,742 for the years ended December 31, 2014 and 2013, respectively. Depreciation expense charged to operations related to non-admitted equipment, furniture and fixtures totaled \$110,202 and \$79,029 for the years ended December 31, 2014 and 2013, respectively.

Depopulation

The Company is required to undertake a depopulation effort annually per Louisiana state 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 necessarily 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 period 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

NOTE 2 – 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 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 years 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 state wide 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.

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 Louisiana from the FAIR or Coastal Plans are subject to emergency assessment by the Company.

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 state-wide direct written

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments (Continued)

premiums for subject lines of business and for all plan 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.

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 \$150,551,674 and \$158,304,181 at December 31, 2014 and 2013, 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

Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums. 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. All catastrophe reinsurance payments are recorded as premiums ceded and are amortized over the life of the hurricane season for which the payments apply. Premiums ceded include catastrophe reinsurance purchased.

Income Taxes

The Company constitutes an integral part of the State of Louisiana and its income 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.

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.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 3 – REPURCHASE AGREEMENTS

In 2006, the Company entered into a Repurchase Agreement with Societe Generale, New York Branch to invest a portion of the Debt Service Reserve Fund. The agreement requires Societe Generale to maintain margins on collateral of 104% to 105% of market value depending on the type of collateral. Acceptable securities are GNMA, Government Agencies, mortgage backed securities of FHLMC or FHLB and U.S. Treasury securities. The custodian for the collateral is Wells Fargo Bank, N.A.

The collateral percentage, fair value and book value of collateral accepted from Societe Generale as of December 31, was:

	Collateral Percentage	Book Value	Fair Value
December 31, 2014	104.54%	\$28,298,272	\$ 29,583,099
December 31, 2013	105.11%	\$28,298,272	\$ 29,745,596

NOTE 4 – FAIR VALUE MEASUREMENTS FOR INVESTMENTS

FASB ASC Topic Fair Value Measurements and Disclosures (FASB ASC 820) and FASB ASC Topic Financial Instruments (FASC 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 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 (liabilities) that have readily available quoted prices from active markets where significant transparency exists in the executed/quoted price.

Level 2 classification is applied to assets (liabilities) 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 (liabilities) for which prices are not derived from existing market data.

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE MEASUREMENTS FOR INVESTMENTS (Continued)

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

Common Stock: Fair values of common stock are based on quoted market prices.

The valuation of the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, none of which are held for trading purposes, are as follows (in thousands):

<i>December 31,</i>	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Common stock – Money Market Mutual Funds	\$ 170,371	\$ 170,371	\$ 176,758	\$ 176,758
	Level 1	Level 2	Level 3	Total
<i>As of December 31, 2014</i>				
Common Stock – Money Market Mutual Funds	\$ 170,371,481	\$ -	\$ -	\$ 170,371,481
<i>As of December 31, 2013</i>				
Common Stock – Money Market Mutual Funds	\$ 176,757,647	\$ -	\$ -	\$ 176,757,647

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. 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.

Net investment income consists of:

<i>Years ended December 31,</i>	2014	2013
Interest earned on U.S. Treasury Securities	\$ -	\$ 64,104
Interest earned on money market mutual funds	114,634	103,889
Interest earned on cash, cash equivalents and short-term investments	1,476,840	1,468,680
Investment expenses	(9,500)	(12,450)
Total	\$ 1,581,974	\$ 1,624,223

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE MEASUREMENTS FOR INVESTMENTS (Continued)

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, 2014 and 2013, no declines are deemed to be other-than-temporary.

NOTE 5 – LIABILITIES FOR LOSS AND LOSS ADJUSTMENT EXPENSES

Activity in the liabilities for loss and loss adjustment expenses is summarized as follows (in thousands of dollars):

<i>Years ended December 31,</i>	2014	2013
Balance at January 1	\$ 66,300	\$ 91,484
Incurred related to:		
Current year	26,154	56,007
Prior years		
Policyholder obligations	90,981	(3,679)
Total incurred	117,135	52,328
Paid related to:		
Current year	21,680	47,675
Prior years		
Policyholder obligations	91,743	29,837
Total paid	113,423	77,512
Balance at December 31	\$ 70,012	\$ 66,300

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 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.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 6 – AGENT COMMISSIONS AND SERVICING COMPANY FEES

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 included in other underwriting expenses incurred were approximately \$16 and \$17 million during 2014 and 2013, respectively.

Additionally, the Company has entered into agreements with two servicing companies to provide underwriting and policy management services. The agreements provide for monthly compensation to the servicing companies based on a “Per Transaction Fee” applied to the number of transactions processed in a monthly cycle. During 2012, the servicing agreements were extended under the same (or similar) terms and expire on March 31, 2014. Since the expiration of the servicing agreements, claims and underwriting management have been brought in-house. Servicing company fees incurred and included in other underwriting expenses incurred were approximately \$233 thousand and \$2.3 million during 2014 and 2013, respectively.

NOTE 7 – CAPITAL AND ACCUMULATED 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 LRS 22:2307, the Company may assess, in any one year, up to 10% of the total property premiums assessable state-wide to pay the debt service on the bonds. The total statewide assessable premiums are approximately \$2.8 billion.

Emergency assessments were as follows:

<i>Years ended December 31,</i>		2014	2013
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	-
		781,316,652	686,337,106
Plus: cumulative bond earnings		29,849,758	48,197,467
Less : cumulative debt service		(660,614,736)	(576,230,392)
Liability for funds restricted for debt service		\$ 150,551,674	\$ 158,304,181

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 7 – CAPITAL AND ACCUMULATED SURPLUS (Continued)

The unassigned deficit approximated \$23.7 and \$5.3 million at December 31, 2014 and 2013, respectively.

NOTE 8 – REINSURANCE AGREEMENTS

The Company purchases private reinsurance through Aon Benfield, Inc. and 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.

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 respects 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.

For the year ended December 31, 2014 (in thousands):

	January 1, 2014 to May 31, 2014			June 1, 2014 to December 31, 2014		
	First Excess	Second Excess	Third Excess	First Excess	Second Excess	Third Excess
Company's Retention	\$ 75,000	\$ 193,000	\$ 264,000	\$ 50,000	\$ 75,000	\$ 175,000
Reinsurer's Per Occurrence Limit	\$ 118,000	\$ 71,000	\$ 111,000	\$ 25,000	\$ 100,000	\$ 47,000
Reinsurer's Term Limit	\$ 236,000	\$ 142,000	\$ 222,000	\$ 50,000	\$ 200,000	\$ 94,000
Annual Minimum Premium	\$ 15,104	\$ 6,390	\$ 6,216	\$ 5,375	\$ 14,000	\$ 4,700
Adjustment Rate	0.009440%	0.039940%	0.038850%	0.000000%	0.000000%	0.000000%

As of June 2014, the Company’s contract for reinsurance has been restructured. There are no longer adjustment rates. The premium can potentially be adjusted if the total insurable value is greater than or less than 10% of the estimated total insurable value used to calculate the contract premium.

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 8 – REINSURANCE AGREEMENTS (Continued)

For the year ended December 31, 2013 (in thousands):

	January 1, 2013 to May 31, 2013			June 1, 2013 to December 31, 2013		
	First Excess	Second Excess	Third Excess	First Excess	Second Excess	Third Excess
Company's Retention	\$ 75,000	\$ 200,000	\$ -	\$ 75,000	\$ 193,000	\$ 264,000
Reinsurer's Per Occurrence Limit	\$ 125,000	\$ 125,000	\$ -	\$ 118,000	\$ 71,000	\$ 111,000
Reinsurer's Term Limit	\$ 250,000	\$ 250,000	\$ -	\$ 236,000	\$ 142,000	\$ 222,000
Annual Minimum Premium	\$ 21,000	\$ 14,750	\$ -	\$ 15,104	\$ 6,390	\$ 6,216
Adjustment Rate	0.120690%	0.084770%	0.000000%	0.009440%	0.039940%	0.038850%

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 reinsurance premium. The Company has entered into a Reinsurance Premium Protection (RPP) contract related to the second layer only which guarantees payment of the reinstatement premium.

In addition, the Company has additional coverage through two catastrophe bonds. In 2012, the Company purchased coverage through a \$125 million, three year catastrophe bond providing coverage for 63.8% of up to \$389 million in losses in excess of \$193 million covered by retention and traditional reinsurance. In 2013, the Company purchased additional 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.

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

Years ended December 31,	2014 Premiums		2013 Premiums	
	Written	Earned	Written	Earned
Direct	\$ 168,068,464	\$ 177,510,523	\$ 179,000,104	\$ 182,527,174
Ceded	(62,208,112)	(62,208,112)	(66,796,390)	(66,796,390)
Net premiums	\$ 105,860,352	\$ 115,302,411	\$ 112,203,714	\$ 115,730,784

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.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 8 – REINSURANCE AGREEMENTS (Continued)

The reserve for uncollectable reinsurance recoverables at December 31, 2014 and 2013 were as follows:

<i>December 31,</i>	2014	2013
Ariel Reinsurance Co. Ltd	\$ -	\$ 2,256
Colisee Re	4,425	-
Hanover Rueck SE	11,747	-
Markel Bermuda Ltd	3,135	-
New Castle Reinsurance Company	-	16,446
Validus Reinsurance LTD	-	1,128
	\$ 19,307	\$ 19,830

NOTE 9 – LINE OF CREDIT

The Company maintains a line of credit providing for a maximum borrowing of \$125,000,000 at December 2014 and 2013. Interest on this note 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, 2014 was 0.16950%. 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, and expires August 15, 2015. There was no balance outstanding on the line of credit at December 31, 2014 or 2013.

NOTE 10 – BONDS PAYABLE

Series 2006B – During April 2006, the Company issued \$678,205,000 of assessment revenue bonds for the purpose of redeeming bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the Capitalized Interest Fund and the Debt Service Reserve Fund and to pay costs of issuance. The bonds were issued in denominations of \$5,000 or any integral multiple thereof. The 2006B bonds bear interest ranging from 4.00% to 5.25% per annum, payable semiannually on June 1 and December 1 of each year, commencing December 1, 2006. 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 of and interest on the bonds when due is insured by a bond insurance policy. The bond maturity dates range from June 1, 2009 to June 1, 2023. Bond principal payments of \$40,595,000 and \$39,600,000 were made in 2014 and 2013, respectively.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 10 – BONDS PAYABLE (Continued)

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, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from Hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, 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 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 2006B bonds were originally issued for the purpose of providing funds to redeem bond anticipation notes issued to finance, on an interim basis, a portion of the Plan Year Deficit for 2005 in the FAIR Plan resulting from hurricanes Katrina and Rita, to finance the balance of the Plan Year Deficit for 2005, to make deposits to the capitalized interest fund and the debt service reserve fund for the Series 2006C bonds and to pay costs of issuance. 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 dated of each subseries of the series 2006C bonds, interest on the bonds is payable on each June 1 and December 1 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 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 \$2,945,000 and \$1,860,000 in 2014 and 2013, respectively.

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 10 – BONDS PAYABLE (Continued)

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 the Assessment Revenue Bonds Series 2006C4, 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 1 and December 1 of each year, commencing June 1, 2012. The bond maturity dates range from June 1, 2012 to June 1, 2024. Bond principal payments of \$900,000 and \$885,000 were made in 2014 and 2013, respectively.

A schedule of debt service requirements, including bond premiums and discounts, is as follows:

Maturity	
2015	\$ 46,710,000
2016	49,015,000
2017	51,435,000
2018	53,985,000
2019	56,635,000
2020-2024	315,655,000
2025-2026	155,645,000
	\$ 729,080,000

Net unamortized premium at December 31, 2014 and 2013 was approximately \$13.6 and \$16.2 million, respectively.

The total interest expense on the fixed rate bonds for the years ended December 31, 2014 and 2013 was approximately \$37 and \$39 million, respectively, including annual amortized premium of \$2.5 and \$2.8 million, respectively, and is included in “Interest expense, net” in the accompanying Statutory Statements of Income.

NOTE 11 – RETIREMENT PLAN

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.

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Defined Benefit Plan (Continued)

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:

	2014	2013
Change in projected benefit obligation:		
Beginning projected benefit obligation, January 1,	\$ 1,744,434	\$ 1,890,606
Interest cost	87,816	80,142
Actuarial gain (loss)	411,568	(184,738)
Benefit payments	(47,450)	(41,576)
Ending projected benefit obligation, December 31,	2,196,368	1,744,434
Change in plan assets:		
Fair value of plan assets, January 1,	1,917,043	1,723,281
Benefit payments	(47,450)	(41,576)
Actual return on plan assets	161,557	235,338
Fair value of assets, December 31,	2,031,150	1,917,043
Funded status	\$ (165,218)	\$ 172,609

Assumptions used to determine projected benefit obligations and pension costs at December 31, 2014 and 2013, were as follows:

	2014	2013
Discount rate	5.00%	4.25%
Long-term rate of return on assets	6.25%	6.25%
Rate of compensation increase	N/A	N/A

Net periodic benefit cost for the years ended December 31, 2014 and 2013, includes the following components:

	2014	2013
Interest cost	\$ 87,816	\$ 80,142
Expected return on plan assets	(118,210)	(107,842)
Amortization net loss	5,421	40,287
Ending net periodic benefit cost, December 31,	\$ (24,973)	\$ 12,587

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Defined Benefit Plan (Continued)

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2014 and 2013 are per the table below:

	2014	2013
Change in unrecognized balances:		
Unrecognized balances, January 1,	\$ 202,185	\$ 554,706
Net gain recognized	(5,421)	(40,287)
Actuarial loss (gain) occurring	368,221	(312,234)
Ending unrecognized balances, December 31,	\$ 564,985	\$ 202,185

The fair value of assets as of December 31, 2014 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 year ending December 31, 2014 and adjusting for actual payments and contributions. The fund return for the year ending December 31, 2014 was 9.26%.

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

<i>Years ending December 31,</i>	
2015	\$ 55,747
2016	63,225
2017	75,206
2018	79,833
2019	85,223
2020-2024	550,671
	\$ 909,905

Defined Contribution Plans

As of September 1, 2008, the Company froze its defined benefit pension plan and converted it to 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 \$629,715 and \$666,151 and in 2014 and 2013, respectively.

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Defined Contribution Plans (Continued)

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 2014 and 2013 totaled \$187,760 and \$183,166, respectively.

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 5 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:

	2014	2013
Change in benefit obligation:		
Beginning APBO, January 1,	\$ 1,393,202	\$ 248,400
Interest on net benefit obligation	70,632	50,198
Interest cost	61,446	66,339
Plan participants’ contributions	14,275	9,752
Actuarial gain (loss)	1,025,260	104,806
Benefit payments	(97,781)	(40,044)
Plan amendments – SAP92 Transition		953,751
Ending APBO, December 31,	\$ 2,467,034	\$ 1,393,202

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Other Postemployment Benefits (Continued)

	2014	2013
Change in plan assets:		
Fair value of plan assets, January 1,	\$ -	\$ -
Employer contributions	83,506	30,292
Plan participants' contribution	14,275	9,752
Benefit payments	(97,781)	(40,044)
Fair value of assets, December 31,	-	-
Funded status	\$ (2,467,034)	\$ (1,393,202)

Assumptions used to determine projected benefit obligations at December 31, 2014 and 2013, were as follows:

	2014	2013
Discount rate	4.25%	5.00%
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend rate during first year	7.00%	7.50%
Ultimate healthcare cost trend rate	5.00%	5.00%
Year ultimate health care cost trend reached	2021	2018

Net periodic benefit cost for the years ended December 31, 2014 and 2013, includes the following components:

	2014	2013
Service cost	\$ 61,446	\$ 66,339
Interest cost	70,632	50,198
Net prior service cost amortization	114,917	114,917
Amortization net loss	19,481	10,409
Ending net periodic benefit cost, December 31,	\$ 266,476	\$ 241,863

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 11 – RETIREMENT PLAN (Continued)

Other Postemployment Benefits (Continued)

Assumptions used to determine projected benefit costs at December 31, 2014 and 2013, were as follows:

	2014	2013
Discount rate	5.00%	4.25%
Long-term rate of return on assets	N/A	N/A
Rate of compensation increase	3.00%	3.00%
Assumed health care cost trend rate during first year	7.50%	8.00%
Ultimate healthcare cost trend rate	5.00%	5.00%
Year ultimate health care cost trend reached	2018	2018

Changes in amounts recognized in accumulated surplus for the years ended December 31, 2014 and 2013 are per the table below:

	2014	2013
Change in unrecognized balances:		
Unrecognized balances, January 1,	\$ 678,733	\$ (254,498)
Net prior service cost recognized	(114,917)	(114,917)
Net gain recognized	(19,481)	(10,409)
New prior service cost occurring	-	953,751
Actuarial loss (gain) occurring	1,025,260	104,806
Ending unrecognized balances, December 31,	\$ 1,569,595	\$ 678,733

Funded Status and Funding Progress. In the year ended December 31, 2014, 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:

<i>Years ending December 31,</i>	
2015	\$ 47,441
2016	57,736
2017	61,430
2018	74,621
2019	83,001
2020-2024	574,155
	\$ 898,384

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 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, 2014 follow:

<i>Years ending December 31,</i>	
2015	\$ 468,204
2016	473,452
2017	478,698
2018	483,943
2019	489,190
2020-2023	1,880,691
	\$ 4,274,178

Rental expense for 2014 and 2013 was approximately \$507,348 and \$617,060, respectively.

NOTE 13 – RECONCILIATION OF GAAP AND STAT BASES 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 follows:

<i>Years ended December 31,</i>	2014	2013
Change in net position - GAAP basis	\$ 38,993,816	\$ 93,792,881
Adjustments to:		
Pension and employee benefit plan expense	(2,295,758)	(198,607)
Excess emergency assessments	(55,255,337)	(57,821,102)
Allowance for doubtful accounts	(18,897)	(3,089,090)
Other	97,332	
Tax exempt surcharge	(5,726,214)	(5,799,207)
Net income (loss) - Statutory Basis	\$ (24,205,058)	\$ 26,884,875

Louisiana Citizens Property Insurance Corporation
Notes to Statutory Financial Statements

NOTE 13 – RECONCILIATION OF GAAP AND STAT BASES OF ACCOUNTING (UNAUDITED)
(Continued)

<i>December 31,</i>	2014	2013
Total deficiency in net assets - GAAP basis	\$(619,593,364)	\$(658,587,178)
Adjustments to:		
Non-admitted assets	(14,482,561)	(14,544,921)
Premiums receivable	(503,824)	-
Prepaid pension asset	(582,130)	-
Other accrued liabilities	(1,031,385)	163,019
Excess emergency assessments	(150,551,674)	(158,304,181)
Allowance for doubtful accounts	1,159,597	1,096,570
Assessments receivable	761,906,939	824,914,781
Provision for reinsurance	(19,310)	(19,830)
Accumulated (deficit) surplus - Statutory basis	\$ (23,697,712)	\$ (5,281,740)

NOTE 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.

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.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 14 – COMMITMENTS AND CONTINGENCIES (Continued)

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 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. On July 23, 2012 the Company settled the majority of this class action suit with a payment of \$104 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, 2014, the Company has a reserve of \$55 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 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 1,100 first-party suits of which approximately 830 are related to Hurricanes Katrina and Rita. 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.

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 end of 2014, the Company had insurance protection in place from various commercial insurance carriers covering various exposures, including workers’ compensation, property loss, employee liability, general liability, and directors’ and officers’ liability. Management continuously revisits the limits of coverage and believes that current coverage is adequate. There were no significant reductions in insurance coverage from the previous year.

Louisiana Citizens Property Insurance Corporation Notes to Statutory Financial Statements

NOTE 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 \$13,615,931 and \$14,040,491 for the years ended December 31, 2014 and 2013, respectively.

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 the Company 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 policy holder 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, 2014 and 2013, there were no assumed premiums due from certain take-out companies.

Louisiana Citizens Property Insurance Corporation
Schedule I – Summary Investment Information
December 31, 2014

	<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>
Equity interests:				
Investments in mutual funds	\$ 170,371,481	70.347%	\$ 170,371,481	70.347%
Cash, cash equivalents, short-term investments	71,815,593	29.653%	71,815,593	29.653%
Total invested assets	\$ 242,187,074	100.000%	\$ 242,187,074	100.000%

Louisiana Citizens Property Insurance Corporation
Schedule II – Supplemental Investment Risk Interrogatories (Continued)
December 31, 2014

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 statements of admitted assets, liabilities, surplus and other funds \$1,047,576,927
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
Fidelity Instl Cash PTF Treas II	CS - Money Market Mutual	\$ 119,477,651	11.4%
Regions Trust Cash Sweep	CS-Money Market Mutual	\$ 50,893,830	4.9%
Repurchase Agreement w/ Societe	Short-Term Investments	\$ 28,298,272	2.7%

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

Bonds	At Year-end	
	1	2
3.01 NAIC-1	\$ 28,298,272	2.7%

Interrogatories 4 through 19 are not applicable to the Company.

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

	At Year-end	1st Quarter	At End of Each Quarter		
			2nd Quarter	3rd Quarter	
20.02 Repurchase agreements	\$ 28,298,272	2.7%	\$ 28,298,272	\$ 28,298,272	\$ 28,298,272

Interrogatories 21 through 23 are not applicable to the Company.