Management's Discussion and Analysis

Company Background

This discussion provides an assessment by management of the financial position, results of operations, cash flow and liquidity for Louisiana Citizens Property Insurance Corporation (LCPIC). LCPIC was established in 2003 by the Louisiana legislature as a nonprofit corporation to operate residual market insurance plans effective January 1, 2004. The objective of LCPIC is to provide essential property insurance for residential and commercial property applicants who are unable to procure insurance through the voluntary market. LCPIC is the successor to the program established by Act 424 of the 1992 Regular Legislative Session designated as the "Fair Access to Insurance Requirements Plan" or otherwise known as the Louisiana Joint Reinsurance Plan (FAIR Plan) and the Louisiana Insurance Underwriting Plan (Coastal Plan). Information presented in this discussion supplements the financial statements, schedules, and exhibits in Louisiana Citizens Property Insurance Corporation's 2014 Annual Statement.

Major events occurring in 2014 for LCPIC were:

- LCPIC incurred $95.0 million for the *Oubre v. LCPIC* class action suit.
- LCPIC renewed its reinsurance program in May 2014 for the same storm coverage of $650 million with a $50 million retention that includes a traditional reinsurance program and cat bonds for a savings of $8.5 million compared to 2013.
- LCPIC completed an eighth round of depopulation effective December 1, 2014 transferring 10,171 policies and approximately $2.4 billion of exposure to the private insurance market.
- There were no significant catastrophes that occurred in 2014.

Financial Position

LCPIC's financial position at December 31 was as follows:

Balance Sheet (in thousands of dollars - 000)	2014	2013
Assets		
Operating cash and common stocks	$94,411	$130,866
Trustee common stocks and short-term investments	147,776	154,264
Total cash and invested assets	242,187	285,130
Uncollected premiums in the course of collection	19,246	22,275
Long-term emergency assessments receivable	761,907	824,915
Other assets	24,237	23,840
Total assets	$1,047,577	$1,156,160
Liabilities and Policyholders' Surplus		
Unpaid loss and loss adjustment expenses	$70,012	$66,300
Borrowed money	745,885	793,117
Unearned premiums	79,824	89,266
Excess emergency assessments collected over debt service	150,552	158,304
Take out premium payable	1,561	10,533
Pending escheatment payable	5,800	7,670
Non-claim related litigation expense	0	18,000
Other liabilities	17,641	18,251
Total liabilities	1,071,275	1,161,441
Total policyholders' surplus	(23,698)	(5,281)
Total liabilities and policyholders' surplus	$1,047,577	$1,156,160

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Assets

Total assets decreased by $108.6 million in 2014 compared to 2013 primarily due to:

Operating cash and common stocks in 2014 was $94.4 million compared to $130.9 million in 2013. The $36.6 million decrease primarily resulted from an increase in payments for the Oubre class action suit.

Trustee common stocks and short-term investments decreased $6.5 million in 2014 primarily due to a cash withdrawal made by LCPIC on July 9th of $18.5 million to offset cash outlay of Katrina losses through May 31, 2014. Offsetting this decrease was a $12.0 million increase in investments of emergency assessment revenue that exceeded bond debt service costs.

Long-term emergency assessments receivable reflects the future assessments that will be utilized to repay outstanding bond debt from Hurricane Katrina losses incurred in 2005. The decrease of $63.0 million is due to the $44.4 million bond principal payment made in 2014 and the $18.5 million withdrawal to offset Katrina losses as mentioned above for common stock and short-term investments.

Liabilities

Total liabilities decreased $90.2 million in 2014 compared to 2013 primarily due to:

Borrowed money decreased $47.2 million in 2014 compared to 2013 primarily because of a $44.4 million assessment revenue bond principal payment made in 2014.

Excess emergency assessments collected over debt service decreased $7.8 million in 2014 primarily due to the $18.5 million withdrawal to offset Katrina losses as mentioned on the previous page for common stock and short-term investments. Offsetting the decrease was $10.7 million in emergency assessments collected in 2014 that exceeded bond debt service costs.

Takeout premium payable of $1.6 million represents the initial assumed premium due to the companies that are participating in the December 1, 2014 round of depopulation. The decrease in take out premium payable in 2014 compared to 2013 is due to payments made of $7.4 million of the initial assumed premium owed to each insurer in December as opposed to issuing payments in January which occurred for prior rounds of depopulation.

Pending escheatment payable of $5.8 million represents outstanding checks that are more than 6 months after the issue date. The decrease in 2014 is from checks paid to each escheatment authority as required by law, or amounts paid to the check owners.

Non-claim related litigation expense liability decreased $18.0 million due to payments made in 2014 as full settlement for two liabilities that made up its balance in 2013. A settlement was issued pertaining to a ruling made by the Louisiana Department of Insurance instructing LCPIC to refund a $65.00 application fee that resulted in reducing the $16.0 million liability to zero. Also, a settlement of $2.0 million for a lawsuit with Louisiana Road Home Corporation resulted in reducing the liability to zero.

Policyholders' Surplus

A net loss from operations of $24.2 million is the principle driver of the decrease in total policyholders' surplus of $18.4 million in 2014 compared to 2013. Offsetting the decrease in policyholders' surplus was $5.7 million tax exempt surcharge collected on LCPIC policies in 2014. Tax exempt surcharge is collected to maintain a federal exempt status and to augment the financial resources of the corporation. It is collected on each policy and represents an amount equal to the premium taxes paid which is 3% of the policy premium.

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Results of Operations

LCPIC's operating results and key financial ratios are presented in the following table.

Statement of Income and Ratios (000)	2014	2013
Premiums earned	$115,302	$115,731
Losses incurred	106,282	38,192
LAE incurred	10,853	14,137
Underwriting expenses	27,536	30,594
Underwriting gain (loss)	(29,369)	32,808
Net investment loss	(35,566)	(37,527)
Other Income	40,730	31,604
Net income	($24,205)	$26,885
Loss Ratio	92.2%	33.0%
LAE Ratio	9.4%	12.2%
Underwriting expense ratio	26.0%	27.3%
Combined ratio	127.6%	72.5%

Net income in 2014 was $51.1 million less than 2013 due to:

Losses and LAE incurred – incurred losses and LAE was $64.8 million greater in 2014 compared to 2013. 2014 incurred losses increased for class action settlements by $89.6 million, and for non-catastrophe related claims occurring in 2014 by $25.2 million. Offsetting the increases from 2014 were reductions of incurred events in 2013 from a $27.7 million wind and hail occurrence and $27.3 million in non-catastrophe related claims.

Other income – the increase of $9.1 million was primarily due to the following:

Description (in millions)	Increase (Decrease)
Change in remaining emergency assessment income after reclassification of excess assessments collected over debt service costs	($2.0)
Change in the following accrued liabilities for non-claim related litigation expense:	
Change in income earned related to Road Home suit	($3.0)
Louisiana Department of Insurance ruling to refund $65.00 application fee	$18.6
Change in miscellaneous income resulting from timing of recording/payment of 2012 Senate Bill No. 204 reinstating 10% rate decrease in twelve coastal parishes	($4.1)
Net change	$9.5

Combined ratio – the combined ratio in 2014 was 127.6% compared to 72.5% in 2013 due to the increase in losses incurred. The combined ratio expresses the sum of the costs for losses, LAE and underwriting expenses as a percentage of premiums (premiums earned for the loss and LAE ratios and premiums written for the underwriting expense ratio). The ratio is a recognized industry measure of underwriting performance.

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Cash Flow and Liquidity

Cash Flow

Primary sources of cash include cash from premiums collected, miscellaneous income, proceeds from investments sold, matured or repaid; and primary uses of cash include debt service costs, losses and expenses paid, and the cost of investments acquired.

The cash flows of LCPIC are summarized as follows:

Cash Flow Statement (000)	2014	2013
Operations		
Premiums collected	$107,029	$104,163
Net investment income received (paid)	(35,566)	(37,496)
Miscellaneous income	40,730	31,603
Losses paid	(102,779)	(48,332)
Expenses paid	(38,585)	(45,250)
Net cash from operations	($29,171)	$4,688
Investment Activities		
Proceeds from investments sold, matured or repaid	$355,594	$186,461
Cost of deficit long-term investments acquired	(349,208)	(185,300)
Net cash from investments	6,386	1,161
Financing Activities		
Other cash provided (applied)	(13,772)	39,028
Net cash from financing activities and miscellaneous sources	(13,772)	39,028
Change in Cash and Short-Term Investments		
Net change in cash, cash equivalents and short-term investments	($36,557)	$44,877

Cash and short-term investments decreased $36.6 million in 2014 compared to 2013 due to:

Net cash from operations was ($29.2) million in 2014 compared to $4.7 million in 2013 for a net change of ($33.9) million that was due to the following:

Description (in millions)	Cash Provided (Cash Applied)
Change in accrued liability for non-claim related litigation expense related to Louisiana Department of Insurance ruling to refund $65.00 application fee	$18.6
Losses paid increased primarily due to the following:	
Class action suit settlements ($83.0 million paid in 2014 versus $18.9 paid in 2013)	(64.1)
2013 wind and hail occurrence	19.9
All other claim activity	(10.2)
All other cash movements related to cash from operations	1.9
Net cash provided from items listed above impacting cash from operations	($33.9)

Net cash from investments in 2014 was $6.4 million compared to $1.2 million in 2013. The change in investment activity relates to the cash inflows and outflows of the assessment revenue bond obligations as well as investments of operating cash. The increase in net cash from investments was primarily due to the investment activity related to LCPIC's bond obligations.

Management's Discussion and Analysis

Cash Flow (continued)

Cash provided from financing activities and miscellaneous sources decreased $52.8 million in 2014 compared to 2013. Sources of cash applied are displayed below:

Description (in millions)	Increase (Decrease)
Change in accrued liability for excess emergency assessments collected over debt service as described in the Liabilities section on Page 350.3	($23.2)
Change in accrued liability for takeout premium payable as described in the Liabilities section on Page 350.3	(13.9)
Change in accrued liability for pending escheatment payable as described in the Liabilities section on Page 350.3	(6.7)
Change in accrued liability for non-claim related litigation expense liability as described in the liabilities section on Page 350.3	(31.0)
Change in receivable for emergency assessments as described in the assets section on Page 350.2	23.8
Net change	($51.0)

Liquidity

All liquid funds held by LCPIC are kept in commercial bank accounts that are FDIC insured or 100% collateralized.

In addition to policyholder premiums, LCPIC has much broader range of resources available to pay losses and repay debt obligations than does a typical insurer. LCPIC can institute a regular assessment on the state insurance industry of up to 10% for deficits each year, and an emergency assessment of up to 10% on property policyholders of the State of Louisiana for each calendar year of a storm to pay debt incurred in previous years.

In 2013, LCPIC secured a $125.0 million line of credit with Regions Bank that matures in June 2015. The line of credit provides additional liquidity to the corporation.

In 2010, LCPIC instituted lockbox processing to reduce cash flow interruption in the event of a temporary closure of its office for a catastrophic event.

In 2005, LCPIC did not have sufficient funds to pay 80,000 claims resulting from Hurricanes Katrina and Rita. In 2006, LCPIC issued $978.0 million of fixed rate assessment revenue bonds. On December 31, 2014, LCPIC had approximately $729.1 million of fixed rate assessment revenue bonds outstanding. The debt service of these bonds is paid through emergency assessments on property insurance policies written in the State of Louisiana. The emergency assessments are remitted quarterly to the bond trustee.

Pending Litigation

As of December 31, 2014 there were 1,177 open litigation matters against LCPIC. The majority of these lawsuits are first-party suits related to Hurricanes Katrina and Rita. Unpaid loss and loss adjustment expenses are included on the balance sheet of approximately $6.0 million, excluding the Oubre class action suit described below. The balance of the litigated matters are related to first party losses, third-party bodily injury claims, subrogation or claims where the issue of coverage is in dispute.

Oubre v. Louisiana Citizens Property Insurance Corporation. The plaintiffs in this suit allege that LCPIC failed to timely initiate loss adjustment as required by Louisiana statutory law exposing LCPIC to mandatory penalties in the amount of $5,000.00. On July 23, 2012 LCPIC settled the first phase of this class action suit with a payment of $104.0 million to the plaintiff counsel for distribution to the class members. LCPIC entered into a settlement with the class for the remaining Oubre claims. LCPIC has paid $85.8 million in 2014 and has a reserve of $55.2 million for this case (included in unpaid losses on the balance sheet). LCPIC has reviewed the reserve to ensure that it meets the anticipated settlement costs.

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Future Plans

LCPIC had $650 million in total reinsurance and cat bonds in place for the 2014 storm season. The cat bonds include a $125.0 million three year catastrophe bond and a $140.0 million four year catastrophe bond. In addition to the reinsurance program and cat bonds, LCPIC has reinstatement premium protection and second event catastrophe coverage. The amount of reinsurance purchased by LCPIC is determined by many factors that include, losses projected by catastrophe models, insured values of the company, reinsurance market prices, and availability of cash. The reinsurance coverage, excluding cat bonds, described above expires on May 31, 2015. LCPIC is in the process of negotiating a new reinsurance program for the 2015 storm season.

To the extent that the above comments about future plans constitute forward-looking statements, these statements are not guaranties of future performance. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties and assumptions about LCPIC, economic and market factors, judicial rulings and the insurance industry, among other things. Actual events may differ materially from those expressed in forward-looking statements.