

In the opinion of Nabors, Giblin & Nickerson, P.A., Bond Counsel, interest on the 2016A Bonds is not excluded from gross income of the holders thereof for federal income tax purposes. See "TAX MATTERS" herein.

**\$1,200,000,000
State of Florida
State Board of Administration Finance Corporation
Revenue Bonds, Series 2016A**

Dated: Date of Delivery

Due: July 1, as shown on the inside cover

The State Board of Administration Finance Corporation (the "Corporation") is issuing its Revenue Bonds, Series 2016A (the "2016A Bonds") pursuant to Section 215.555, Florida Statutes, as amended, and other applicable provisions of law, including administrative rules relating to the Florida Hurricane Catastrophe Fund (the "FHCF"), and certain resolutions of the Corporation and the State Board of Administration of Florida (the "SBA") as the administrator of the FHCF, adopted April 14, 2015. **The 2016A Bonds shall not constitute a debt of the State of Florida.** The 2016A Bonds will be issued pursuant to a Master Trust Indenture, as amended and supplemented from time to time and in particular by a Seventh Supplemental Indenture (collectively, the "Master Indenture"), each with Regions Bank, Jacksonville, Florida (successor to Wells Fargo Bank, N.A.), as Master Trustee (the "Master Trustee"). See "PLAN OF FINANCE" herein.

The 2016A Bonds are being issued to provide funds, together with other available funds, to (i) maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ending May 31, 2016 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act, and (ii) pay certain expenses incurred in connection with the issuance of the 2016A Bonds.

The 2016A Bonds will be issued on a parity basis with each other and with the Corporation's Revenue Bonds, Series 2013A, outstanding in the principal amount of \$2,000,000,000 (the "2013A Bonds"), and any future Parity Obligations. The 2016A Bonds and the 2013A Bonds are secured by a first lien pledge of the Pledged Collateral, which is described below, including, with respect to the 2016A Bonds only, the net proceeds of the 2016A Bonds prior to expenditure thereof.

The Corporation is an instrumentality of the State of Florida (the "State") and its obligations are exclusively secured by the Pledged Collateral, which consists primarily of: (i) Reimbursement Premiums and investment earnings thereon (after provision for Current Expenses of the FHCF and the Corporation), (ii) Emergency Assessments and investment earnings thereon, and (iii) net proceeds of, and investment earnings on proceeds of Parity Obligations, including the 2016A Bonds; provided, however, that the pledge of net proceeds is solely for the benefit of the Series of Parity Obligations from which such proceeds were derived. The 2016A Bonds shall not constitute a debt of the State, and holders of the 2016A Bonds shall have recourse only against the Pledged Collateral. The Corporation has no general taxing power nor does it have the power to pledge the credit, the revenues or the taxing power of the State. Neither the credit, the revenues nor the taxing power of the State shall be deemed to be pledged to the payment of the 2016A Bonds.

The 2016A Bonds are subject to optional redemption as described herein.

Interest on the 2016A Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2016, at the rates set forth on the inside cover. The 2016A Bonds will mature on July 1 in the years and principal amounts set forth on the inside cover. Individual purchases of 2016A Bonds will be made in denominations of \$5,000 or any integral multiple thereof. The Master Trustee will also serve as Bond Registrar with respect to the 2016A Bonds. So long as Cede & Co. is the registered owner of the 2016A Bonds, principal of and interest on the 2016A Bonds will be payable by the Master Trustee to The Depository Trust Company ("DTC"), which will in turn remit such payments to its participants for subsequent disbursement to Beneficial Owners of the 2016A Bonds, as more fully described herein. See "DESCRIPTION OF THE 2016A BONDS – Book-Entry-Only System" herein.

THIS COVER PAGE AND THE INSIDE COVER PAGE HERETO CONTAIN CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THEY ARE NOT INTENDED TO BE A SUMMARY OF ALL FACTORS RELATING TO AN INVESTMENT IN THE 2016A BONDS. INVESTORS ARE ADVISED TO READ THIS OFFICIAL STATEMENT IN ITS ENTIRETY BEFORE MAKING AN INVESTMENT DECISION.

The 2016A Bonds are offered when, as and if issued by the Corporation and accepted by the Underwriters, subject to prior sale or withdrawal or modification of the offer without notice, and subject to receipt of an approving legal opinion of Nabors, Giblin & Nickerson, P.A., Tampa, Florida, Bond Counsel. Certain legal matters will be passed upon for the Corporation by Nabors, Giblin & Nickerson, P.A., Tampa, Florida. Certain legal matters will be passed upon for the FHCF by its internal counsel. Bryant Miller Olive P.A., Tallahassee, Florida, is serving as Disclosure Counsel. The Underwriters are represented by Greenberg Traurig, P.A., Miami, Florida. Raymond James & Associates, Inc. has served as Financial Advisor to the FHCF. The 2016A Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about March 8, 2016.

J.P. Morgan

BofA Merrill Lynch
Morgan Stanley

Citigroup
Wells Fargo Securities

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND
INITIAL CUSIP NUMBERS**

\$1,200,000,000 REVENUE BONDS, SERIES 2016A

| <u>Maturity (July 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Initial CUSIP No.*</u> |
|-------------------------------------|------------------------------------|---------------------------------|---------------------|--------------------------------------|
| 2019 | \$550,000,000 | 2.163% | 2.163% | 341271AA2 |
| 2021 | 650,000,000 | 2.638 | 2.638 | 341271AB0 |

*CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. The Corporation, the Financial Advisor, the Underwriters, the Master Trustee and their agents take no responsibility for the accuracy of such data.

ADDITIONAL INFORMATION

The 2016A Bonds are exempt from registration under the Securities Act of 1933, as amended. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Corporation, the SBA, the FHCF or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2016A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained in this Official Statement has been furnished by the Corporation, the SBA, the FHCF and other sources which are deemed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Corporation, the SBA or the FHCF since the date hereof.

Neither the Securities and Exchange Commission nor any state securities commission or other governmental authority has approved or disapproved of these securities or determined that this Official Statement is truthful or complete. Any representation to the contrary is a criminal offense.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan", "project", "expect", "anticipate", "intend", "believe", "estimate", "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any results, performances or achievements expressed or implied by such forward-looking statements. Except as specifically set forth herein, neither the Corporation, the SBA, nor the FHCF plans to issue any updates or revisions to those forward-looking statements due to changes in its expectations or subsequent events, conditions or circumstances on which such statements are based.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in the Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the 2016A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

STATE BOARD OF ADMINISTRATION FINANCE CORPORATION

c/o State Board of Administration of Florida
1801 Hermitage Boulevard, Tallahassee, Florida 32308

BOARD OF DIRECTORS OF THE CORPORATION

Governor of the State of Florida, Rick Scott, *Chairman*
Chief Financial Officer of the State of Florida, Jeff Atwater
Attorney General of the State of Florida, Pam Bondi
Director of the Division of Bond Finance, J. Ben Watkins, III
Chief Operating Officer of FHCF, Jack E. Nicholson*

FLORIDA HURRICANE CATASTROPHE FUND

c/o State Board of Administration of Florida
1801 Hermitage Boulevard, Tallahassee, Florida 32308

Jack E. Nicholson, PhD, CLU, CPCU
*Chief Operating Officer**

Anne T. Bert, CPM
*Director of Operations**

Leonard Schulte, J.D., CPCU, ARM, ARe, ARM-E
Director of Legal Analysis & Risk Evaluation

BOND COUNSEL

Nabors, Giblin & Nickerson, P.A.
Tampa, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.
Tallahassee, Florida

FINANCIAL ADVISOR

Raymond James & Associates, Inc.
St. Petersburg, Florida

*Jack Nicholson has announced that he is retiring as Chief Operating Officer as of February 29, 2016. Anne Bert will be the Acting Chief Operating Officer as of March 1, 2016. See "OPERATION OF THE FHCF – Administration of the FHCF."

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INTRODUCTION | 1 |
| AUTHORITY FOR THE ISSUANCE OF THE 2016A BONDS | 4 |
| General Legal Authority | 4 |
| The State Board of Administration Finance Corporation | 4 |
| The State Board of Administration of the State of Florida | 6 |
| The Florida Hurricane Catastrophe Fund | 7 |
| PLAN OF FINANCE | 8 |
| The 2016A Bonds and Other Liquidity | 8 |
| ESTIMATED SOURCES AND USES OF FUNDS | 10 |
| DEBT SERVICE COVERAGE | 10 |
| DESCRIPTION OF THE 2016A BONDS | 13 |
| General | 13 |
| Book-Entry-Only System | 13 |
| Optional Redemption with Make-Whole Premium | 13 |
| Notice of Optional Redemption | 14 |
| PLEDGE AND SECURITY FOR THE 2016A BONDS | 15 |
| General | 15 |
| Withdrawal of 2016A Bond Proceeds | 16 |
| Pledge Agreement | 17 |
| Flow of Funds | 18 |
| Corpus and Corpus Earnings Not Pledged | 20 |
| No Bankruptcy | 20 |
| Non-Impairment | 20 |
| Additional Parity Obligations and Subordinate Indebtedness | 21 |
| Debt Service Coverage Requirement | 22 |
| Events of Default and Remedies | 22 |
| OPERATION OF THE FHCF | 24 |
| General | 24 |
| Administration of the FHCF | 26 |
| Limited Liability of the FHCF and Bonding Capacity Estimates and Assumptions | 29 |
| Historical Summary of Revenues, Expenses and Changes in Net Position | 34 |
| Reimbursement Premiums | 36 |
| Assessments | 39 |
| Collection of Assessments and Reimbursement Premiums from Companies in Receivership | 44 |
| INVESTMENT POLICY OF THE FHCF | 45 |
| FUTURE LEGISLATIVE AND REGULATORY CHANGES | 48 |
| LITIGATION | 48 |
| General | 48 |
| Previous Litigation | 49 |
| Validation Proceedings Pursuant to Florida Statutes | 49 |
| ENFORCEABILITY OF REMEDIES | 50 |

| | |
|------------------------------------|----|
| TAX MATTERS | 51 |
| LEGALITY FOR INVESTMENTS..... | 51 |
| APPROVAL OF LEGALITY | 51 |
| RATINGS | 52 |
| AUDITED FINANCIAL STATEMENTS | 52 |
| FINANCIAL ADVISOR..... | 53 |
| UNDERWRITING..... | 53 |
| CONTINUING DISCLOSURE | 55 |
| MISCELLANEOUS..... | 56 |

| | |
|--------------|---|
| APPENDIX A | STATE OF FLORIDA – GENERAL INFORMATION |
| APPENDIX B | FINANCIAL STATEMENTS OF THE FLORIDA HURRICANE CATASTROPHE FUND FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014 |
| APPENDIX C-1 | DEFINITIONS |
| APPENDIX C-2 | MASTER TRUST INDENTURE |
| APPENDIX C-3 | FORM OF SEVENTH SUPPLEMENTAL INDENTURE |
| APPENDIX C-4 | PLEDGE AND SECURITY AGREEMENT |
| APPENDIX D | PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM FOR REGISTERED BONDS |
| APPENDIX E | FORM OF APPROVING OPINION |
| APPENDIX F | FORM OF CONTINUING DISCLOSURE AGREEMENT |

OFFICIAL STATEMENT
Relating to

\$1,200,000,000
State of Florida
State Board of Administration Finance Corporation
Revenue Bonds, Series 2016A

INTRODUCTION

The purpose of this Official Statement, including the cover page, the inside cover page and the Appendices, is to set forth certain information in connection with the offering of State Board of Administration Finance Corporation Revenue Bonds, Series 2016A (the "2016A Bonds") being issued by the State Board of Administration Finance Corporation (the "Corporation"). All capitalized, undefined terms used in this Official Statement have the meanings given to them in "APPENDIX C-1, DEFINITIONS."

The 2016A Bonds are being issued by the Corporation pursuant to Section 215.555, Florida Statutes, as amended (the "Act"), and other applicable provisions of law, including administrative rules of the Florida Hurricane Catastrophe Fund (the "FHCF"), and certain resolutions of the Corporation and the State Board of Administration of Florida as the administrator of the FHCF (in such capacity, the "SBA") adopted on April 14, 2015. The Corporation has no business activities other than serving as a conduit issuer for the FHCF and facilitating the issuance of revenue bonds and other forms of indebtedness for the FHCF. See "AUTHORITY FOR THE ISSUANCE OF 2016A BONDS" herein.

The proceeds of the 2016A Bonds, together with other available funds, will be used to (i) maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ending May 31, 2016 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act, and (ii) pay certain expenses incurred in connection with the issuance of the Series 2016A Bonds. The proceeds from the sale of the 2016A Bonds will be held and invested by the SBA. See "ESTIMATED SOURCES AND USES OF FUNDS" and "INVESTMENT POLICY OF THE FHCF" herein.

The 2016A Bonds will be issued by the Corporation pursuant to a Master Trust Indenture dated as of June 1, 2006, as amended and supplemented by a Seventh Supplemental Indenture, to be dated as of March 1, 2016 (collectively, the "Master Indenture"), each with Regions Bank, Jacksonville, Florida (successor to Wells Fargo Bank, N.A.), the Master Trustee, Paying Agent, Authenticating Agent and Bond Registrar (the "Master Trustee"). The 2016A Bonds will be issued on a parity basis with the Corporation's Revenue Bonds, Series 2013A, outstanding in the principal

amount of \$2,000,000,000 (the "2013A Bonds"), and any future Parity Obligations. The 2013A Bonds were issued as Pre-Event Parity Obligations.

The 2016A Bonds will be secured by Pledged Collateral consisting primarily of: (i) Reimbursement Premiums and investment earnings thereon (after provision for Current Expenses of the FHCF and the Corporation), (ii) Emergency Assessments (the "Assessments") and investment earnings thereon, and (iii) net proceeds of, and investment earnings on, proceeds of the 2016A Bonds, all pursuant to the Pledge and Security Agreement, dated as of June 1, 2006, among the Corporation, the FHCF and the Master Trustee (the "Pledge Agreement"). As further described herein, certain Assessments previously levied by the Florida Office of Insurance Regulation on behalf of the FHCF are no longer needed and have all been terminated at the direction of the SBA. As a result, the 2016A Bonds are secured by any Assessments collected prior to their issuance that are not released from the lien of the Master Indenture and any Assessments, if any, levied after January 1, 2016. See "PLEDGE AND SECURITY FOR 2016A BONDS" herein for a discussion of the Pledge Agreement and the Pledged Collateral.

Pledged Collateral also includes net receipts from Derivative Agreements, if any, and other Pledged Money. There are no Derivative Agreements currently outstanding and the Corporation, the FHCF and the SBA do not expect to enter into any Derivative Agreements with respect to the 2016A Bonds or the 2013A Bonds. See "PLEDGE AND SECURITY FOR 2016A BONDS" herein for a discussion of the Pledge Agreement and the Pledged Collateral.

The Corporation is an instrumentality of the State of Florida (the "State"), and its obligations are exclusively secured by the Pledged Collateral. The 2016A Bonds shall not constitute a debt of the State, and holders of the 2016A Bonds shall have recourse only against the Pledged Collateral. The Corporation has no general taxing power nor does it have the power to pledge the credit, the revenues or the taxing power of the State. Neither the credit, the revenues nor the taxing power of the State shall be deemed to be pledged to the payment of the 2016A Bonds.

Under the Pledge Agreement, the FHCF is required to transfer to the Master Trustee all Reimbursement Premiums, any Assessments received by the FHCF and investment earnings on proceeds of Outstanding Parity Obligations, including the 2016A Bonds. Once debt service on all Outstanding Parity Obligations has been provided for a Fiscal Year, the requirement to continue to transfer Reimbursement Premiums to the Master Trustee ceases for the remainder of the Fiscal Year; provided, however, that Reimbursement Premiums will continue to be transferred to the Master Trustee in an amount equal to the interest on Outstanding Pre-Event Parity Obligations projected to be paid during the period beginning on the first day of the immediately succeeding Fiscal Year and ending on such date that sufficient Reimbursement Premiums are projected to be transferred or available to provide for interest on Outstanding Pre-Event Parity Obligations for such next succeeding Fiscal Year. Unlike Reimbursement Premiums, the lien of the Master Indenture and Pledge Agreement on Assessments is not automatically released once debt service for the Fiscal Year on Outstanding Parity Obligations has been provided for. Instead, the FHCF is required to continue to transfer Assessments, if any, to the Master Trustee. Excess Assessments

transferred to the Master Trustee may be released from the lien of the Pledge Agreement and Master Indenture if the SBA certifies to the Master Trustee that there are sufficient funds on deposit with the Master Trustee to provide for the payment of debt service when due on Post-Event Parity Obligations for the current and the next succeeding Fiscal Years. See "PLEDGE AND SECURITY FOR 2016A BONDS - Flow of Funds" herein. As of the date hereof, there are no Post-Event Parity Bonds Outstanding and, therefore, no Assessments are needed or levied.

From these amounts, the Master Trustee will (i) from Reimbursement Premiums, pay the Current Expenses of the Corporation (which are insignificant) and provide for debt service on the 2013A Bonds and the 2016A Bonds coming due during the then-current Fiscal Year (to the extent not paid from investment earnings on proceeds of the 2013A Bonds and the 2016A Bonds), and (ii) transfer all Assessments to an account for the benefit of the Outstanding Parity Obligations. To the extent the foregoing proves insufficient to provide for debt service on Outstanding Parity Obligations, the Master Trustee will provide notice to the FHCF, which will transfer the Pledged Collateral to the Master Trustee at such times and in such amounts as necessary to provide for such debt service when due.

The net proceeds of the 2016A Bonds, together with certain other funds of the Corporation, will be deposited into and held in a separate account pursuant to the Pledge Agreement and invested by the SBA consistent with Section 215.47, Florida Statutes, as amended, as described herein, and withdrawn as needed to pay Participating Insurers for Losses relating to any future Covered Events. See "INVESTMENT POLICY OF THE FHCF" herein. The investment earnings on the 2016A Bonds will be part of the Pledged Collateral, and such earnings will be available to pay debt service on the 2016A Bonds, the 2013A Bonds and any future Parity Obligations; provided, however, such investment earnings are anticipated to be used to pay debt service on the 2016A Bonds. The Corporation anticipates that if proceeds of the 2016A Bonds are used to reimburse Participating Insurers for Losses from any future Covered Events, it may refinance a corresponding portion of the 2016A Bonds in the approximate amount withdrawn through the issuance of tax-exempt Post-Event Parity Obligations. The timing of any such financing will depend upon a number of factors, including, but not limited to, market conditions. Further, under certain conditions, the withdrawal may be replaced with future collections of Reimbursement Premiums or, alternatively, debt service on the 2016A Bonds may be paid from Reimbursement Premiums, Assessments or other Pledged Collateral rather than refinancing such withdrawals with Post-Event Parity Obligations. See "PLAN OF FINANCE" and "PLEDGE AND SECURITY FOR 2016A BONDS – Additional Parity Obligations and Subordinate Indebtedness" herein for a description of the Incurrence Test.

The Corporation may issue additional Parity Obligations only upon satisfaction of the Incurrence Test and the other terms and conditions of the Master Indenture. The issuance of the 2016A Bonds satisfies the Incurrence Test. See "PLEDGE AND SECURITY FOR 2016A BONDS - Additional Parity Obligations and Subordinate Indebtedness" and "APPENDIX C-2, MASTER TRUST INDENTURE – Section 704." The Pledge Agreement and the Master Indenture require the FHCF and the Corporation to take certain action if the Revenue Available for Debt Service during a Fiscal Year is insufficient to cover debt service on certain Outstanding debt of the Corporation by a certain amount (1.25 times the debt service on Outstanding Parity Obligations and 1.00 times the

debt service on both the Outstanding Parity Obligations and any Subordinate Indebtedness). See "PLEDGE AND SECURITY FOR 2016A BONDS – Debt Service Coverage Requirement" herein and "APPENDIX C-2, MASTER TRUST INDENTURE – Section 705."

Forms of the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement are set forth in Appendices C-2, C-3 and C-4, respectively. All references in this Official Statement to the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement are qualified in their entirety by reference to the final executed documents. Copies of the final executed documents will be on file at the corporate office of the Master Trustee in Jacksonville, Florida.

AUTHORITY FOR THE ISSUANCE OF THE 2016A BONDS

General Legal Authority

The 2016A Bonds are being issued by the Corporation pursuant to the Act and other applicable provisions of law, including administrative rules of the FHCF, and resolutions of the Corporation and the SBA, adopted on April 14, 2015, authorizing the issuance and sale of the 2016A Bonds, authorizing the execution and delivery of the Seventh Supplemental Indenture and confirming the pledge of revenue to the payment of debt of the Corporation pursuant to the Pledge Agreement.

The 2016A Bonds are being issued as Pre-Event Parity Obligations to provide a source of funds for the FHCF to reimburse Participating Insurers for Losses relating to any future Covered Events. Under the Act, a Pre-Event financing may be undertaken in the absence of a hurricane upon a determination that such action would maximize the ability of the FHCF to meet future obligations. The SBA has determined by a resolution adopted on April 14, 2015, that the issuance of the 2016A Bonds will maximize the ability of the FHCF to meet its future obligations.

The State Board of Administration Finance Corporation

In 1996, the Corporation was created as a public benefits corporation under the Act and as an instrumentality of the State to provide a mechanism necessary for the cost-effective and efficient issuance of debt. In 2014, the Corporation (formerly known as the Florida Hurricane Catastrophe Fund Finance Corporation) adopted a resolution to amend its Articles of Incorporation and Bylaws to conform to the legislative action that changed its name and other statutory and constitutional changes that have occurred since the Corporation's creation. Under the Act, the Corporation has the power to issue bonds or notes and engage in such other financial transactions as are necessary to provide sufficient funds to achieve the purposes of the Act.

The proceeds of debt issued by the Corporation may be used to reimburse Participating Insurers pursuant to Reimbursement Contracts for Losses from Covered Events; to refinance or replace previously existing borrowings or financial arrangements; to pay interest on such debt; to

fund reserves; to provide a source of funds to the FHCF to reimburse Participating Insurers for Losses from subsequent hurricanes that are Covered Events; to pay expenses incident to the issuance or sale of such debt; and for such other purposes relating to the financial obligations of the FHCF as the SBA may determine.

Under the Act, the Corporation has all of the powers of corporations under Chapter 607 (Florida Business Corporation Act) and Chapter 617 (Florida Not For Profit Corporation Act), Florida Statutes, subject only to limitations of the Act, which include, among other things, a provision prohibiting the Corporation from filing for voluntary federal bankruptcy protection as long as the Corporation has any debt outstanding.

The Corporation is governed under the Act by a five-member Board of Directors consisting of the Governor or a designee, the Chief Financial Officer or a designee, the Attorney General or a designee, the Director of the Division of Bond Finance of the State Board of Administration, and the Chief Operating Officer of the FHCF. The members of the Board of Directors of the Corporation and the expiration dates of their respective terms in office are set forth below.

| <u>Member</u> | <u>Term Expires</u> |
|---|----------------------------|
| Rick Scott, Governor, Chairman | January 1, 2019 |
| Jeff Atwater, Chief Financial Officer | January 1, 2019 |
| Pam Bondi, Attorney General | January 1, 2019 |
| J. Ben Watkins, III, Director of the Division of Bond Finance | Indefinite |
| Jack E. Nicholson, Chief Operating Officer, FHCF* | Indefinite |

*Jack E. Nicholson has announced his retirement as of February 29, 2016 and Anne Bert has been appointed as Acting Chief Operating Officer commencing March 1, 2016. See "OPERATION OF THE FHCF – Administration of the FHCF."

The officers of the Corporation and the expiration dates of their respective terms in office are set forth below:

| <u>Officer</u> | <u>Term Expires</u> |
|----------------------------------|----------------------------|
| E. Lamar Taylor, Esq., President | Indefinite |
| Anne T. Bert, Treasurer | Indefinite |
| Stephen Szypula, Secretary | Indefinite |

The Corporation has no administrative staff and uses the staff of the FHCF for administrative matters. The Corporation has no business activities other than serving as a conduit issuer for the FHCF and facilitating the issuance of revenue bonds and other forms of indebtedness of the FHCF. The Corporation is treated as a blended component unit of the FHCF for financial statement presentation purposes, and does not issue separate financial statements from the FHCF. See "AUDITED FINANCIAL STATEMENTS" herein.

Upon issuance of the 2016A Bonds, the outstanding Parity Obligations of the Corporation will consist solely of the 2013A Bonds and the 2016A Bonds. Parity Obligations of the Corporation, including the 2016A Bonds and the 2013A Bonds, are not debts of the State, and holders of Parity Obligations shall have recourse only against the Pledged Collateral. The Corporation has no general taxing power, nor does it have the power to pledge the credit, the revenues or the taxing power of the State. Pursuant to the Act, the Corporation and its corporate existence will continue indefinitely until terminated by law; however, no such law shall take effect as long as the Corporation has any debt outstanding unless adequate provision has been made for payment of such debt.

The State Board of Administration of the State of Florida

The SBA was created by Article IX, Section 16 of the State Constitution of 1885, as amended, and is continued under Article IV, Section 4(e) of the Florida Constitution. The SBA is composed of the Governor, as Chairman, the Chief Financial Officer and the Attorney General. The members of the SBA and the dates of expiration of their respective terms are set forth below:

| <u>Member</u> | <u>Term Expires</u> |
|---------------------------------------|---------------------|
| Rick Scott, Governor as Chairman | January 1, 2019 |
| Jeff Atwater, Chief Financial Officer | January 1, 2019 |
| Pam Bondi, Attorney General | January 1, 2019 |

As of the date hereof, all three members of the SBA serve on the Board of Directors of the Corporation.

The SBA fulfills a number of mandates set out under the Florida Constitution and State statutes, including the administration of the FHCF. The SBA appoints a nine-member advisory council (the "FHCF Advisory Council") that serves at the pleasure of the SBA to provide the SBA with information and advice in connection with its administration of the FHCF. As described in the Act, the membership of the FHCF Advisory Council consists of an actuary, a meteorologist, an engineer, a representative of insurers, a representative of insurance agents, a representative of reinsurers and three consumers who are required to be representatives of other affected professions and industries. The FHCF Advisory Council generally discusses policy matters but does not have decision-making authority over the FHCF. The SBA makes all final decisions.

The SBA is authorized under the Act to:

- enter into agreements for the issuance of debt upon the occurrence of Covered Events and a determination that the moneys in the FHCF are or will be insufficient to reimburse Participating Insurers at the coverage levels selected in the Reimbursement Contracts (the legal liability of the FHCF is limited to its actual claims-paying capacity as defined in Section 215.555(2)(m), Florida Statutes);

- direct the Florida Office of Insurance Regulation ("OIR") to levy Assessments of up to 6% of premium for Losses generated during any Contract Year (as defined herein) and up to 10% of premium in the aggregate to serve as security for debt issued;
- enter into agreements for the issuance of debt in the absence of a Covered Event upon a determination that such issuance would maximize the ability of the FHCF to meet future obligations; and
- procure reinsurance from reinsurers acceptable to the Office of Insurance Regulation for the purpose of maximizing the capacity of the FHCF.

The Florida Hurricane Catastrophe Fund

The FHCF is a tax-exempt trust fund created by the State Legislature during a special session in November 1993 to address the effects of Hurricane Andrew on the insurance market. The FHCF is administered by the SBA and is not an independent department or administrative unit of the State as defined in Section 20.04, Florida Statutes.

With limited exceptions, participation in the FHCF is mandatory for insurers writing certain residential property insurance policies in the State, including the Citizens Property Insurance Corporation ("Citizens") and any joint underwriting association or similar entity created pursuant to law (each a "Participating Insurer"), and is a condition of doing business in the State. Insurers with less than \$10 million in aggregate exposure under certain residential property insurance policies are not required to participate in the FHCF.

Participation in the FHCF is established through annual Reimbursement Contracts with Participating Insurers that obligate the FHCF to reimburse such Participating Insurers for their respective Losses in excess of their share of an industry-wide loss-retention level. In exchange for this benefit, Participating Insurers pay the FHCF actuarially-determined Reimbursement Premiums. The FHCF's maximum possible liability under Reimbursement Contracts for the Contract Year ending May 31, 2016, is \$17 billion but the legal liability of the FHCF is limited to its actual claims-paying capacity as defined in Section 215.555(2)(m), Florida Statutes. Such amount may be subject to change in future Contract Years. See "OPERATION OF THE FHCF" herein for a discussion about the operation of the FHCF, Reimbursement Premiums and Assessments.

Paragon Strategic Solutions Inc. provides actuarial and other support services to the FHCF, including services used by the FHCF to set the Reimbursement Premiums. See "OPERATION OF THE FHCF – Administration of the FHCF" for a description of such services.

PLAN OF FINANCE

Pursuant to the Master Trust Indenture and the Act, the Corporation may issue its Parity Obligations as Pre-Event Parity Obligations or Post-Event Parity Obligations. Pre-Event Parity Obligations are issued prior to the occurrence of a Covered Event, and the proceeds thereof are held invested until such time as withdrawn to reimburse Participating Insurers for Losses related to any future Covered Events. Under the Act, Pre-Event Parity Obligations may be issued in the absence of a hurricane upon a determination that such action would maximize the liquidity and ability of the FHCF to meet future obligations. Post-Event Parity Obligations are issued following the occurrence of a Covered Event (i) to pay reimbursement pursuant to the reimbursement contracts for which moneys credited to the Corpus of the FHCF are insufficient, or (ii) to refund other Post-Event Parity Obligations or to refund Pre-Event Parity Obligations issued prior to such Covered Event. The 2016A Bonds and the 2013A Bonds constitute Pre-Event Parity Obligations.

The 2016A Bonds and Other Liquidity

The 2016A Bonds will be issued to supplement the FHCF's available cash balance, 2013A Bond proceeds, and reinsurance proceeds, if any, to provide a source of liquidity for the FHCF to reimburse Participating Insurers for Losses relating to any future Covered Events.

Proceeds of the 2016A Bonds will not be used to pay Participating Insurers for Losses relating to prior Covered Events, but will be invested consistent with Section 215.47, Florida Statutes, as amended, and the FHCF's investment policy and will be withdrawn as needed to reimburse Participating Insurers for Losses incurred from any future Covered Events. See "INVESTMENT POLICY OF THE FHCF" herein. Proceeds of the 2016A Bonds, the 2013A Bonds and the FHCF available cash balance may be withdrawn in any order of priority to reimburse Participating Insurers in the event of any future Covered Events. See "PLEDGE AND SECURITY FOR THE 2016A BONDS – Withdrawal of 2016A Bond Proceeds" herein.

If proceeds of the 2016A Bonds are used to reimburse Participating Insurers for Losses from any future Covered Events, the Corporation may refinance a corresponding portion of the 2016A Bonds in the approximate amount withdrawn through the issuance of tax-exempt Post-Event Parity Obligations. The timing of any such refinancing will depend upon a number of factors, including, but not limited to, market conditions. The issuance of any Post-Event Parity Obligations to redeem the 2016A Bonds will be subject to the Incurrence Test, which requires, among other things, that Assessments be ordered or levied in amounts estimated to be sufficient to pay debt service on such Post-Event Parity Obligations. See "PLEDGE AND SECURITY FOR 2016A BONDS – Additional Parity Obligations and Subordinate Indebtedness" herein. Further, the Corporation may replace any 2016A Pre-Event withdrawals with future collections of Reimbursement Premiums or, alternatively, may pay debt service on the 2016A Bonds from Reimbursement Premiums, Assessments or other Pledged Collateral rather than refinancing such withdrawals with Post-Event Parity Obligations.

On June 1, 2015, FHCF purchased aggregate excess catastrophe reinsurance providing coverage for \$1.0 billion in excess of \$12.5 billion, effective June 1, 2015 through May 31, 2016. The total reinsurance expense for premium ceded for the contract year ending May 31, 2016 is \$67.8 million. There will be an adjustment to the premium ceded amount made after December 31, 2015 based on the actual reimbursement premium of the FHCF, which is expected to result in a return to FHCF of a portion of the amount of premium ceded to the reinsurers. Such return is expected in the first quarter of 2016. Over the life of the 2016A Bonds, FHCF may purchase reinsurance or other risk transfer products, the premium or price of which products may be paid from Reimbursement Premiums for that year.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the 2016A Bonds, together with other legally available funds, are expected to be applied as shown below.

Sources of Funds:

| | |
|---|---------------------|
| Principal Amount of the 2016A Bonds | \$1,200,000,000.00 |
| Legally Available FHCF Funds ⁽¹⁾ | <u>3,388,132.83</u> |
| Total Sources | \$1,203,388,132.83 |

Uses of Funds:

| | |
|---|---------------------|
| Deposit to 2016A Covered Events Relief Subaccount ⁽¹⁾ | \$1,200,000,000.00 |
| Series 2016A Account of the Costs of Issuance Fund ⁽²⁾ | 1,236,930.00 |
| Underwriters' Discount..... | <u>2,151,202.83</u> |
| Total Uses..... | \$1,203,388,132.83 |

⁽¹⁾ The Corporation will deposit 3,388,132.83 from other available funds for a total deposit of \$1,200,000,000.00 to the 2016A Covered Events Relief Subaccount.

⁽²⁾ Includes legal fees, Financial Advisor fees, rating agency fees, printing costs and other miscellaneous expenses relating to the authorization and issuance of the 2016A Bonds.

DEBT SERVICE COVERAGE

The following table shows projected debt service coverage on the 2016A Bonds and the 2013A Bonds. Coverages shown are based upon estimates of the future collections of Reimbursement Premiums, Assessments, investment earnings on the proceeds of the 2013A Bonds and 2016A Bonds until their maturity or such time as the proceeds are used to pay Covered Claims, and certain stated assumptions regarding interest rates. Over the terms of the 2013A Bonds and 2016A Bonds, the Corporation expects the interest expense on those Bonds to exceed the investment earnings on the proceeds of the 2013A and 2016A Bonds. The interest expense on the 2016A Bonds that exceeds the investment earnings on the proceeds thereof is expected to be paid from Reimbursement Premiums.

The amounts shown below are estimates, subject to change, and are based upon various assumptions concerning interest rates, Reimbursement Premiums and other assumptions. The actual cash flows and debt service coverage may be different than projected below. Additionally, the debt service coverage table does not reflect potentially substantial and material changes to estimated debt service requirements that could result from withdrawals of proceeds of the 2013A Bonds or the 2016A Bonds upon the occurrence of a future Covered Event.

Historical debt service on the 2007A Bonds is shown below including their final maturity in 2013. In addition, historical debt service on the 2010A Bonds and the associated 2010A Assessment (as defined herein) are shown on the table below, however such 2010A Bonds have been legally defeased to their various maturity dates. With the defeasance of the Series 2010A Bonds and no outstanding hurricane Losses, upon direction of the SBA, the Florida Office of Insurance Regulation issued Orders on July 21, 2014, terminating the FHCF Emergency Assessment effective for all policies issued or renewed on or after January 1, 2015.

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Historical and Projected Debt Service Coverage*
Total Outstanding Parity Obligations
(dollars in millions)

| Fiscal Year (06/30) | Reimbursement Premium Collections ⁽¹⁾ | Assessment Collections ⁽²⁾ | Reimbursement Premium and Assessment Collections | Principal Payment of Pre-Event Bonds ⁽³⁾ | Net Interest Expense on Pre-Event Bonds ⁽⁴⁾ | Pre-Event Bonds Proceeds Available/Used for Pre-Event Debt Service ⁽⁵⁾ | Total Net Debt Service on Pre-Event Bonds | Total Debt Service on Post-Event Bonds ⁽⁶⁾ | 2010A Defeasance Funding | Total Annual Parity Net Debt Service | Total Debt Service Coverage on Outstanding Parity Obligations |
|---------------------|--|---------------------------------------|--|---|--|---|---|---|--------------------------|--------------------------------------|---|
| 2010 | \$1,427 | \$330 | \$1,757 | - | \$12 | - | \$12 | \$342 | - | \$354 | 5.0x |
| 2011 | 1,295 | 387 | 1,682 | - | 22 | - | 22 | 359 | - | 381 | 4.4x |
| 2012 | 1,306 | 457 | 1,763 | - | 25 | - | 25 | 375 | - | 400 | 4.4x |
| 2013 | 1,275 | 490 | 1,765 | \$3,500 | 19 | \$(3,500) | 19 | 363 | - | 382 | 4.6x |
| 2014 | 1,273 | 499 | 1,772 | - | 42 | - | 42 | 374 | - | 416 | 4.3x |
| 2015 | 1,290 | 257 | 1,547 | - | 41 | - | 41 | 726 | \$(722) | 45 | 34.5x |
| 2016 | 1,139 | - | 1,139 | 500 | 44 | (500) | 44 | - | - | 44 | 25.8x |
| 2017 | 1,157 | - | 1,157 | - | 56 | - | 56 | - | - | 56 | 20.6x |
| 2018 | 1,167 | - | 1,167 | 500 | 56 | (500) | 56 | - | - | 56 | 20.8x |
| 2019 | 1,178 | - | 1,178 | 550 | 48 | (550) | 48 | - | - | 48 | 24.5x |
| 2020 | 1,189 | - | 1,189 | 1,000 | 39 | (1,000) | 39 | - | - | 39 | 30.6x |
| 2021 | 1,200 | - | 1,200 | 650 | 14 | (650) | 14 | - | - | 14 | 86.3x |

Source: FHCF, except projected Reimbursement Premium information, which has been provided by Paragon Strategic Solutions Inc.

Note: Principal and interest payments due on July 1 are included in the preceding fiscal year. Principal payments are on July 1st. Interest payment dates are on January 1st and July 1st. Series 2016A interest payments start on July 1, 2016.

¹ Collections are net of administrative expenses and are net of reinsurance expenses for the Contract Year ending May 31, 2016. Includes actual investment earnings beginning in Fiscal Year 2013 and projected investment earnings beginning in Fiscal Year 2016 estimated at 0.50%.

² Amount shown reflects actual collections through June 30, 2015 and includes investment earnings. Due to the legal defeasance of the 2010A Bonds executed on July 11, 2014, the Assessment was eliminated on any policy issued or renewed on or after January 1, 2015.

³ Fiscal Year 2013 reflects the final maturity of the matured 2007A Bonds.

⁴ Fiscal Years 2010-2015 reflect actual interest expenses and actual investment earnings on the 2007A and 2013A Bonds. Fiscal Years 2016-2021 include actual interest expense and projected investment earnings on the 2013A and 2016A Bonds estimated at 0.50%.

⁵ Prior to withdrawal, proceeds of Pre-Event Bonds are available to pay Pre-Event Bonds at maturity.

⁶ Total Debt Service on Post-Event Bonds does not include \$722 million of funds used for the legal defeasance of the 2010A Bonds executed on July 11, 2014, which was funded from 2010A Bond proceeds, Assessments in excess of debt service on Post-Event Bonds and the 2010A parity common reserve account; therefore, the 2010A Bonds are no longer outstanding as of that date and the Assessment was eliminated for any policies issued or renewed on or after January 1, 2015.

* Totals may not add due to rounding.

DESCRIPTION OF THE 2016A BONDS

General

Interest on the 2016A Bonds will be payable semiannually on January 1 and July 1 of each year, commencing July 1, 2016, at the rates set forth on the inside cover page of this Official Statement. The 2016A Bonds will mature on July 1 in the years and the principal amounts set forth on the inside cover page of this Official Statement. Individual purchases of 2016A Bonds will be made in denominations of \$5,000 or any integral multiple thereof. The Master Trustee will also serve as Bond Registrar with respect to the 2016A Bonds.

Book-Entry-Only System

The Depository Trust Company ("DTC") will act as securities depository for the 2016A Bonds. The 2016A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's nominee name) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2016A Bonds, each in the aggregate principal amount of such maturity (subject to any DTC restrictions on the maximum principal amount of a bond certificate), and will be deposited with DTC. See "APPENDIX D, PROVISIONS FOR BOOK-ENTRY-ONLY SYSTEM FOR REGISTERED BONDS" for a description of DTC, certain responsibilities of DTC, the SBA, the Corporation and the Bond Registrar, and the provisions for registration and registration of transfer of the 2016A Bonds if the book-entry-only system of registration is discontinued.

Optional Redemption with Make-Whole Premium

The 2016A Bonds are subject to redemption prior to maturity by written direction of the Corporation, in whole or in part, on any Business Day, at the Make-Whole Redemption Price, as defined below. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the 2016A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2016A Bonds to be redeemed, not including any interest accrued and unpaid as of the date on which the 2016A Bonds are to be redeemed, discounted to the date on which the 2016A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below); plus 20 basis points for the 2019 maturity and 25 basis points for the 2021 maturity; plus, in each case, accrued and unpaid interest on the 2016A Bonds to be redeemed to the redemption date. The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available prior to the pricing date of the refunding bonds or prior to the redemption date if no refunding bonds are issued (or, if such Statistical Release is no longer published, any publicly available source of similar

market data)) most nearly equal to the period from the refunding bonds pricing date, if issued, or if no refunding bonds are issued, from the redemption date to the maturity date of the 2016A Bonds to be redeemed.

Notice of Optional Redemption

When redemption of 2016A Bonds is authorized pursuant to the provisions of the Master Indenture, the Trustee shall give to the Owners of 2016A Bonds to be redeemed notice, at the expense of the Corporation, of the redemption of the 2016A Bonds. Notice of such redemption of the 2016A Bonds shall be given by mail, postage prepaid, not more than thirty (30) days or fewer than fifteen (15) days prior to said date of redemption, to the Owners of any 2016A Bonds to be redeemed. Such notice shall state: (i) the CUSIP numbers of all 2016A Bonds being redeemed, (ii) the original issue date of such 2016A Bonds, (iii) the maturity date and rate of interest borne by each 2016A Bond being redeemed, (iv) the redemption date, (v) the date on which such notice is mailed, (vi) if less than all Outstanding 2016A Bonds are to be redeemed, the bond number (and, in the case of a partial redemption of any 2016A Bond, the principal amount) of each 2016A Bond to be redeemed, (vii) that on such redemption date there shall become due and payable upon each 2016A Bond to be redeemed at par or at the Make-Whole Redemption Price thereof or Make-Whole Redemption Price thereof of the specified portions of the principal thereof in the case of 2016A Bonds to be redeemed in part only, if any, together with interest accrued thereon to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable, and (viii) that the 2016A Bonds to be redeemed, whether as a whole or in part, are to be surrendered for at the designated corporate trust office of the Trustee at an address specified. Any such notice may be a conditional notice. In the event the conditions stated in such a notice have not been satisfied on the proposed redemption date, such redemption shall not occur and such notice shall be of no further force or effect. Such mailing shall not be a condition precedent to such redemption, and failure to mail any such notice, or any defect in such notice as mailed, shall not affect the validity of the proceedings for the redemption of the 2016A Bonds for which proper notice was given.

In the case of redemption of the 2016A Bonds, the Corporation will select the maturities of the 2016A Bonds to be redeemed. If the 2016A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the 2016A Bonds shall be effected by the Bond Registrar among owners on a pro rata basis subject to minimum authorized denominations. The particular 2016A Bonds to be redeemed shall be determined by the Bond Registrar, using such method as it shall deem fair and appropriate. If the 2016A Bonds are registered in book-entry only form and so long as DTC is the sole registered owner of the 2016A Bonds, if less than all of the 2016A Bonds of a maturity are called for prior redemption, the particular 2016A Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures, provided that, so long as the 2016A Bonds are held in book-entry form, the selection for redemption of such 2016A Bonds shall be made in accordance with the operational arrangements of DTC then in

effect that currently provide for adjustment of the principal by a factor provided by the Bond Registrar pursuant to DTC operational arrangements. If the Bond Registrar does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the 2016A Bonds will be selected for redemption in accordance with DTC procedures by lot. It is the Corporation's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Corporation and the Beneficial Owners be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. However, the Corporation can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the 2016A Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the 2016A Bonds will be selected for redemption in accordance with DTC procedures by lot.

PLEDGE AND SECURITY FOR THE 2016A BONDS

The 2016A Bonds shall not be deemed to constitute a debt of the State, and holders of the 2016A Bonds shall have recourse only against the Pledged Collateral. The Corporation has no general taxing power nor does it have the power to pledge the credit, the revenues or the taxing power of the State. Neither the credit, the revenues nor the taxing power of the State shall be deemed to be pledged to the payment of the 2016A Bonds.

General

The 2016A Bonds are being issued on a parity basis with the Corporation's outstanding \$2,000,000,000 2013A Bonds, and any future Parity Obligations, and are secured by a first lien pledge of the Pledged Collateral consisting primarily of: (i) Reimbursement Premiums and investment earnings thereon (after provision for Current Expenses of the FHCF and the Corporation), (ii) Assessments and investment earnings thereon, and (iii) investment earnings on proceeds of the 2013A Bonds and the 2016A Bonds. The net proceeds of the 2016A Bonds are pledged as security for the 2016A Bonds prior to being withdrawn to reimburse Participating Insurers for Losses relating to any future Covered Events. Reimbursement Premiums and Assessments are discussed in detail in "OPERATION OF THE FHCF - Reimbursement Premiums" and "-Assessments" herein. Similarly, information relevant to investment of proceeds of Parity Obligations is discussed under the heading "INVESTMENT POLICY OF THE FHCF" herein.

The 2013A Bonds were, and the 2016A Bonds and any future Parity Obligations will be, issued pursuant to the Master Trust Indenture and secured thereby and by the Pledge Agreement. The 2013A Bonds and the 2016A Bonds are not secured by any Reserve Account.

Withdrawal of 2016A Bond Proceeds

The net proceeds derived from the sale of the 2016A Bonds shall be deposited and held in a separate subaccount of the Covered Events Relief Fund pursuant to the Pledge Agreement and will not be commingled with the proceeds of the 2013A Bonds. The 2016A Bonds will be secured by the net proceeds of the 2016A Bonds prior to withdrawal to pay Losses relating to any future Covered Events. In the event of any future Covered Event, proceeds of the 2013A Bonds, the 2016A Bonds and the FHCF available cash balance may be withdrawn in any order or priority. So long as any of the 2016A Bonds are Outstanding, the Master Trustee shall withdraw, immediately following any withdrawal required by Section 503(b) of the Master Trust Indenture, from the Reimbursement Premiums Account in the Revenue Fund and, subsequent to such withdrawal, from the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund (other than the Emergency Assessments Account) in the order specified below, the amounts necessary to make the deposits or payments required by Sections 503(c)(iii) and 504 of the Master Trust Indenture, and, if and to the extent that the amounts on deposit to the credit of the Reimbursement Premiums Account, the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund are insufficient to make such deposits or payments, the Master Trustee shall withdraw from the Emergency Assessments Account in the Revenue Fund the amounts necessary to satisfy such deposits or payments; provided, however, in the case of the 2016A Bonds, the Master Trustee shall draw first from the Reimbursement Premiums Account, then from the Pre-Event Bonds Investment Income Account and then from the 2016A Bonds Proceeds Subaccount of the Pre-Event Parity Obligations Account in the Covered Events Relief Fund, prior to making any withdrawal from any of such other Accounts or any other account or subaccount, and the Master Trustee shall apply such amounts to the various subaccounts specified herein in the following order:

(a) into the Series 2016A Subaccount of the Interest Account, on the Business Day immediately preceding each Interest Payment Date, an amount equal to the interest payable on the Series 2016A Bonds on such Interest Payment Date; and

(b) into the Series 2016A Subaccount of the Principal Account, on the Business Day immediately preceding each Principal Payment Date, an amount equal to the principal of the Series 2016A Bonds coming due on such Principal Payment Date.

Holders of the 2016A Bonds will have no right to compel the withdrawal of the FHCF's available cash balance or the proceeds of the 2016A Bonds before or after withdrawal of the other Parity Obligations. The proceeds from the 2013A Bonds and the sale of the 2016A Bonds are expected to be used to pay Losses of Participating Insurers upon the occurrence of one or more future Covered Events; provided, however, the FHCF can use its accumulated fund balance or bond proceeds in any order to pay claims, and expects to use accumulated cash first prior to drawing down bond proceeds. Proceeds of the 2013A Bonds and the 2016A Bonds may

be withdrawn and used to pay Losses of Participating Insurers by an authorized officer of the SBA certifying to the Master Trustee: (i) the expected aggregate amount and monthly schedule for anticipated withdrawals to be made as a result of any future Covered Event; (ii) that an amount equal to estimated debt service for six months on the amount withdrawn will be deposited with the Master Trustee for credit to the Interest Account for the 2013A Bonds and the 2016A Bonds; (iii) taking into account the anticipated withdrawals, there will be sufficient revenues available to pay debt service on the 2013A Bonds and the 2016A Bonds when due; and (iv) notice of the anticipated withdrawals has been provided to the SBA along with an estimate of the Assessment percentage, if any, that would be necessary to provide for the estimated debt service in each Fiscal Year on debt in an amount equal to the aggregate withdrawals.

Pledge Agreement

Under the Pledge Agreement, the FHCF has pledged to the Corporation the Pledged Collateral, consisting primarily of the following items: (i) Reimbursement Premiums and earnings thereon; (ii) Assessments and earnings thereon; and (iii) investment earnings on proceeds of Parity Obligations, including the 2016A Bonds. See "OPERATION OF THE FHCF – Reimbursement Premiums" and " - Assessments" and "INVESTMENT POLICY OF THE FHCF" herein for more detailed discussions of Reimbursement Premiums, Assessments and investment of proceeds of Parity Obligations. The Pledged Collateral applicable to the 2016A Bonds also includes the unspent proceeds of the 2016A Bonds.

Reimbursement Premiums are collected by the FHCF on each August 1, October 1 and December 1. Although there is currently no Assessment, if one were levied in the future, such Assessment would be received by the FHCF continually throughout the year, with the largest amounts due to the FHCF on or about each May 15, August 15, November 15 and March 1. See "OPERATION OF THE FHCF – Assessments – Collection of Assessments" herein. Reimbursement Premiums (after provision for Current Expenses of the FHCF and the Corporation) and Assessments received by the FHCF will be transferred to the Master Trustee no less frequently than monthly. To the extent the foregoing is insufficient to provide for debt service on Outstanding Parity Obligations, the Master Trustee will provide notice to the FHCF, which will be required to transfer Pledged Collateral at such times and in such amounts as necessary to provide for such debt service.

The Pledge Agreement provides that any Reimbursement Premiums and earnings thereon are transferred to the Master Trustee net of the Current Expenses of the FHCF. Current Expenses of the FHCF include all administrative expenses, salaries and other compensation expenses; fees and expenses incurred for professional consultants and fiduciaries; refunds related to over-payments of Reimbursement Premiums or refunds of interest related to loss reimbursements or overpayments of Reimbursement Premiums; and the premiums, fees and costs of procuring reinsurance for the FHCF.

Current Expenses of the FHCF also include payments required by the Act to be appropriated for certain hurricane preparedness programs of local governments, state agencies, public and private educational institutions and non-profit organizations ("Mitigation Payments"). The Act requires that no less than \$10 million and no more than 35% of investment earnings of the Corpus of the FHCF be appropriated annually for such Mitigation Payments. The Act limits the required appropriation of investment earnings of the FHCF to \$10 million if the SBA determines that an appropriation in excess of that amount would jeopardize the actuarial soundness of the FHCF. In 2011, the Florida Legislature enacted Senate Bill 510 and House Bill 535 extending the Hurricane Loss Mitigation Program through June 30, 2021.

Current Expenses of the FHCF (not including reinsurance premiums described herein) have ranged from \$16.2 million to \$18.7 million per year over the five Fiscal Year period ended June 30, 2015. These amounts include \$10 million annual Mitigation Payments. For purposes of the information presented in the table under the heading "OPERATION OF THE FHCF – Historical Summary of Revenues, Expenses and Changes in Net Assets" herein, the portion of the Current Expenses of the FHCF relating to Mitigation Payments has been reflected in the row entitled Transfers to Other Funds, with the remainder of the Current Expenses of the FHCF reflected in the row entitled Administrative, Professional, Personnel and Other.

FHCF purchased aggregate excess catastrophe reinsurance providing coverage for \$1.0 billion in excess of \$12.5 billion, effective June 1, 2015 through May 31, 2016; however, such reinsurance is excluded from Pledged Collateral. Reinsurance expenses for premium ceded to reinsurers are reported as an offset to premium revenue in the financial statements. The maximum reinsurance expense for premium ceded for the contract year ending May 31, 2016, is \$67.8 million. There is expected to be a decrease in the premium ceded amount made after December 31, 2015 based on the actual reimbursement premium of the FHCF, which is expected to result in a return to the FHCF of a portion of the amount of premium ceded to the reinsurers.

A copy of the Pledge Agreement is set forth in "APPENDIX C-4, PLEDGE AND SECURITY AGREEMENT."

Flow of Funds

The FHCF will transfer to the Master Trustee Assessments, if any, and Reimbursement Premiums (after provision of Current Expenses of the FHCF) received by the FHCF in such amounts and at such times as provided for in the Master Indenture and Pledge Agreement which requires such transfer no less frequently than monthly until sufficient sums are on deposit therewith. Upon receipt of these amounts, the Master Trustee will deposit all Assessments, if any, into the Assessments Account within the Revenue Fund. All Reimbursement Premiums received will be deposited into the Reimbursement Premiums Account within the Revenue Fund. To the extent the Master Trustee receives investment income on the proceeds of Pre-Event Parity Obligations or proceeds of any Derivative Agreements, such amounts will likewise be deposited to corresponding accounts created within

the Revenue Fund. See "APPENDIX C-2, MASTER TRUST INDENTURE—Section 502." The Corporation, the FHCF and the SBA do not expect to enter into any Derivative Agreements with respect to the 2016A Bonds and no Derivative Agreements are currently outstanding.

Amounts in the Reimbursement Premiums Account will be used first to pay Current Expenses of the Corporation, then (to the extent not paid from investment earnings on proceeds of the 2016A Bonds and any other future Pre-Event Parity Obligations) to pay debt service on any Parity Obligations, including the 2016A Bonds.

Expenses of the Corporation are insignificant. The Corporation has no business activities other than serving as a conduit issuer for the FHCF and facilitating the issuance of revenue bonds and other forms of indebtedness of the FHCF. Current Expenses of the Corporation are anticipated to consist primarily of the fees and expenses due to the Master Trustee and the Bond Registrar and fees and expenses of the Corporation's auditors. The Corporation has no staff and only three officers that serve with no compensation: the President (Deputy Executive Director of SBA), the Treasurer (Director of Operations of the FHCF) and the Secretary (Manager of Financial Operations of the FHCF). To the extent amounts on deposit in the Reimbursement Premiums Account are insufficient to provide for the Current Expenses of the Corporation, debt service on the 2016A Bonds and other Pre-Event Parity Obligations and any deficiencies in any applicable debt service reserve account, the Master Trustee will transfer the necessary amounts first from the Pre-Event Bonds Investment Income Account, then from the 2016A Bonds Proceeds Subaccount of the Pre-Event Parity Obligations Account in the Covered Events Relief Fund, prior to making any withdrawal from any of such other Accounts or any other account or subaccount.

Once debt service on all Outstanding Parity Obligations has been provided for in a Fiscal Year, the requirement to continue to transfer Reimbursement Premiums to the Master Trustee ceases for the remainder of the Fiscal Year, and any Reimbursement Premiums and investment earnings on proceeds of Pre-Event Parity Obligations received by the FHCF from such date until the end of the Fiscal Year are released from the lien of the Pledge Agreement and Master Indenture. However, notwithstanding the foregoing, Reimbursement Premiums will continue to be transferred to the Master Trustee in an amount equal to the interest on Outstanding Pre-Event Parity Obligations projected to be paid during the period beginning on the first day of the immediately succeeding Fiscal Year and ending on such date that sufficient Reimbursement Premiums are projected to be transferred or available to provide for interest on Outstanding Pre-Event Parity Obligations for such next succeeding Fiscal Year. In addition, as of such date, any Reimbursement Premiums held by the Master Trustee and accumulated investment earnings on Pre-Event Parity Obligations held by the FHCF, which amounts are in excess of the amounts needed to pay debt service on all Outstanding Parity Obligations for such Fiscal Year, are also released from the lien of the Master Indenture and Pledge Agreement. All released Reimbursement Premiums that are in possession of the Master Trustee will be returned to the FHCF to be used for any purpose permitted under the Act. Reimbursement Premiums and investment earnings on Pre-Event Parity Obligations released from the lien of the Master

Indenture and Pledge Agreement become part of the Corpus of the FHCF, are no longer pledged to payment of debt service on the 2016A Bonds, the 2013A Bonds or any other Outstanding Parity Obligations, and will be available to pay Losses resulting from Covered Events and any other lawful purpose of the FHCF. See "- Corpus and Corpus Earnings not Pledged" below.

Unlike Reimbursement Premiums, the lien of the Master Indenture and Pledge Agreement on any levied Assessments is not automatically released once debt service for the Fiscal Year on Outstanding Parity Obligations has been provided for. Instead, the FHCF is required to continue to transfer Assessments to the Master Trustee. Excess Assessments transferred to the Master Trustee may be released from the lien of the Pledge Agreement and Master Indenture if the SBA certifies to the Master Trustee that there are sufficient Assessments on deposit with the Master Trustee to adequately provide for the payment of debt service when due on Post-Event Parity Obligations for the current and the next succeeding Fiscal Years. Upon the Master Trustee's receipt of such certificate, Assessments in excess of amounts needed to pay debt service on Post-Event Parity Obligations will be released from the lien of the Master Indenture and Pledge Agreement and will be returned to the FHCF. Such amounts will then be available for any other lawful purpose of the FHCF.

Corpus and Corpus Earnings Not Pledged

Reimbursement Premiums and Assessments released from the lien of the Pledge Agreement and the Master Indenture as described above will become part of the Corpus of the FHCF, which will be used to pay Losses resulting from hurricanes and for other lawful purposes of the FHCF. Neither the Corpus nor the earnings thereon is pledged to payment of debt service on the 2016A Bonds or any other Parity Obligations issued under the Master Indenture.

No Bankruptcy

As long as the Corporation has any debt outstanding, neither the FHCF nor the Corporation shall have the authority to file a voluntary petition under Chapter 9 of the Federal Bankruptcy Code or such corresponding chapter or sections as may be in effect, from time to time, and neither any public officer nor any organization, entity, or other person shall authorize the FHCF or the Corporation to be or become a debtor under Chapter 9 of the Federal Bankruptcy Code or such corresponding chapter or sections as may be in effect, from time to time, during any such period.

Non-Impairment

The State has covenanted under the Act with the holders of debt issued by the Corporation that the State will not repeal or abrogate the power of the SBA to direct the OIR to levy the Assessments and to collect the proceeds of the revenues pledged to the payment of

such debt so long as any such debt remains outstanding, unless adequate provision has been made for the payment of such debt pursuant to the documents authorizing the issuance of such debt.

Additional Parity Obligations and Subordinate Indebtedness

Parity Obligations. The Corporation may issue additional Parity Obligations if it certifies compliance with the Incurrence Test. The requirements necessary to certify compliance with the Incurrence Test differ depending on whether the Corporation intends to issue Pre-Event Parity Obligations, Post-Event Parity Obligations, or Parity Obligations to refund or reissue any indebtedness of the Corporation.

The Corporation may incur additional Pre-Event Parity Obligations if it first certifies to the Master Trustee that (i) the sum of (A) Reimbursement Premiums and Reimbursement Premium Earnings for 12 consecutive out of the most-recent 18 consecutive months, after certain permitted adjustments, and (B) the Assessment revenues that could be derived from multiplying the maximum Assessment percentage permitted under the Act on the date of such certification by the amount of premium on all Assessable Lines (as defined herein) for the most-recent 12-month period, divided by (ii) the Maximum Debt Service Requirement on all Parity Obligations, including the proposed issuance of Pre-Event Parity Obligations, is at least equal to 1.25.

The Corporation may incur Post-Event Parity Obligations if it certifies compliance with the Incurrence Test for issuing Pre-Event Parity Obligations and also establishes that sufficient Assessments are being collected or have been ordered on the date of such certification to be assessed to cover 100% of the Maximum Debt Service Requirement for all Outstanding Post-Event Parity Obligations and the proposed Post-Event Parity Obligations to be issued.

The Corporation may issue Parity Obligations to refund or reissue any indebtedness of the Corporation, whether Parity Obligations or Subordinate Indebtedness, provided that either (A) after taking into account the Parity Obligations proposed to be incurred and the Parity Obligations to remain Outstanding after the proposed refunding or reissuance, the Maximum Debt Service Requirement will not be increased by more than five percent (5%), or (B) the Corporation certifies to the Master Trustee the items required to be certified to issue Pre-Event Parity Obligations after taking into account the Parity Obligations proposed to be incurred and the Parity Obligations to remain Outstanding after the proposed refunding or reissuance; provided, however, if Post-Event Parity Obligations are proposed to be issued to refund or reissue any Outstanding indebtedness of the Corporation, the Corporation must also certify the existence of the conditions required to issue Post-Event Parity Obligations. The Corporation will provide the Master Trustee with a verification report from a nationally-recognized verification agent supporting any determination made in (A) or (B) above with respect to any

defeasance of Parity Obligations. See "APPENDIX C-2, MASTER TRUST INDENTURE - Section 704."

Subordinated Indebtedness. The Master Indenture also permits the Corporation to incur indebtedness which will be subordinate and junior in right of payment to the Parity Obligations issued under the Master Indenture. See "APPENDIX C-2, MASTER TRUST INDENTURE – Section 211." The Corporation has no outstanding indebtedness which is subordinate and junior to the Parity Obligations.

Debt Service Coverage Requirement

Not later than ninety (90) days after the end of each Fiscal Year, the Corporation and the FHCF must certify that the Revenue Available for Debt Service for the prior Fiscal Year (which includes investment earnings on proceeds of Pre-Event Parity Obligations), was at least equal to the greater of (i) one hundred twenty-five percent (125%) of the principal and interest (net of capitalized interest) that became due in such Fiscal Year on Parity Obligations and (ii) one hundred percent (100%) of the principal and interest (net of capitalized interest) that became due in such Fiscal Year for Parity Obligations and Subordinated Indebtedness. If the Corporation and the FHCF are unable to certify compliance with the foregoing, each of the Corporation and the FHCF has covenanted to take all actions permitted by law or under the Pledge Agreement, including increasing the rate of Assessment, requesting amendments to the Act deemed appropriate by its governing body and cooperating with the SBA in connection with any action to increase collections of Pledged Collateral. See "DEBT SERVICE COVERAGE – Historical and Projected Debt Service Coverage Table" herein.

See "APPENDIX C-2, MASTER TRUST INDENTURE – Section 705" and "APPENDIX C-4, PLEDGE AND SECURITY AGREEMENT – Section 4(c)."

Events of Default and Remedies

Under the Master Indenture and the Pledge Agreement, each of the following is an event of default (an "Event of Default") with respect to any Outstanding Parity Obligations:

- The Corporation fails to pay the principal, redemption premium (if any) or interest on any of the 2016A Bonds or Parity Obligations when such amounts are due and payable;
- The occurrence of any event of default under a Supplemental Indenture or the Master Trustee shall have received notice from any Holder of an event of default under any Parity Resolution;
- The Corporation fails to comply with any covenant or agreement under the Master Indenture (other than the covenant to pay principal, redemption premium (if any)

and interest when due) and such failure is not cured (or if such noncompliance cannot be cured within the following time period, corrective action is not commenced) within thirty (30) days after the Corporation's receipt of written notice from the Master Trustee describing the Event of Default and requiring the default to be remedied;

- The Corporation fails to make any required payment with respect to Subordinated Indebtedness or any other indebtedness (other than Parity Obligations) and any applicable grace period has expired; and
- The State limits or alters the denial of authority of the Corporation to file a petition in bankruptcy, or the rights vested in the FHCF or the Corporation to fulfill the terms of any agreements made with the Owners, or in any way impair the rights and remedies of such Owners so long as any such Parity Obligations of the Corporation remain Outstanding unless adequate provision has been made for the payment of such Parity Obligations.

Immediately upon any Event of Default, the Master Trustee may (and upon the written request of a majority in aggregate principal amount of the holders of Outstanding Parity Obligations, will) proceed to protect and enforce its rights and the rights of the holders of the Parity Obligations under the Master Indenture through any means available to it, including:

- Enforcement of the right of the Owners and Holders to collect and enforce the payment of amounts due or becoming due under the Parity Obligations;
- Suit upon all or any part of the Parity Obligations;
- Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Parity Obligations to account as if it were the trustee of an express trust for the Owners and Holders of such Parity Obligations;
- Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Owners and Holders;
- Enforcement of any other right of the Owners and Holders conferred by law or hereby; and
- Enforcement of the provisions of the Pledge Agreement.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Owners or Holders of not less than a majority of the aggregate principal amount of the Parity Obligations then Outstanding, shall, subject to the Master Trust Indenture, institute

and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Owners and Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, are not unduly prejudicial to the interest of the Owners and Holders of Outstanding Parity Obligations.

In addition to the above-described remedies available upon any Event of Default, the Master Trustee may (and upon the written request of a majority in aggregate principal amount of the holders of Outstanding Parity Obligations, will) accelerate the payment of principal of Outstanding Parity Obligations not yet due and payable upon the Corporation's failure to pay the principal, redemption price (if any) and interest with respect to Parity Obligations for which such amounts are due and payable, and the continuation of such failure for 180 days thereafter. The Master Trustee shall rescind acceleration upon the Corporation's curing of a payment default.

See "APPENDIX C-2, MASTER TRUST INDENTURE – Sections 802-804."

OPERATION OF THE FHCF

General

The FHCF is a tax-exempt trust fund created by the State Legislature during a special session in November 1993 to address the after-effects from Hurricane Andrew on the insurance market. Hurricane Andrew caused insured and uninsured losses in excess of \$30 billion in the State in August 1992. As a result of these losses, 11 insurers were rendered insolvent, and numerous insurers announced plans to cancel or discontinue writing policies covering residential property, threatening approximately 900,000 policyholders with loss of property coverage.

In recognition of these circumstances and the general trend of contraction in domestic and international reinsurance capacity in existence at that time, the State Legislature passed the original Act and thereby created the FHCF in November 1993 for the purpose of reimbursing certain insurers writing policies covering residential property in the State for a portion of their catastrophic hurricane losses. The FHCF is administered by the SBA and is not an independent department or administrative unit of the State as defined in Section 20.04, Florida Statutes. The Internal Revenue Service has issued a private letter ruling concluding that the FHCF is an integral part of the State and is therefore not subject to federal income taxation. The FHCF is not a regulated insurance or reinsurance company under State law, does not issue insurance or reinsurance policies and is not required to have the loss reserves which are required of insurers or reinsurers under State law.

FHCF Coverage. With limited exceptions, FHCF coverage is mandatory for insurers writing certain residential property insurance policies in the State, including Citizens, certain commercial self-insurance funds and any joint underwriting association or similar entity created pursuant to law (each a "Participating Insurer"), and is a condition of doing business in the State. Insurers with less than \$10 million in aggregate exposure under certain residential property insurance policies are not required to participate in the FHCF. There are currently 157 Participating Insurers for the Contract Year ending May 31, 2016. Participation in the FHCF is established through the execution of a Reimbursement Contract between the SBA and each Participating Insurer pursuant to which the insurer promises to pay annual, actuarially-determined Reimbursement Premiums, and the SBA promises to reimburse the insurer at one of three specified coverage levels (45 percent, 75 percent or 90 percent) selected by the Participating Insurer for Losses in excess of such insurer's share of an industry-wide loss-retention level (generally referred to as an insurer's "Retention"). However, the legal liability of the FHCF is limited to its actual claims-paying capacity as defined in Section 215.555(2)(m), Florida Statutes. The amount of Reimbursement Premiums paid to the FHCF by the Participating Insurers depends upon the coverage level selected. For the Contract Year ending May 31, 2016, approximately 72% of the Participating Insurers selected a coverage level of 90 percent. The portion of a Participating Insurer's Losses above its Retention that are not reimbursed by the FHCF due to the coverage level selected by such insurer effectively operates as that Participating Insurer's "co-payment" for such Losses.

Reimbursement Contracts are renewed annually on June 1 of each year for the ensuing Contract Year. The Act sets the FHCF aggregate Retention at \$4.5 billion to be adjusted annually to reflect increased exposure to the FHCF since 2004. Such adjustment is based upon the reported exposure for the Contract Year occurring two years before the particular Contract Year to reflect the percentage growth in exposure to the FHCF for covered policies since 2004, divided by the total estimated reimbursement premium for the Contract Year. Currently, taking into account such exposure growth since 2004, the aggregate Retention is projected to be \$6.898 billion for the Contract Year ending May 31, 2016. The FHCF aggregate Retention is allocated to each Participating Insurer based on such insurer's pro rata share of Reimbursement Premiums due for a Contract Year. A Participating Insurer's share of Retention applies in full to each of the two Covered Events causing the largest Losses for such Participating Insurer in a single Contract Year. For each other Covered Event causing Losses in the Contract Year, the insurer's share of Retention is reduced to one-third of its share of the full Retention. The State Legislature can and has in the past reset the Retention by statute to a level lower than what it would have been had full exposure growth been taken into account. For example, during the 2005 Legislative Session, the retention was reset at the 2004 Contract Year level of \$4.5 billion instead of increasing to the \$4.96 billion level that accounted for growth.

Participating insurers are prohibited from lowering their mandatory coverage percentage selections from one year to the next as long as Post-Event Revenue Bonds are outstanding. Following the defeasance of the 2010 Bonds and the termination of the related

Emergency Assessment, Participating Insurers were able to lower their mandatory coverage selections beginning in the 2015-2016 contract year. In 2015, 28 of the 157 Participating Insurers made coverage selection changes including the 26 companies that lowered their coverage selection (20 changed from 90% coverage to 45% and 6 changed from 90% to 75%) and 2 companies increased their coverage selection (both from 45% to 90%).

The coverage provided by the FHCF for any single Contract Year is limited to the lesser of the Actual Claims Paying Capacity of the FHCF or the statutory liability limit of \$17 billion, which is subject to adjustment based upon the increase in claims-paying capacity of the FHCF. See "Limited Liability of the FHCF and Bonding Capacity Estimates and Assumptions" herein. Based on computations by the FHCF's independent actuary and statutory limitations, the maximum liability of the FHCF with respect to its coverage for the Contract Year ending May 31, 2016 is \$17 billion.

Administration of the FHCF

The SBA has engaged Paragon Strategic Solutions Inc., Minneapolis, Minnesota ("Paragon"), a wholly owned subsidiary of Aon Benfield Global Inc., as a consultant to provide administrative services to the FHCF. Paragon has served in this capacity since the inception of the FHCF and provides day-to-day support for a variety of activities including: coordinating the annual distribution and collection of the Reimbursement Contracts and insurer reporting requirements; processing reports of insured values; calculating, invoicing and collecting Reimbursement Premiums; and processing loss reimbursement payment requests. Paragon also provides actuarial consulting services to the FHCF which include the development of the annual ratemaking report and the actuarial formula used in determining the Reimbursement Premiums. Fees paid to Paragon for its services are considered Current Expenses of the FHCF under the Master Indenture and are reflected in the line item Administrative, Professional, Personnel and Other under "Historical Summary of Revenues, Expenses and Changes in Net Assets" herein.

Moneys in the FHCF may be expended, loaned or appropriated for payment of (i) obligations of the FHCF arising out of Reimbursement Contracts; (ii) debt service on any debt permitted under the Act; (iii) costs of mitigation programs under the Act; (iv) costs of procuring reinsurance; and (v) costs related to the administration of the FHCF. In addition, the FHCF has the authority to enter into capital market transactions, including, but not limited to, industry loss warranties, catastrophe bonds, side-car arrangements, futures and options contracts traded on a regulated exchange.

Funding for the reimbursable Losses under Reimbursement Contracts comes predominantly from four sources: (i) the Corpus of the FHCF, (ii) Reimbursement Premiums collected pursuant to Reimbursement Contracts, (iii) reinsurance contracts, if any, and (iv) the

issuance of debt by the Corporation for the benefit of the FHCF. In addition, Assessments may be used to pay reimbursable Losses.

Senior staff of the FHCF and officers of the Corporation include the following.

Dr. Jack Nicholson is the Chief Operating Officer of the FHCF, and serves on the board of directors of the Corporation. In addition, Dr. Nicholson is on the Florida Commission on Hurricane Loss Projection Methodology, having served as the chair for its first two years. He also serves on the Florida Catastrophic Storm Risk Management Advisory Council. Prior to coming to the SBA in September of 1994, Dr. Nicholson worked for the Florida Department of Insurance for eight (8) years as Director of the Office of Insurance Research and Data Analysis, Deputy Director of Property and Casualty Insurers, Assistant Director of Rating, and Bureau Chief of Rates. He served as the Insurance Department's liaison with the SBA regarding the FHCF from its inception and has played a major role in its implementation and further development. Dr. Nicholson received his Ph.D. in Risk Management and Insurance from the University of Georgia where he also earned his undergraduate degree in Business with a major in insurance. He received an M.B.A. from the University of North Dakota while serving as an officer in the U.S. Air Force. Dr. Nicholson also has the professional designations of Chartered Life Underwriter and Chartered Property and Casualty Underwriter. He has taught in the area of Risk Management and Insurance at the University of Georgia, the University of Iowa, and Florida State University.

Jack Nicholson has announced that he is retiring as Chief Operating Officer as of February 29, 2016. There will be a search for a new Chief Operating Officer and Anne Bert will serve as Acting Chief Operating Officer. All other senior staff will remain in their respective positions. A smooth transition is expected in light of the experience and stability provided by the following members of the senior staff of the FHCF and officers of the Corporation.

Anne T. Bert is the Director of Operations of the FHCF and Treasurer of the Corporation. Ms. Bert has been with the FHCF since January of 1999. She is currently responsible for assisting and advising the Chief Operating Officer in matters related to the administration of the FHCF. Other responsibilities include assisting in the management of the day to day operations, strategic and operational planning, reviewing and evaluating the impact and significance of proposed legislative and regulatory actions, coordinating and communicating with the Florida Office of Insurance Regulation on FHCF issues, overseeing contractual agreements between the FHCF and service providers, preparation of the annual budget and coordinating the staffing of the Florida Commission on Hurricane Loss Projection Methodology. Prior to coming to the FHCF, she was the Finance Director/Town Clerk for the Town of Havana. She was responsible for many areas of management within the organization including coordinating the risk management activities of the local government. Ms. Bert earned her Bachelor of Science degree in Social Science with emphasis in Public Administration from Florida State University. She also has the professional designation of Certified Public Manager from Florida State University.

E. Lamar Taylor is the Deputy Executive Director of the SBA and the President of the Corporation. Mr. Taylor is responsible for assisting the SBA's Executive Director and Chief Investment Officer in implementing operational, administrative, risk management and investment objectives relating to all mandates of the SBA, including many of the non-investment related functions of the SBA, interaction with the Division of Bond Finance and the Florida Housing Finance Corporation, overseeing the administration of certain special purpose bond finance corporations, including the Corporation, and interacting with various functional departments within the SBA. Mr. Taylor is an attorney and Certified Public Accountant. He has private sector experience as a CPA and attorney and has served as the SBA's Deputy General Counsel. Prior to joining the SBA's General Counsel's Office in 2009, Mr. Taylor worked for the Florida Division of Bond Finance for more than six years where he was involved in a variety of aspects of the State's bond financings. Mr. Taylor has been involved in every bond issuance relating to the FHCF since the first bonds were issued in 2006. He received his Juris Doctorate and Masters of Accounting degrees from the Florida State University, and received a Bachelor's of Science degrees in Accounting and a graduate law degree in taxation from the University of Florida.

Leonard Schulte is the Director of Legal Analysis and Risk Evaluation of the FHCF. He came to the FHCF in October 2010 after 25 years as a staff member in the Florida Senate and House and seven years in private law practice. During the decade of the 1990's he was the lead staff person in the Florida House of Representatives on hurricane-related insurance issues. He was directly involved in the creation of the FHCF and in later changes to the FHCF law, including revisions needed to obtain tax-exempt status and the creation of subsequent season capacity. He was also the key Florida House of Representatives staffer on other property insurance regulatory matters and residual market issues, including the creation of the Florida Commission on Hurricane Loss Projection Methodology and legislation involving the Florida Residential Property and Casualty Joint Underwriting Association, the Florida Windstorm Underwriting Association, and their merger to create Citizens Property Insurance Corporation. He also led the team of House staff members who drafted the legislation merging the Department of Insurance and the Department of Banking and Finance into the current Department of Financial Services. In private practice, his clients reflected a broad range of the property and casualty insurance industry, including trade associations, large national insurers, small domestic insurers, and reinsurers. He is a graduate of Dartmouth College and the University of Florida College of Law. Mr. Schulte also has the professional designations of Chartered Property and Casualty Underwriter (CPCU), Associate in Reinsurance (ARe), Associate in Risk Management (ARM), and Associate in Risk Management – Enterprise Risk Management (ARM-E).

Stephen Szypula is the Manager of Financial Operations of the FHCF and Secretary of the Corporation. Mr. Szypula joined the FHCF in June 2011 and he is responsible for all matters related to the financial operations of the FHCF and the Corporation, as well as the

administration of the Insurance Capital Build-up Incentive Program. Prior to joining the FHCF, Mr. Szypula was the Acting Director of Property and Casualty Financial Oversight for the Florida Office of Insurance Regulation where Mr. Szypula had been employed since November 1989. During his 22 years at the Florida Office of Insurance Regulation, Mr. Szypula was responsible for managing a number of different regulatory areas including the financial examinations and the financial analysis of insurers in the property and casualty market. Mr. Szypula received his Bachelor of Science degree in accounting from Utica College of Syracuse University in June 1987 and has since earned six professional certifications. Mr. Szypula has the professional designations of Chartered Property Casualty Underwriter (CPCU), Associate in Reinsurance (ARe), Certified Government Financial Manager (CGFM) and Certified Public Manager (CPM). The Certified Financial Examiner (CFE) and Senior Professional in Insurance Regulation (SPIR) professional designations awarded to Mr. Szypula are currently inactive due to Mr. Szypula no longer being employed by an insurance regulator. Mr. Szypula has the distinction of being the first regulator to achieve the National Association of Insurance Commissioner's (NAIC) highest professional certification, the SPIR, which was awarded to Mr. Szypula at a national meeting of the NAIC in Minneapolis in 2009.

Gina Wilson is the Director of Examinations for the FHCF and has worked with the FHCF since October 1996. She is responsible for the day to day operations of the FHCF examination programs, which include designing and developing exam processes, oversight and training of contract examiners, preparing and finalizing exam report recommendations and overseeing the implementation of exam results by participants. Her responsibilities include interpreting statutes and rules and communicating to external contractors and participants to ensure the integrity of the data submitted to the FHCF. In her position with the FHCF, Ms. Wilson oversees approximately 100 exams each year, which include examining 99% of the total FHCF premium paid annually and losses paid in a season. Prior to coming to the SBA, Ms. Wilson worked for the Florida Department of Insurance for five years, and has also worked as an auditor in the private industry. Ms. Wilson received her Bachelor of Business Administration from Georgia Southwestern University. She has met the State of Georgia requirements for licensing as a Certified Public Accountant and is member of the American Institute of Certified Public Accountants. Ms. Wilson also has the professional designations of Certified Public Manager (CPM) from Florida State University, Associate in Reinsurance (ARe), and Chartered Property and Casualty Underwriter (CPCU).

Limited Liability of the FHCF and Bonding Capacity Estimates and Assumptions

Under the Act, the maximum liability of the FHCF to reimburse Participating Insurers for Losses attributable to any single Contract Year is limited to the lesser of (i) the Actual Claims-paying Capacity of the FHCF, and (ii) the statutory liability limit. For the Contract Year ending May 31, 2016, the FHCF estimates that its maximum contractual liability is \$17 billion.

Beginning with Contract Year ended May 31, 2011, the Act set the base-line statutory liability limit for coverage at \$17 billion, which amount may be increased if the SBA determines that there is sufficient estimated claims-paying capacity to provide coverage at \$17 billion of capacity for the current Contract Year and coverage of an additional \$17 billion of capacity for subsequent Contract Years. If the SBA makes such a determination, the estimated claims-paying capacity for the particular Contract Year shall be determined by adding to the \$17 billion limit one-half of the FHCF's estimated claims-paying capacity in excess of \$34 billion. For Contract Year ending May 31, 2016, the maximum liability of the FHCF is \$17 billion.

The Act defines the estimated claims-paying capacity of the FHCF as the FHCF's projected fund balance as of December 31 of a Contract Year, plus any reinsurance purchased by the FHCF, plus the SBA's estimate of the SBA's borrowing capacity. The FHCF may issue revenue bonds under the Act in any year in which the FHCF is required to reimburse Participating Insurers for Losses in excess of the FHCF available fund balance. The maximum amount of bonding is limited to the debt which can be serviced based upon a 6% maximum Assessment percentage on direct written premium in any one year and no more than 10% in total. However, the estimated claims-paying capacity of the FHCF must take into account constraints in the financial markets that may limit the FHCF's ability to borrow funds, including an unwillingness of financial market participants to lend funds to the FHCF at the maximum limit under the Act. Credit market disruptions may limit the FHCF borrowing capacity. Also, there can be no guarantee that sufficient market capacity will exist should the FHCF be required to issue a large amount of debt. If market constraints reduce the FHCF's actual claims paying capacity below the maximum statutory liability or maximum contractual liability, the FHCF's liability under the Reimbursement Contract will be capped at the lower amount.

Other issuers such as Citizens and the Florida Insurance Guaranty Association ("FIGA") may also seek to issue bonds payable from assessments similar to the FHCF's Assessments following the same windstorm event. While the FHCF's potential borrowing needs for the Contract Year ending May 31, 2017 are near historic lows, future potential borrowing requirements may be large and there can be no guarantee that in the future there will be adequate financing capacity available to the FHCF following a major catastrophic event that would require post-event financing.

The FHCF, its Financial Advisor, and the financial services team have compiled estimates of future bonding capacity based on the current market estimates of interest rates and market capacity for FHCF bonds provided by the FHCF's senior managing underwriters. The table below assumes an estimated aggregate bonding capacity of \$7.6 billion in Post-Event Parity Obligations for the Contract Year ending May 31, 2017. The projected cash balance is \$13.8 billion for the Contract Year ending May 31, 2017, which, together with the remaining 2013A Bond proceeds of \$1.5 billion (after the \$500 million that matures on July 1, 2016 and will therefore not be available for the Contract Year ending May 31, 2017) and projected 2016A Bond

proceeds of \$1.2 billion, could result in a maximum needed Post-Event bonding need of \$0.5 billion.

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The table below shows the additional Assessment percentage estimated to be needed to pay debt service on the estimated bonding.

**Preliminary FHCF Estimated Coverage Obligation and Funding Sources
for the Contract Year Ending May 31, 2017
(dollars in billions; amounts may not add due to rounding)**

| | |
|--|--------------|
| FHCF Coverage Obligation | \$17.0 |
| Less: Projected FHCF Fund Balance for Contract Year Ending May 31, 2017 | (13.8) |
| Less: Available 2013A Bond Proceeds | <u>(1.5)</u> |
| Net Amount Potentially Needed to be Fully Liquid | 1.7 |
| Less: 2016A Bond Proceeds | <u>(1.2)</u> |
| Potential Borrowing Need Net of 2016A Bond Proceeds | \$0.5 |
| Projected Assessment Percentage Required to Cover Potential Borrowing Need Including Repayment of 2013A and 2016A Pre-Event Bond Proceeds ⁽¹⁾ | 0.51% |
| Estimated FHCF Borrowing Capacity Over 12 Months ⁽²⁾ | \$7.6 |

Source: FHCF and Raymond James & Associates, Inc.

⁽¹⁾ Assumes that the FHCF issues Post-Event Parity debt of approximately \$3.2 billion structured for approximate 30-year level debt service. The projected Assessment percentage assumes a projected assessment base of \$40.9 billion, which is based on the lowest quarterly growth rate of the actual collections in 2015 through the third quarter of 3.7%.

⁽²⁾ Projected based on the October 2015 estimated bonding capacity of \$7.6 billion. This amount is preliminary, however, and may change subject to market conditions.

The likelihood that the FHCF will reach its maximum contractual liability limit depends on several factors, but prominent among these are the insured value of property for which the coverage is provided by the FHCF and the likelihood of a major hurricane damaging or destroying such property. The following table shows the total insured values reported to the FHCF by Participating Insurers for the last five years and the annual percentage increase from the prior year. The next table shows the Contract Year ending May 31, 2016 modeled losses for the FHCF for hurricanes of varying magnitude.

The incidence and severity of catastrophes are inherently unpredictable. Coastal areas appear to be at the highest risk of hurricane damage based upon historical experience and loss model results. Coastal development over the years has significantly changed the risk profile of hurricane-prone coastal areas. According to the Florida Assessment of Coastal Trends 2010 by the Florida Department of Environmental Protection, over 75% of Florida residents live in coastal counties.

Total Insured Values

| <u>Contract Year Ended May 31</u> | <u>Amount (in billions)</u> | <u>Percentage Change</u> |
|--|--|---------------------------------|
| 2012 | \$2,117 | (2.2)% |
| 2013 | 2,076 | (2.0) |
| 2014 | 2,025 | (2.5) |
| 2015 | 2,045 | 1.0 |
| 2016 ⁽¹⁾ | 2,064 | 1.0 |

Source: Paragon Strategic Solutions Inc.

⁽¹⁾Projected.

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**Gross Residential Losses Per Event
Contract Year Ending May 31, 2016**

| Hurricane Magnitude⁽¹⁾ | Probability | Losses Per Event (in billions)⁽²⁾ | Estimated FHCF Liability Aggregate (in billions)⁽³⁾ |
|--|--------------------|---|---|
| 1 in 10 years | 10.00% | \$ 7.501 | \$ 0.580 |
| 1 in 20 years | 5.00 | 15.990 | 8.754 |
| 1 in 30 years | 3.33 | 22.584 | 15.213 |
| 1 in 40 years | 2.50 | 28.190 | 17.000 ⁽⁴⁾ |

Source: Paragon Strategic Solutions Inc.

- ⁽¹⁾ Hurricane magnitude in this table refers to categorizing the relative frequency and destructiveness of a hurricane as compared to a base level of frequency and destructiveness. For example, a one in 40-year hurricane will occur less often and be more destructive than a one in 10-year hurricane.
- ⁽²⁾ The differences between the Losses Per Event and the Estimated FHCF Liability Aggregate is due to retention and "co-payment" requirements on the insurers of covered residential policies.
- ⁽³⁾ The estimate is aggregated for all FHCF participating insurers and is presented as if all of the participating insurers had uniform exposures and loss experiences. In actual practice, each participating insurer has its own retention and coverage limits based upon its actual exposures, and therefore each participating insurer has its own unique probabilities of triggering its FHCF coverage and reaching its FHCF coverage limit.
- ⁽⁴⁾ As further described in the section above, for Contract Year ending May 31, 2016, the maximum liability of the FHCF is \$17 billion.

Historical Summary of Revenues, Expenses and Changes in Net Position

The following schedule shows the revenues, expenses and changes in net assets of the FHCF, derived from audited financial information of the FHCF and the Corporation for Fiscal Years ended June 30, 2011 through June 30, 2015. The audited financial statements for the FHCF for Fiscal Years 2015 and 2014 are included in their entirety as "APPENDIX B, FINANCIAL STATEMENTS OF THE FLORIDA HURRICANE CATASTROPHE FUND FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014."

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Florida Hurricane Catastrophe Fund
Historical Summary of Revenues, Expenses and Changes in Net Position
(in thousands)

| Fiscal Years Ended June 30 | (audited) | | | | |
|---|--------------------|--------------------|--------------------|---------------------|---------------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| Total Operating Revenues | \$1,312,328 | \$1,322,346 | \$1,255,880 | \$1,269,786 | \$1,276,806 |
| Operating Expenses | | | | | |
| Hurricane Losses ⁽¹⁾ | 110,000 | 0 | (178,500) | (186,004) | 0 |
| Administrative, Professional, Personnel, and Other | 5,641 | 4,687 | 4,963 | 5,010 | 5,709 |
| Depreciation | <u>3</u> | <u>3</u> | <u>3</u> | <u>2</u> | <u>3</u> |
| Total Operating Expenses | <u>115,644</u> | <u>4,690</u> | <u>(173,534)</u> | <u>(180,992)</u> | <u>5,712</u> |
| Operating Income (Loss) | 1,196,684 | 1,317,656 | 1,429,414 | 1,450,778 | 1,271,094 |
| Total Nonoperating Revenue (Expense) | <u>312,435</u> | <u>387,467</u> | <u>451,408</u> | <u>434,479</u> | <u>211,920</u> |
| Income (Loss) before Transfers | 1,509,119 | 1,705,123 | 1,880,822 | 1,885,257 | 1,483,014 |
| Transfers to Other Funds | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>(10,000)</u> |
| Change in Net Assets | 1,499,119 | 1,695,123 | 1,870,822 | 1,875,257 | 1,473,014 |
| Net Position, Beginning of Year | <u>3,230,199</u> | <u>4,729,318</u> | <u>6,424,441</u> | <u>8,284,964</u> | 10,160,221 |
| Adjustments to Net Position related to pensions | | | | | <u>(595)</u> |
| Net Position at beginning of year, restated | | | | | <u>10,159,626</u> |
| Net Position, End of Year | <u>\$4,729,318</u> | <u>\$6,424,441</u> | <u>\$8,295,263</u> | <u>\$10,160,221</u> | <u>\$11,632,640</u> |

Source: FHCF audited financial statements for the Fiscal Years ended June 30, 2011 through June 30, 2015.

⁽¹⁾ The FHCF paid a total of \$9.396 billion for losses for the 2004 and 2005 years. Loss reserves were increased by \$110 million in Fiscal Year 2011, unchanged in Fiscal Year 2012, decreased by \$178.5 million in Fiscal Year 2013, decreased by \$186 million in Fiscal Year 2014 and, there are no loss reserves for Fiscal Year 2015.

Note: The FHCF implemented GASB 65 in Fiscal Year 2014 which affected the accounting for bond issuance expenses and the FHCF restated for comparative purposes the prior year; however, the 2013 amounts shown above are as reported in Fiscal Year 2013 combined financial statements.

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Reimbursement Premiums

General. With limited exceptions, as a condition for doing business in Florida, each Participating Insurer writing Covered Policies in Florida must enter into a Reimbursement Contract with the SBA. The Reimbursement Contract generally provides that the FHCF will reimburse a Participating Insurer a certain percentage of its Losses above the insurer's share of the industry-wide Retention in exchange for the payment by the Participating Insurer of Reimbursement Premiums. The Contract Year for Reimbursement Contracts entered into by the FHCF begins on June 1 of each year and ends on May 31 of the following year. A Participating Insurer must enter into a Reimbursement Contract every Contract Year. For the Contract Year ending May 31, 2016, there are 157 Participating Insurers, including Citizens.

Each Reimbursement Contract requires the insurer to pay to the FHCF an actuarially-determined premium for the reimbursement contemplated under the Reimbursement Contract. This Reimbursement Premium is a factor of the actuarially determined rates multiplied by each \$1,000 of insured value reported to the SBA by the Participating Insurer to determine the total amount of Reimbursement Premiums due from the Participating Insurer under the Reimbursement Contract. Under the Reimbursement Contract, the Reimbursement Premiums paid for a Contract Year must be used to reimburse Participating Insurers for reimbursable Losses incurred in the current or subsequent Contract Years only or to pay debt service on Pre-Event Parity Obligations. Although the Reimbursement Premiums are also available to pay debt service on Post-Event Parity Obligations, the FHCF expects not to use Reimbursement Premiums for such purpose and, to the extent Reimbursement Premiums are used to pay debt service on Post-Event Parity Obligations, such use would be replenished with future Assessment revenues.

Reimbursement Premiums are paid to the SBA in three installments: August 1, October 1 and December 1 of each Contract Year. Reimbursement Premiums are collected by Paragon on behalf of the FHCF by wire and ACH through the use of an account held at a custodian bank. Participating Insurers deposit Reimbursement Premiums directly to the account in the name of the FHCF and amounts therein are not commingled with any other funds of the FHCF, the SBA or Paragon. Once collected, Reimbursement Premiums are transferred to the Master Trustee at least monthly pursuant to the Pledge Agreement until debt service on the Outstanding Parity Obligations for such fiscal year has been paid or provided for. See "PLEDGE AND SECURITY FOR 2016A BONDS – Pledge Agreement" herein. Paragon has no legal entitlement to Reimbursement Premiums deposited to the account, other than as agent for the FHCF.

Since the total Reimbursement Premiums for any Participating Insurer are not determined until after its insured values have been received and processed, the first two payments of its Reimbursement Premiums in each Contract Year are provisional. Each provisional payment of Reimbursement Premiums is made in an amount equal to

approximately one-third of the estimated total Reimbursement Premiums due from a Participating Insurer in the Contract Year. Once the actual Reimbursement Premiums due from the Participating Insurer for the Contract Year are determined, the amount of the final installment due on December 1 is equal to the actual Reimbursement Premiums due from the Participating Insurer for the Contract Year less the two provisional payments of Reimbursement Premiums made by a Participating Insurer.

The following table shows the ten Participating Insurers with the largest Reimbursement Premiums paid to the FHCF for the Contract Year ending May 31, 2016.

| <u>Participating Insurers</u> | Reimbursement Premiums (in millions)⁽¹⁾ | Percentage of Reimbursement Premiums |
|---|---|---|
| Citizens Property Insurance Corporation Coastal Account | \$151.8 | 12.5% |
| Universal P&C Insurance Company | 99.6 | 8.2 |
| Citizens Property Insurance Corporation Personal Lines/Commercial Lines Accounts | 79.0 | 6.5 |
| Homeowners Choice Property and Casualty Insurance Company | 69.0 | 5.7 |
| Heritage Property and Casualty Insurance Company | 54.2 | 4.5 |
| Federated National Insurance Company | 45.2 | 3.7 |
| State Farm Florida Insurance Company | 38.5 | 3.2 |
| People's Trust Insurance Company | 33.1 | 2.7 |
| American Coastal Insurance Company | 28.0 | 2.3 |
| Federal Insurance Company | <u>27.4</u> | <u>2.3</u> |
| Total | \$625.8 | 51.6% |

Source: Paragon Strategic Solutions Inc.

⁽¹⁾ Citizens Property Insurance Corporation has two separate Reimbursement Contracts with the FHCF. See "Reimbursement Premiums – Citizens as a Participating Insurer" herein.

Collections. Since 2001, the FHCF has collected over 99% of Reimbursement Premiums, with the only exceptions being certain insurers that have been placed into receivership for purposes of liquidation. See "OPERATION OF THE FHCF - Collection of Assessments and Reimbursement Premiums from Companies in Receivership." Reimbursement Premium revenue varies from year to year as a result of annually-adopted changes in the actuarially-indicated Reimbursement Premiums charged to Participating Insurers in Reimbursement Contracts. The following table shows Fiscal Year collections for the last five years and the annual percentage change.

| Fiscal Year Ended June 30 | Total Reimbursement Premium Revenue⁽¹⁾ (in millions) | % Change of Reimbursement Premium Revenue⁽²⁾ |
|--------------------------------------|--|--|
| 2011 | \$1,312.3 | -- |
| 2012 | 1,322.3 | 0.8% |
| 2013 | 1,255.8 ⁽³⁾ | (5.0) |
| 2014 | 1,269.7 | 1.1 |
| 2015 | 1,282.4 ⁽⁴⁾ | 1.0 |

⁽¹⁾ Source: FHCF audited financial statements for the Fiscal Years ended June 30, 2011 through June 30, 2015. Includes prior year premium adjustments and interest on adjustments.

⁽²⁾ Source: FHCF.

⁽³⁾ Reduction in premium revenue resulted from a reduction in the usage of optional coverage.

⁽⁴⁾ Includes \$5.6 million of reinsurance premium charged to Fiscal Year 2015 but which will not be paid until Fiscal Year 2016.

Cash Build-up Factor. The 2009 Legislature added a "cash build-up factor" that equaled 5% for the Contract Year ended May 31, 2010, 10% for the Contract Year ended May 31, 2011, 15% for the Contract Year ended May 31, 2012, 20% for the Contract Year ending May 31, 2013, and 25% for the Contract Year ending May 31, 2014 and thereafter. The cash build-up factor started in Contract Year 2009-2010 and is retained in the Corpus of the FHCF for any future Covered Events.

Citizens as a Participating Insurer. Citizens is an entity created by the State Legislature and controlled by the State and provides certain residential and commercial property and casualty insurance coverage to owners of certain properties in the State as specified in Section 627.351(6), Florida Statutes, as amended. Citizens is organized legally and financially into three separate accounts – the Coastal Account ("Coastal Account"), which provides residential and commercial wind-only and multi-peril coverage in statutorily-designated coastal areas of the State, the Personal Lines Account ("PLA"), which provides all-perils residential coverage throughout the State, and the Commercial Lines Account ("CLA"), which provides commercial-residential (i.e. apartment and condominium) coverage throughout the State. Citizens has two separate contracts with the FHCF – one for the Coastal Account and one for the combined PLA/CLA. These accounts are treated as separate Participating Insurers in all respects by the FHCF. Although Citizens accounts for only 2 of 157 Participating Insurers participating in the FHCF, the total Reimbursement Premiums collected from Citizens' two accounts are substantial.

For the Contract Year ending May 31, 2016, the total Reimbursement Premiums from Citizens as of December 1, 2015, was \$230.8 million, or 19.0% of all Reimbursement Premiums to be collected during that Contract Year. Such amount is reduced from previous collections due, in part, to Citizens' continuing depopulation efforts. Citizens' policies in-force decreased by approximately 36% during fiscal year 2014-15.

All Participating Insurers, including Citizens, are entitled to a pro-rata share of the FHCF's Actual Claims-paying Capacity, based on such Participating Insurer's proportionate share of Reimbursement Premiums paid to the FHCF. Because Actual Claims-paying Capacity of the FHCF includes the amount of debt the FHCF is able to issue, the timing and amount of Losses sustained by Citizens could impact the timing and amount of debt issued by the FHCF to a greater extent than the timing and amount of Losses sustained by other Participating Insurers.

Enforcement of Payment of Reimbursement Premiums. The Act and applicable administrative rules relating to the FHCF provide that any violation of a Participating Insurer's obligation to pay Reimbursement Premiums, provide information necessary to verify the amount of Reimbursement Premiums due, or submit to examinations relating to Reimbursement Premiums constitutes a violation of the Florida Insurance Code. The FHCF may notify OIR of such violation, which may then take whatever action it deems appropriate to address the violation. In addition, failure to pay Reimbursement Premiums, provide information or submit to examination, among other things, may subject the Participating Insurer to certain fines, interest charges and other penalties as specified in applicable administrative rules of the FHCF.

Assessments

General. Under the Act, if the SBA determines that the amount of revenue produced from Reimbursement Premiums is insufficient to fund the obligations, costs and expenses of the FHCF and the Corporation, including repayment of debt and that portion of debt service coverage not met by Reimbursement Premiums, the SBA will direct OIR to levy an Assessment on the premiums for all lines of insurance assessable under the Act (the "Assessable Lines"). Assessable Lines include all property and casualty lines of insurance in Florida, except for those lines identified as accident and health, workers' compensation, Federal Flood Insurance Program and certain hospital self-insurance funds. Assessable Lines includes (i) insurance companies authorized by the Florida OIR to write insurance in Florida ("Admitted Lines Insurers"); (ii) insurance companies not so authorized ("Surplus Lines Insurers"), provided the insurance is obtained from certain agents licensed in Florida by the Florida OIR (each a "Surplus Lines Agent"); or (iii) independently pursuant to Section 626.938, Florida Statutes ("Independently Procured Coverage").

Under the Act, Assessments are collected from policyholders and are calculated as a percentage of premium. The same assessment percentage applies to all policies of Assessable Lines issued or renewed during the 12-month period beginning on the effective date of the Assessment. Assessments are assessed annually for so long as debt under the Act is Outstanding, are subject to annual adjustment by the SBA in order to meet debt obligations and are subject to both an annual and overall cap. There is a cap of 6% of premium that may be

assessed in any one year with respect to obligations arising out of losses attributable to any one Contract Year. The overall cap is 10% of premium.

Admitted Lines Insurers collect the Assessment from policyholders. Such insurers must remit Assessments directly to the FHCF based on a percentage of direct written premium for the preceding calendar quarter, even if not yet collected. Surplus Lines Agents must also collect the Assessment from policyholders, but must remit the collected amounts to the Florida Surplus Lines Service Office (the "FSLSO") at the same time such agents collect and remit to the FSLSO the surplus lines tax. The FSLSO invoices the Surplus Lines Agents quarterly with payments due 45 days from the last calendar day of the preceding quarter. Insureds obtaining Independently Procured Coverage are invoiced by the FSLSO quarterly and must remit the Assessment within 45 days from the last calendar day of the preceding quarter, as directed by the FSLSO at the same time the insured pays the surplus lines tax. While an insurer is not ultimately liable for uncollectible Assessments, the insurer must treat the failure to pay an Assessment as a failure to pay premium by the insured, which permits termination of the policy.

Each insurer is liable for all Assessments it collects from policyholders except to the extent the insurer is required to return collected Assessments when returning unearned premium. When an Admitted Lines Insurer is required to return unearned premium, it shall also return any collected Assessment attributable to the unearned premium. A credit adjustment to the collected Assessments may be made by such Admitted Lines Insurer to future remittances of Assessments, but the Admitted Lines Insurer is not entitled to a refund. In contrast to the Admitted Lines Insurers, Surplus Lines Agents and insureds obtaining Independently Procured Coverage may receive either a credit or refund of the collected Assessment attributable to returned unearned premium. Since 2003, approximately 90% of premium on Assessable Lines relates to premium written by Admitted Lines Insurers. See "Historical Premium" below.

On May 31, 2006, the SBA adopted a resolution directing the OIR to levy an Assessment on all Assessable Lines in the amount of 1%, effective beginning January 1, 2007. On June 12, 2006, OIR levied the Assessment in two orders: one directed at Admitted Lines Insurers, who are directly regulated by OIR, and the other directed at the FSLSO to apply to Surplus Lines Agents and insureds obtaining Independently Procured Coverage. Amounts collected under this Assessment were used to pay debt service on or retire the 2006A Bonds, the 2008A Bonds and the 2010A Bonds. The Act permits the SBA to adjust an Assessment annually as necessary to pay debt service on revenue bonds provided the Corporation remains in compliance with all covenants under the Master Indenture, including without limitation covenants regarding debt service coverage and the exclusion of interest from federal income taxation. This Assessment was increased in 2010 to 1.3% of premiums on Assessable Lines. When the Series 2010A Bonds were legally defeased and there were no remaining unpaid hurricane Losses, upon direction of the SBA, the Florida Office of Insurance Regulation issued Orders on July 21, 2014, terminating

the Assessment for policies issued or renewed on or after January 1, 2015. See "PLEDGE AND SECURITY FOR THE 2016A BONDS - Flow of Funds" herein.

Although all previously levied Assessments were terminated effective July 21, 2015, on direct written premiums for policies issued or renewed on or after January 1, 2015, the FHCF is still collecting Assessments for policies that were issued or renewed prior to January 1, 2015 and have not terminated or renewed. Assessments are due to the FHCF throughout the year, with the largest amounts generally received by the FHCF on or about May 15, August 15, November 15 and March 1 of each year. All payments of Assessments are made directly to an FHCF lock-box account held by an SBA custodian bank. Assessments held in this lock-box account are not commingled with any other moneys of the FHCF or SBA. The payments are transferred to the Master Trustee at least monthly pursuant to the Pledge Agreement. See "PLEDGE AND SECURITY FOR 2016A BONDS – Pledge Agreement" herein. Late payments of collected Assessments could subject an Admitted Lines Insurer or Surplus Lines Agent, as the case may be, to delinquent interest and penalties.

OIR is responsible for verifying the accuracy and timeliness of the collection and remittance of Assessments. See "Collection of Assessments" herein for further discussion.

Historical Premium. The following chart shows the historical premium subject to the Assessments for all Assessable Lines.

| Calendar <u>Year</u> | Admitted Lines | Surplus Lines and | Total <u>(in billions)</u> | % Increase (Decrease) <u>From Prior Year</u> |
|-------------------------|---|--|-------------------------------|--|
| | Direct Written Premium <u>(in billions)</u> | Independently Procured Coverage Premium <u>(in billions)</u> | | |
| 2011 | \$30.94 | \$3.70 | \$34.64 | 3.09% |
| 2012 | 32.32 | 3.86 | 36.19 | 4.46 |
| 2013 | 33.73 | 4.21 | 37.93 | 4.83 |
| 2014 | 35.09 | 4.22 | 39.30 | 3.61 |
| 2015 ⁽¹⁾ | 36.49 | 4.38 | 40.87 | 3.99 |

Source: OIR and FLSO; unaudited; actual collections for 2011-2014 and the first three quarters of 2015.

Note: Subject to change as company/agent adjustments are reported. Totals may not add due to rounding.

- (1) The 2015 Direct Written Premium amounts are actual for the first three quarters of 2015 and the fourth quarter is projected based on the lowest quarterly growth rate for the 2015 of 3.7%. Surplus Lines and Independently Procured Coverage amounts are projected for 2015 at the lowest quarterly growth rate of the Direct Written Premium for 2015 of 3.7%.

Assessable Lines. The following constitute Assessable Lines subject to Assessments under the Act and applicable administrative rules of the FHCF:

- Fire
- Allied Lines
- Multiple Peril Crop
- Farmowners Multiple Peril
- Homeowners Multiple Peril
- Commercial Multiple Peril (non-liability)
- Commercial Multiple Peril (liability)
- Mortgage Guaranty
- Ocean Marine
- Inland Marine
- Financial Guaranty
- Medical Malpractice*
- Earthquake
- Other Liability
- Products Liability
- Private Passenger Auto No-Fault
- Other Private Passenger Auto Liability
- Commercial Auto No-Fault
- Other Commercial Auto Liability
- Private Passenger Auto Physical Damage
- Commercial Auto Physical Damage
- Aircraft (all perils)
- Fidelity
- Surety
- Burglary and Theft
- Boiler and Machinery
- Credit
- Warranty
- Aggregate Write-Ins for other Lines of Business

Source: Florida Office of Insurance Regulation, Market Research Unit.

* Medical Malpractice policies are exempt from Assessments relating to Covered Event(s) occurring through May 31, 2016.

Lines of insurance included in Assessable Lines may be modified by the State Legislature, subject to the covenant in the Act that the State will not impair the rights and remedies of Owners of the 2016A Bonds. See "PLEDGE AND SECURITY FOR 2016A BONDS – Non-Impairment" herein. In addition, certain hospitals may form alliances to provide self-insurance which would not be subject to Assessments.

The following table provides a summary of the historical direct written premiums for the Admitted Lines and Surplus Lines by major categories of lines of insurance.

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**Historical Direct Written Premiums for Admitted Lines and Surplus Lines Insurers
(Amounts are in billions for a year)**

| Calendar Year | Homeowner | | Auto | | Products and Other Liability | | Other | | Total | |
|------------------|-----------|-----|---------|-----|---------------------------------|----|--------|-----|---------------------|------|
| | Amount | % | Amount | % | Amount | % | Amount | % | Amount ¹ | % |
| 2011 | \$7.88 | 23% | \$14.34 | 41% | \$3.05 | 9% | \$9.36 | 27% | \$34.64 | 100% |
| 2012 | 8.37 | 23 | 15.06 | 42 | 1.87 | 5 | 10.88 | 30 | 36.19 | 100 |
| 2013 | 8.82 | 23 | 15.65 | 41 | 2.08 | 5 | 11.38 | 30 | 37.93 | 100 |
| 2014 | 8.82 | 22 | 16.27 | 41 | 2.85 | 7 | 11.36 | 29 | 39.30 | 100 |

Source: FHCF; Unaudited. 2015 information is not yet available by line of business.

⁽¹⁾ The amounts are adjusted for allowed adjustments in the amounts of \$0.46 billion, \$0.43 billion, \$0.37 billion, and \$0.33 billion for 2011, 2012, 2013 and 2014, respectively, that were proportionately allocated among the four lines of business. Such adjustment amounts are not available by subject line.

Collection of Assessments. OIR is responsible for verifying the accuracy and timely collection and remittance of Assessments. Information used by OIR in the verification process is transmitted directly to OIR by insurers for all Assessable Lines other than Surplus Lines and Independently Procured Coverage. Assessments relating to Surplus Lines and Independently Procured Coverage under Section 626.938, Florida Statutes are remitted as directed by the FLSO. The FLSO is required to assist the FHCF in ensuring the accurate and timely collection and remittance of the Assessments. OIR has the authority to enforce the collection and remittance of Assessments. Pursuant to reports of OIR and FLSO, historically, substantially all of the Assessments have been remitted to the FHCF on a timely basis.

While an insurer is liable under State law for all Assessments it collects from policyholders, policyholders, not insurers, are required to pay the Assessments. Policyholders are liable for Assessments only to the extent policyholders wish to retain the insurance on which the Assessment is based. Insurers are required to treat the failure of a policyholder to pay the Assessment as a failure to pay premium, which permits an insurer to cancel the policy. Other than having their insurance policy cancelled for non-payment of premium, policyholders are not personally liable for payment of Assessments and are not subject to collection proceedings to pay the Assessment due.

Overlapping Assessment Bases. Citizens also has the power under State law to levy assessments on substantially the same lines of insurance assessable by the FHCF. Pursuant to Citizens' enabling statutes, such assessments vary in amounts from not to exceed 2% for regular assessments related to the Coastal Account to not to exceed 10% for emergency assessments in each of Citizens' three accounts. Under the Citizens statute, policies and insurers subject to assessment (referred to as "subject lines of business") are all property and casualty insurance except for workers' compensation, medical malpractice, accident and health insurance, and insurance written under the National Flood Insurance Program or the National Crop Insurance

Program. This listing is identical to the types of insurance subject to assessment by the FHCF, except that the FHCF statute provides that the exemption for medical malpractice insurance expires on May 31, 2016, and does not refer to the National Crop Insurance Program.

The Florida Insurance Guaranty Association (“FIGA”) is another statutorily created entity with the power to levy assessments on property and casualty insurers and their policyholders. FIGA pays policyholder claims against certain insolvent property and casualty insurers. FIGA assessments are divided between two accounts – automobile liability and physical damage, and “all other insurance”, which includes most property and casualty insurance written by admitted insurers other than workers’ compensation and those lines excluded by Section 631.52, Florida Statutes.

FIGA funds each account with assessments on insurers writing policies covered by that account in an amount up to 2 percent of the insurer’s net written premium for the kinds of insurance included in that account. FIGA may impose an additional 2 percent annual emergency assessment on certain insurers in the “all other insurance” account for hurricane-related claims.

To the extent that the assessment bases of the FHCF, Citizens and FIGA overlap, policyholders will incur the cost of cumulative assessments imposed by such entities. None of these entities currently levies any assessments.

Collection of Assessments and Reimbursement Premiums from Companies in Receivership

The risk of nonpayment or delinquent payment on the 2016A Bonds is dependent in part upon the amount of moneys received from Reimbursement Premiums and Assessments and the timeliness of their payment to the FHCF. The amount of moneys received from Reimbursement Premiums and Assessments (see "DEBT SERVICE COVERAGE - Historical and Projected Debt Service Coverage Total Outstanding Parity Obligations" herein) and the timeliness of their payment to the FHCF are dependent in part on the solvency of insurers in that, under certain circumstances, the insolvency of an insurer could affect its ability to make such payments to the FHCF.

Under State law, when an insurer becomes insolvent, it is placed under the control of the Division of Rehabilitation and Liquidation of the Florida Department of Financial Services. State law establishes priorities for the payment of claims against an insurer in liquidation. Liabilities become fixed as of the date of filing the petition for liquidation. Holders of claims which are secured by a pledge of a particular asset and holders of claims described as special deposit claims may discharge their claim against the security pledged or the special deposit, prior to other claims. Special deposit claims are claims secured by a deposit made pursuant to statute for the security or benefit of a limited class or classes of persons. To the extent that

Assessments and Reimbursement Premiums are not considered secured claims or special deposit claims, they would likely be considered claims of general creditors.

After the payment of secured creditors and special deposit creditors, there are eleven additional classes of claims. All approved claims in a class must be paid in full before any payment is made to the next lower class. Within a class, all approved claims are paid equal pro-rata shares if there are not sufficient funds to pay the entire class in full. Claims of general creditors are sixth in the hierarchy of eleven classes of claims.

Although no assurance can be given as to the continued timeliness of payments of Reimbursement Premiums or Assessments, despite certain insurer insolvencies, including a few that have not paid the Reimbursement Premiums, the FHCF has collected substantially all Reimbursement Premiums and Assessments billed to Participating Insurers during the past five Contract Years.

INVESTMENT POLICY OF THE FHCF

Upon the issuance of the 2016A Bonds, the FHCF expects to have three investment portfolios. One investment portfolio invests the FHCF Corpus and the other two portfolios will invest the proceeds of the 2013A Bonds and the 2016A Bonds. Together, the aggregate principal balance of the FHCF Corpus and the 2013A Bonds portfolios is approximately \$14.649 billion. Upon issuance of the 2016A Bonds, it is expected that the net proceeds of such 2016A Bonds will be invested in the 2016A portfolio. The Act authorizes the SBA to invest moneys in the FHCF pursuant to Sections 215.44-215.515, Florida Statutes, which are the statutory provisions authorizing and governing the investment of other moneys held in trust by the SBA.

Under the Pledge Agreement, proceeds of the 2016A Bonds will be held in a separate subaccount in the Covered Events Relief Fund established with the FHCF by the Pledge Agreement and will be invested pursuant to the investment policy to ensure the availability of those funds to reimburse Participating Insurers for Losses relating to any future Covered Events.

Moneys in the FHCF's portfolio may only be invested at the direction of the SBA in Investment Obligations, which are investments authorized under Section 215.47, Florida Statutes. The SBA investment policy covering FHCF assets is designed to provide adequate liquidity by using highly liquid short-term investment strategies. Liquidity is a primary concern for the FHCF since insurers may file claims weekly, and investment strategies are planned accordingly. The investment policy is periodically reviewed by the SBA and is subject to change.

Because permitted investments are exposed to changes due to market fluctuations, the daily net asset value (NAV) may be lower than par. The lower NAV may result in a lower

market value than the original bond issue amount. Such a decline may result in insufficient funds being available, when needed, to pay Losses and other liabilities and expenses, including debt service on the Parity Obligations and the 2016A Bonds.

The primary investment objective of the FHCF's investment policy is defined by the following prioritized goals: (i) liquidity, so that reimbursement to insurers can be paid in a timely manner; (ii) safety of principal; and (iii) competitive returns. The FHCF's investment policy provides for a high level of liquidity such that assets can be converted to cash on a timely basis in order to match insurer loss reimbursement needs.

The FHCF's portfolios include only short-term, high quality and highly liquid fixed income securities. At the time of purchase, all investments must be rated from at least two of the three rating agencies, Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P"), and Fitch Ratings ("Fitch"), except for money market mutual funds and repurchase agreements, which must have at least one rating. The minimum ratings for short-term investments are "P-1" by Moody's, "A-1" by S&P, and/or "F1" by Fitch. The minimum ratings for long-term investments are "A2" by Moody's, "A" by S&P, and/or "A" by Fitch. Permitted fixed income securities and their diversification limits are described below:

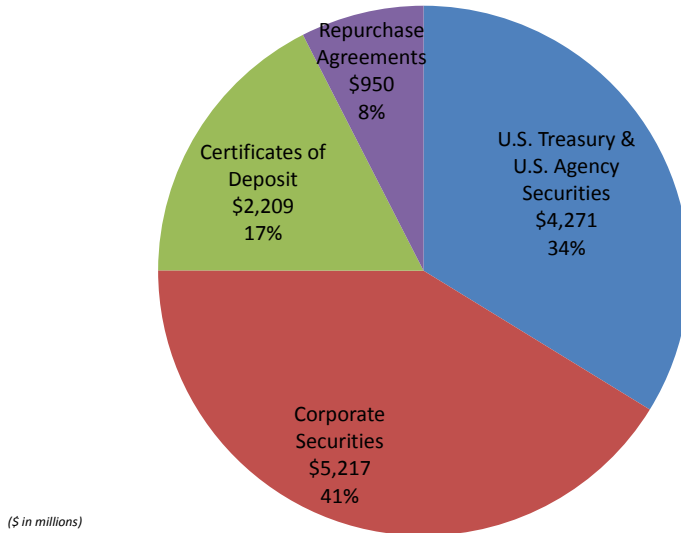
- Corporate debt securities (not more than 60% of total portfolio amortized cost);
- U.S. Treasury securities and U.S. Government Agency securities (at least 40% of total portfolio amortized cost);
- Repurchase Agreements collateralized at least 102% with U.S. Government, Agency, or Agency Mortgage Backed Securities (not more than 25% of total portfolio amortized cost).

The FHCF's intent is to have a short-term portfolio that can provide ready liquidity at a price approximating amortized cost. Limiting the duration of investments in the portfolios is one important way that this goal can be achieved. The following duration restrictions apply:

- Final maturities shall not exceed 545 days, with the exception of Government securities and Agency securities, which shall not exceed 1,188 days, commercial paper which shall not exceed 270 days, and asset-backed commercial paper which shall not exceed 180 days.
- No more than 30% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 545 days.
- The dollar weighted average maturity to reset of the portfolios shall not exceed 270 days, calculated using the interest rate reset period for any Variable Rate Obligations ("VROs"), and the dollar weighted average final maturity of the portfolios shall not exceed 540 days, calculated using the stated legal maturity for any VROs.
- The maximum term for Repurchase Agreements shall not exceed 30 days.

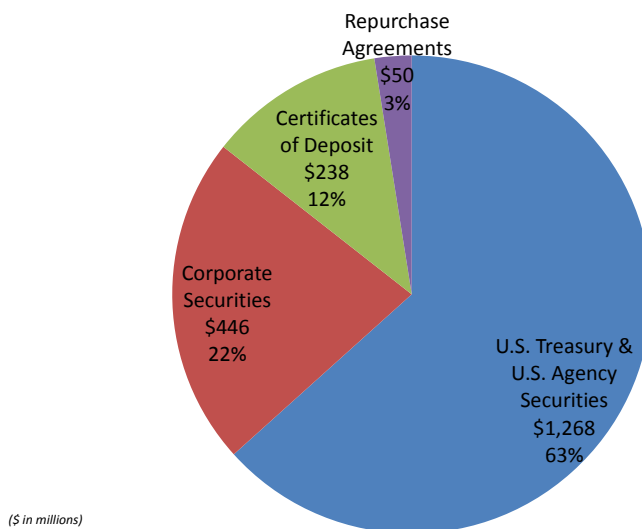
As of December 31, 2015, the FHCF's Operating Funds portfolio (which is a part of the FHCF corpus) totals \$12.647 billion and has an average duration of 292 days with over 39% maturing during the next 90 days.

FHCF Operating Funds Portfolio Distribution by Market Value (\$12.6B)



As of December 31, 2015, the FHCF's Series 2013A portfolio totals \$2.002 billion and has an average duration of 335 days with over 21% maturing during the next 90 days. Over 80% of the total FHCF portfolio of \$14.649 billion is invested in "AA" or "AAA" securities.

FHCF Series 2013A Portfolio Distribution by Market Value (\$2.0B)



Source: SBA Portfolio Summary. Information as of December 31, 2015.

FUTURE LEGISLATIVE AND REGULATORY CHANGES

The FHCF is a tax-exempt trust fund created by state law (Section 215.555, Florida Statutes, referred to herein as the “FHCF statute”). The Florida Legislature has amended the FHCF statute more than 30 times since its original enactment in 1993. The most recent legislative changes occurred in 2014.

Future actions of the Florida Legislature could involve significant amendments to the FHCF statute or other aspects of Florida insurance law which could have an adverse impact on the FHCF’s financial position, operations, assessment base, or tax-exempt status. However, the FHCF statute includes covenants of the State of Florida to the effect that it will not:

(i) limit or alter the rights of the FHCF and the Corporation to fulfill the terms of any agreements made with holders of the Corporation’s obligations, including holders of the 2016A Bonds, or

(ii) impair in any way the rights and remedies of holders of the Corporation’s obligations, including holders of the 2016A Bonds,

as long as such obligations of the Corporation remain outstanding unless adequate provision has been made for the payment of such obligations of the Corporation. The FHCF statute also includes the covenant of the State of Florida that it will not limit or alter provisions prohibiting the FHCF and the Corporation from filing a voluntary petition under Chapter 9 of the Federal Bankruptcy Code while such obligations, including the 2016A Bonds, are outstanding.

The Florida Legislature’s 2016 Regular Session runs from January 12, 2016 through March 11, 2016. Although it is anticipated that bills affecting the FHCF may be considered during the Session, the SBA is not aware of any filed bills materially impacting the FHCF as of the date hereof. However, regardless of any potential legislative activity in 2016, the FHCF’s ability to meet its obligations under the 2016A Bonds is protected by Article I, Section 10 of the Florida Constitution, which prohibits laws impairing the obligation of contracts.

Therefore, based on the foregoing, any legislation that may be enacted in 2016 or future years is not expected to have a material effect on the FHCF’s ability to meet future obligations with respect to the 2016A Bonds or the Outstanding Parity Obligations.

LITIGATION

General

There is no litigation of any nature now pending against the Corporation or the SBA, or, to the best knowledge of the Corporation and the SBA, threatened, seeking to restrain or enjoin

the issuance, sale, execution or delivery of the 2016A Bonds or in any way contesting or affecting the validity of the 2016A Bonds or any proceedings of the Corporation or the SBA taken with respect to the issuance or sale thereof. There is no litigation of any nature now pending against the Corporation or the SBA, or, to the best knowledge of the Corporation or the SBA, threatened, that in any way questions or affects the validity of the pledge or application of any moneys or security provided for the payment of the 2016A Bonds.

Previous Litigation

After the FHCF's inception in 1993 and until final resolution of the issues in 1996, the FHCF was challenged by over 40 insurance companies on a number of grounds in civil and administrative actions in the State. The Circuit Court of the Second Judicial Circuit in and for Leon County, Florida upheld the constitutionality of the FHCF under the State Constitution. This decision was affirmed by decision of the First District Court of Appeal on August 1, 1995. The State Supreme Court affirmed the decisions of the circuit court and the appellate court by opinion dated June 27, 1996 in *American Bankers Insurance Company, et al. v. Chiles*, 675 So.2d 922 (Fla. 1996) ("*American Bankers*"). As a result of *American Bankers*, the plaintiffs' insurance companies dismissed all other civil and administrative actions.

The constitutionality of the FHCF under the United States Constitution was challenged by the Vesta Insurance Company in federal district court. The federal district court upheld the constitutionality of the FHCF on October 25, 1996 in *Vesta Fire Insurance Corporation, f/k/a Liberty National Fire Insurance Company, Vesta Insurance Corporation and Sheffield Insurance Corporation, Alabama corporations, Plaintiffs, v. State of Florida, Department of Insurance, William Nelson in his capacity as Insurance Commissioner, State Board of Administration, Ash Williams, Jr., in his capacity as Executive Director, Defendants*.

Validation Proceedings Pursuant to Florida Statutes

In July 1996, the Corporation adopted a resolution authorizing the execution and issuance of not to exceed \$10 billion in debt of the Corporation. The Act, as originally enacted, required that the Corporation validate the issuance of its bonds in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida (the "Circuit Court"), pursuant to Chapter 75, Florida Statutes. During the 2006 Legislative Session ended May 5, 2006, the Act was amended to remove the validation requirement.

On November 12, 1996, in connection with the original validation requirement, and pursuant to authority granted by the authorizing resolution, the Corporation filed a validation complaint in the Circuit Court. In accordance with the requirements of State law, the State Attorney for Leon County formally contested the validation, raising ten points in opposition. Several of the defenses asserted by the State Attorney were based upon the State Constitution including: (i) the FHCF was not properly created under Article III, Section 19(f)(1) of the State Constitution; (ii) the FHCF did not contain a sunset provision required by Article III, Section

19(f)(2) of the State Constitution; (iii) the Corporation's debt would pledge the State's credit in violation of Article VII, Sections 10 and 11(a) of the State Constitution and (iv) the revenues of the Corporation were tax revenues pledged to the debt without voter approval.

Following a properly noticed hearing, the Circuit Court found in favor of the Corporation, specifically rejecting the State's Attorney constitutional objections. The Circuit Court determined that the FHCF had been properly created and was exempt from the sunset requirement pursuant to Article III, Section 19(f)(3) of the State Constitution. Moreover, after determining that receipts of the FHCF were not State tax revenues, the Circuit Court found that debt of the Corporation, a "legal entity separate and distinct from the State and its agencies," would be payable solely from receipts of the FHCF. Therefore, debt of the Corporation would not pledge the full faith and credit of the State and did not require voter approval.

As then required by the Act, the State Attorney for Leon County filed a mandatory appeal directly with the State Supreme Court. In *State of Florida, et al. v. Florida Hurricane Catastrophe Fund Finance Corporation, et al.* (1997), the State Supreme Court affirmed the trial court's judgment.

The proceedings described in this section and the "Previous Litigation" section above are dispositive of any material State constitutional questions that could have been raised as to the FHCF, the Corporation and the 2016A Bonds. As a result of certain material changes to the Master Indenture and the Pledge Agreement since the conclusion of the validation proceedings described above, no representation can be made that the 2016A Bonds have been validated by the Circuit Court. However, as a result of the amendment to the Act in 2006 removing the validation requirement, validation of the 2016A Bonds is no longer a prerequisite to the valid issuance of the 2016A Bonds under the Act. See "APPROVAL OF LEGALITY" herein and "APPENDIX E, FORM OF APPROVING OPINION."

ENFORCEABILITY OF REMEDIES

The remedies available to the holders of the 2016A Bonds upon an Event of Default under the Master Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under the existing constitutional and statutory law and judicial decisions, including specifically the Federal Bankruptcy Code, the remedies specified in the Master Indenture and other remedies under applicable law may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2016A Bonds will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery. See "PLEDGE AND SECURITY FOR 2016A BONDS—No Bankruptcy" herein for a discussion regarding the circumstances under which neither the FHCF nor the Corporation will have the ability to file a voluntary petition under Chapter 9 of the Federal Bankruptcy Code.

TAX MATTERS

In the opinion of Nabors, Giblin & Nickerson, P.A., Bond Counsel, interest on the 2016A Bonds is not excluded from gross income of the holders thereof for Federal income tax purposes. Interest on the 2016A Bonds may also be subject to state or local income taxation under applicable state or local laws. Purchasers of the 2016A Bonds should consult their own tax advisors as to the income tax status of interest on the 2016A Bonds in their particular state or local jurisdiction.

Except as provided above, Bond Counsel is not rendering any opinion regarding the tax consequences of owning the 2016A Bonds. There are several tax-related issues attendant with ownership of the 2016A Bonds including, but not limited to, treatment of original issue discount or premium, if any, treatment of secondary market discount or premium, if any, reporting requirements and possible application of backup withholding tax, determination of an owner's tax basis and gains or losses in connection with sales, exchanges or other dispositions of the 2016A Bonds, foreign ownership, ownership by certain employee benefit plans and other retirement plans and other issues. Many of the rules related to these issues are complicated and purchasers of the 2016A Bonds should consult their own tax advisors and professionals as to the tax consequences of the purchase, ownership and disposition of the 2016A Bonds under Federal, state, local, foreign and other tax laws.

The opinion of Bond Counsel is not intended or written by Bond Counsel to be used and cannot be used by a holder of the 2016A Bonds for the purpose of avoiding penalties that may be imposed on the holder of the 2016A Bonds. The opinion of Bond Counsel is provided to support the promotion or marketing of the 2016A Bonds.

LEGALITY FOR INVESTMENTS

By the terms of the Act, the 2016A Bonds are legal investments under the Act for all public bodies of the State, banks, trust companies, savings banks, savings associations, savings and loan associations, investment companies, administrators, executors, trustees, fiduciaries, insurance companies and associations, other persons carrying on an insurance business and all other persons who are now or may hereafter be authorized to invest in bonds or other obligations of the State. The 2016A Bonds also constitute eligible securities for deposit as collateral for the security of any State, county, municipal or other public funds.

APPROVAL OF LEGALITY

Legal matters incident to the authorization and validity of the 2016A Bonds are subject to the approving opinion of Nabors, Giblin & Nickerson, P.A., Tampa, Florida. The form of opinion regarding the validity of the 2016A Bonds is attached to this Official Statement as "APPENDIX E, FORM OF APPROVING OPINION" and will be available at the time of delivery

of the 2016A Bonds. The actual legal opinion to be delivered by Bond Counsel may vary from the text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of this Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or express any opinion concerning any of the matters referenced in the opinion subsequent to its date.

Certain legal matters will be passed upon for the Corporation by Nabors, Giblin & Nickerson, P.A., Tampa, Florida. Certain legal matters will be passed upon for the SBA and the FHCF by their respective in-house counsels and by Bryant Miller Olive P.A., Tallahassee, Florida, Disclosure Counsel, and for the Underwriters by Greenberg Traurig, P.A., Miami, Florida.

RATINGS

Moody's, S&P and Fitch have assigned municipal long-term ratings of "Aa3" (stable), "AA" (stable), and "AA" (stable), respectively, to the 2016A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; S&P, 55 Water Street, New York, New York 10041; and Fitch, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2016A Bonds.

AUDITED FINANCIAL STATEMENTS

The financial statements of the FHCF for the Fiscal Years ended June 30, 2015 and June 30, 2014 and the report thereon of KPMG LLP (the "Independent Accountant") are included in this Official Statement as "APPENDIX B, FINANCIAL STATEMENTS OF THE FLORIDA HURRICANE CATASTROPHE FUND." Such statements speak only as of their date. The Corporation is treated as a blended component unit of the FHCF. Accordingly, it does not issue separate stand-alone audited financial statements. Accounts of the Corporation and results of its operations are blended with those of the FHCF for financial statement presentation purposes. The financial statements of the FHCF, including the report of the Independent Accountant, have been included in this Official Statement as public documents, and the consent of the Independent Accountant to include such documents in this Official Statement was not requested. The Independent Accountant has not been engaged to perform and has not performed since the date of its report included herein as APPENDIX B, any procedures on the financial statements addressed in that report. The Independent Accountant also has not performed any procedures related to this official statement.

FINANCIAL ADVISOR

Raymond James & Associates, Inc., St. Petersburg, Florida is serving as Financial Advisor to the Corporation and the FHCF with respect to the sale of the 2016A Bonds. The Financial Advisor assisted in matters relating to the planning, structuring and issuance of the 2016A Bonds. Raymond James & Associates, Inc. did not engage in any underwriting activities with regard to the issuance and sale of the 2016A Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and is not obligated to review or ensure compliance with the undertaking by the Corporation and SBA to provide continuing secondary market disclosure.

UNDERWRITING

The 2016A Bonds are being purchased by J.P. Morgan Securities LLC, on behalf of itself and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, and Wells Fargo Bank, National Association (collectively, the "Underwriters"). The Underwriters have agreed to purchase the 2016A Bonds at a price of \$1,197,848,797.17, which represents the par amount of the 2016A Bonds less an underwriting discount of \$2,151,202.83.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the Corporation and to persons and entities with relationships with the Corporation, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Corporation (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Corporation. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the 2016A Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase 2016A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any 2016A Bonds that such firm sells.

Citigroup Global Markets Inc., an underwriter of the 2016A Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. (“TMC”) and UBS Financial Services Inc. (“UBSFS”). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the 2016A Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC., an underwriter of the 2016A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2016A Bonds.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association acting through its Municipal Products Group (“WFBNA”). WFBNA, one of the underwriters of the 2016A Bonds, has entered into an agreement (the “Distribution Agreement”) with its affiliate, Wells Fargo Advisors, LLC (“WFA”), for the distribution of certain municipal securities offerings, including the 2016A Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the 2016A Bonds with WFA. WFBNA also utilizes the distribution capabilities of its affiliate Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the 2016A Bonds. In connection with utilizing the distribution capabilities of WFSLLC, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

In order to facilitate the offering of the 2016A Bonds, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the 2016A Bonds. Specifically, the Underwriters may sell more 2016A Bonds than they are obligated to purchase in connection with the offering of the 2016A Bonds, creating a naked short position for their own respective account. The Underwriters must close out any naked short position by

purchasing 2016A Bonds in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the 2016A Bonds in the open market after pricing that could adversely affect investors who purchase 2016A Bonds in the offering. As an additional means of facilitating the offering of 2016A Bonds, the Underwriters may bid for, and purchase, these 2016A Bonds in the open market to stabilize the price of these 2016A Bonds. Finally, the Underwriters may also reclaim on behalf of the underwriting syndicate or for themselves selling concessions allowed to an underwriter or a dealer for distributing these 2016A Bonds in the offering, if the Underwriters repurchase previously distributed 2016A Bonds to cover short positions or to stabilize the price of these 2016A Bonds. Any of these activities may raise or maintain the market price of these 2016A Bonds above independent market levels or prevent or retard a decline in the market price of these 2016A Bonds. The Underwriters are not required to engage in these activities, and may end any of these activities at any time. Any such activities shall be conducted in compliance with all applicable laws and regulations.

CONTINUING DISCLOSURE

The Corporation and the SBA, acting as the governing body and administrator of the FHCF, will undertake, for the benefit of the beneficial owners and Owners of the 2016A Bonds, to provide, or cause to be provided, certain financial information and operating data and to provide notices of certain material events. Such financial information and operating data will be transmitted to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR"), which currently consists of only the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA"). Notices of material events will be transmitted to each NRMSIR or will be transmitted to the Municipal Securities Rulemaking Board. Such financial and operating data and notices of material events will also be transmitted to the state information depository (if a state information depository is established for the State). As of the date hereof, no state information depository has been established for the State. The form of the undertaking is set forth in "APPENDIX F, FORM OF CONTINUING DISCLOSURE AGREEMENT." This undertaking is being made in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule").

Neither the Corporation nor the SBA has failed, in any material respect, to make any filings required by their continuing disclosure undertakings in the past five years. Due to a clerical error, the financial information and operating data relating to the Corporation that was filed on March 29, 2012 did not properly link to the CUSIP number for the 2007A Notes.

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MISCELLANEOUS

The references herein to the Act, the Master Trust Indenture, the Seventh Supplemental Indenture, the Pledge Agreement, the 2016A Bonds, and other materials are brief descriptions of certain provisions thereof. Such descriptions do not purport to be complete, and for full and complete statements of such provisions reference is made to such instruments, documents and other materials, copies of which are on file with the Corporation and at the principal corporate trust office of the Master Trustee.

The information contained in this Official Statement has been compiled or prepared from information obtained from the Corporation, the SBA, the FHCF and other sources deemed to be reliable and, while not guaranteed as to completeness or accuracy, is believed to be correct as of this date. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution and delivery of this Official Statement have been duly authorized by the Corporation and the SBA as Administrator of and on behalf of the FHCF.

STATE BOARD OF ADMINISTRATION FINANCE
CORPORATION

STATE BOARD OF ADMINISTRATION OF
FLORIDA, as Administrator of and on behalf of the
Florida Hurricane Catastrophe Fund

APPENDIX A
STATE OF FLORIDA – GENERAL INFORMATION

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STATE OF FLORIDA
DEMOGRAPHIC INFORMATION

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The information contained in this Appendix is intended to provide an overview of the organization of the State's general economic, financial and demographic data which might be of interest in connection with the foregoing Official Statement. All information contained herein has been obtained from sources believed to be accurate and reliable. Estimates of future results are statements of opinion based on the most recent information available, which is believed to be accurate. Such estimates are subject to risks and uncertainties which may cause actual results to differ materially from those set forth herein.

DEMOGRAPHIC & ECONOMIC INFORMATION

Population

Florida ranks as the third most populous state, with a population of 21.4 million as of April 1, 2015. This represents nearly a 1.6% increase from April 1, 2014.

While the State's population grew by 24.0% between 2000 and 2015, annual population growth has slowed considerably in recent years. Florida's average annual population growth rate was 1.7% from 2000 to 2010, which exceeded the nation's average annual population growth rate of 0.9% over the same period. However, Florida's average annual population growth rate decreased to 0.8% between 2011 and 2013, which was on pace with the US average annual growth rate of 0.8% for the same period. In 2014 and 2015 Florida's average annual population growth rate rebounded to 1.44% while the U.S. average annual growth rate remained at 0.8%. Typically there are two drivers of population growth – natural increases (births minus deaths) and net migration (people moving into the State minus people moving out of the State). Historically, Florida's population growth has been driven by positive net

migration; however, net migration fell to record low levels during much of 2008 and into 2009, during which period natural increase exceeded net migration. Net migration has returned as a decisive factor in 2015 as Florida's population continues to increase.

The age distribution of Florida's population differs from that of the nation because Florida has a somewhat larger elderly population and a slightly smaller working age population than the nation. Florida's 2010 population aged 65 or older was 17.3% of the State's population and is projected to increase to 21.0% by 2020. Whereas the nation's population aged 65 or older is approximately 14.9% and is expected to increase to 16.9% by 2020. Florida's 2010 working age population (18-64) was 62.0% of the total population and is expected to decline to 58.8% in 2020, and by comparison, the working age population (18-64) in the U.S. is 59.5% of total population currently and projected to decline to 58.1%.

Population Change Florida and U.S., 1980 - 2020 (April 1 census day figures)

| <u>Year</u> | <u>Florida</u> | | <u>U. S.</u> | |
|------------------|-----------------------|-----------------|-----------------------|-----------------|
| | <u>(in thousands)</u> | <u>% change</u> | <u>(in thousands)</u> | <u>% change</u> |
| 1980 | 9,747 | - | 226,546 | - |
| 1990 | 12,938 | 32.7% | 248,710 | 9.8% |
| 2000 | 15,983 | 23.5 | 281,422 | 13.2 |
| 2010 | 18,801 | 17.6 | 310,233 | 10.2 |
| 2020 (projected) | 21,372 | 13.7 | 341,387 | 10.0 |

Source: Office of Economic and Demographic Research, The Florida Legislature (December, 2015) and U.S. Census Bureau.

Florida Population Age Trends, 2010-2030

| <u>Age</u> | <u>2010</u> | | <u>2020</u> | | <u>2030</u> | |
|------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>Population</u> | <u>% of total</u> | <u>Population</u> | <u>% of total</u> | <u>Population</u> | <u>% of total</u> |
| 0-4 | 1,073,506 | 5.7% | 1,163,815 | 5.5% | 1,287,190 | 5.4% |
| 5 to 17 | 2,928,585 | 15.6 | 3,120,483 | 14.7 | 3,377,536 | 14.1 |
| 18-24 | 1,739,657 | 9.3 | 1,810,880 | 8.5 | 1,968,570 | 8.2 |
| 25-44 | 4,720,799 | 25.1 | 5,215,429 | 24.6 | 5,889,327 | 24.7 |
| 45-64 | 5,079,161 | 27.6 | 5,460,891 | 25.7 | 5,410,450 | 22.7 |
| 65+ | <u>3,259,602</u> | 17.3 | <u>4,465,169</u> | 21.0 | <u>5,939,493</u> | 24.9 |
| Total | 18,801,310 | | 21,236,667 | | 23,872,566 | |

Source: Office of Economic and Demographic Research, The Florida Legislature. (Demographic Estimating Conference Database, February, 2015)

Florida's Gross Domestic Product

Florida's Gross Domestic Product ("GDP") represents the value of goods and services produced by the State, and serves as a broad measure of the State's economy. The State's GDP for 2013 is estimated at \$800 billion, which is about 3.0% higher than 2012 GDP of \$777 billion.

Florida's GDP has increased 6.3% over the past five years from \$753 billion in 2008 to \$800 billion in 2013. Private industry accounted for 88% of the State's 2013 GDP and government accounted for the remaining 12%. Real estate was the largest single industry, accounting for 17% of Florida's 2013 GDP.

The following table compares the components of the State's GDP over the most recent five-year period available.

Florida's Gross Domestic Product by Major Industry 2008 and 2013

(millions of chained 2005 dollars)¹

| <u>Industry</u> | <u>2008</u> | <u>% of</u> | <u>2013</u> | <u>% of Total</u> |
|---|---------------|-------------|----------------|-------------------|
| Agriculture, forestry, fishing and hunting..... | \$5,732 | 0.8% | \$9,086 | 1.1% |
| Mining..... | 1,930 | 0.3 | 2,478 | 0.3 |
| Utilities | 14,482 | 1.9 | 15,173 | 1.9 |
| Construction | 46,291 | 6.1 | 34,705 | 4.3 |
| Manufacturing | 39,949 | 5.3 | 39,616 | 4.9 |
| Wholesale trade | 51,335 | 6.8 | 56,490 | 7.1 |
| Retail trade..... | 55,576 | 7.4 | 61,580 | 7.7 |
| Transportation and warehousing, excluding Postal Services | 22,266 | 3.0 | 24,540 | 3.1 |
| Information | 32,063 | 4.3 | 30,927 | 3.9 |
| Finance and insurance..... | 36,645 | 4.9 | 44,522 | 5.6 |
| Real estate and rental and leasing | 130,389 | 17.3 | 133,153 | 16.6 |
| Professional and technical services..... | 50,707 | 6.7 | 54,603 | 6.8 |
| Management of companies and enterprises..... | 10,162 | 1.3 | 12,568 | 1.6 |
| Administrative and waste services..... | 30,595 | 4.1 | 31,635 | 4.0 |
| Educational services | 6,787 | 0.9 | 8,232 | 1.0 |
| Health care and social assistance | 58,298 | 7.7 | 69,331 | 8.7 |
| Arts, entertainment and recreation..... | 13,065 | 1.7 | 15,328 | 1.9 |
| Accommodation and food services..... | 30,219 | 4.0 | 35,170 | 4.4 |
| Other services, except government | 20,325 | 2.7 | 21,284 | 2.7 |
| Government | <u>96,197</u> | 12.8 | <u>100,069</u> | 12.5 |
| Total ² | \$753,013 | | \$800,490 | |

Source: U.S. Department of Commerce, Bureau of Economic Analysis (June, 2014).

¹ A measure of real output and prices using 2005 as the base year and applying annual - weighted indexes to allow for changes in relative prices and associated

² purchasing patterns over time, as developed by the Bureau of Economic Analysis.
May not add, due to chaining formula and rounding.

Tourism is not treated as a separate industry sector, but remains an important aspect of the Florida economy. Its financial impact is reflected in a broad range of market sectors, such as transportation, communications, retail trade and services, and in State tax revenues generated by business activities which cater to visitors, such as hotels, restaurants, admissions and gift shops. According to *Visit Florida*, the direct support organization for the Florida Commission on Tourism, approximately 98.5 million people visited the State in 2014, a 4.6% increase over the final 2013 total. Leisure and hospitality services accounted for 6.4% of the State's non-farm employment in 2014. According to the Florida Department of Business and Professional Regulation, as of January 1, 2016, 51,022 food service establishments were licensed with seating capacity of 4,108,222, and 39,364 lodging establishments were licensed with 1,615,257 total units. According to the Florida Department of Environmental Protection, visitors to the State's public parks and recreation areas totaled 23.7 million for Fiscal Year 2014, a 7.3% decrease from the prior year. In 2014, accommodation and food services contributed 4.4% of the State's GDP, and arts, entertainment and recreation contributed 2.0%.

Transportation of goods and passengers is facilitated by Florida's integrated transportation system. The State has approximately 122,088 miles of roads, 15 freight railroads with 2,753

miles of track, and AMTRAK passenger train service. There are 30 fixed route transit systems. There are 780 aviation facilities, of which 129 are available for public use; 20 provide scheduled commercial service and 15 provide international service. According to Federal Aviation Administration figures, based on calendar year 2014 enplanements, five Florida airports were among the top 50 in the U.S. and three were among the top 50 based on cargo weight. In that year, Miami International Airport ranked 12th in North America in passenger traffic and ranked 5th in North America in cargo volume. Florida also has 15 deep water ports, 9 major shallow water ports, and 4 significant river ports, many of which are interconnected by the State's inland waterway system.

In 2014, agriculture, forestry and fishing constituted only about 0.6% of GDP. In 2012, Florida ranked 11th for all crop production according to the U.S. Department of Agriculture. The State ranked 1st in production of oranges and sugar cane and ranked 2nd for production of vegetables and melons, tomatoes and strawberries.

Construction activity, which constituted approximately 6.1% of Florida's 2013 GDP, is another factor to consider in analyzing the State's economy. The following table shows housing starts and construction values from 2003 through 2013.

Florida Housing Starts and Construction Value: 2003-2013⁽¹⁾

| Year | Housing Starts (thousands) | | Construction Value (millions of current dollars) | | | |
|------|----------------------------|--------------|--|--------------|-----------------|------------|
| | Single Family | Multi-Family | Single Family | Multi-Family | Non-Residential | Total |
| 2003 | 146.7 | 68.8 | \$25,615.4 | \$7,052.4 | \$17,111.1 | \$49,778.8 |
| 2004 | 172.4 | 81.6 | 31,956.0 | 9,404.6 | 17,450.3 | 58,810.9 |
| 2005 | 193.1 | 93.6 | 39,349.7 | 13,249.4 | 19,111.5 | 71,710.6 |
| 2006 | 132.6 | 84.1 | 30,251.0 | 11,472.8 | 22,002.9 | 63,726.6 |
| 2007 | 63.8 | 53.9 | 15,484.4 | 6,406.7 | 28,431.6 | 50,322.8 |
| 2008 | 34.5 | 25.3 | 9,110.1 | 3,000.8 | 20,267.5 | 32,378.4 |
| 2009 | 24.6 | 7.7 | 6,513.0 | 943.7 | 17,590.7 | 25,047.4 |
| 2010 | 29.0 | 10.2 | 7,708.0 | 1,124.4 | 15,871.7 | 24,704.1 |
| 2011 | 29.3 | 12.2 | 8,180.6 | 1,473.6 | 13,123.0 | 22,777.2 |
| 2012 | 40.0 | 20.3 | 11,806.2 | 2,675.8 | 14,107.0 | 28,589.1 |
| 2013 | 53.2 | 29.3 | 16,528.3 | 3,706.9 | 12,408.6 | 32,643.7 |

Source: Office of Economic and Demographic Research, The Florida Legislature (April, 2014)

⁽¹⁾ Data is subject to revision on a monthly basis for up to five years.

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Employment

The following tables provide employment information for Florida and the U.S. As shown below, total employment in Florida increased from 8.7 million in Fiscal Year 2013 to 8.9 million in Fiscal Year 2014. The unemployment rate decreased for a fourth, consecutive year to 6.4% in Fiscal Year 2014. Florida's unemployment rate continues to trend in line with the nation's unemployment rate.

The total number of non-agricultural jobs in Florida has decreased 5.4% since 2007 to 7.6 million in 2013. However, year-over-year, total non-agricultural jobs have increased from 7.4 million in 2012 to 7.6 million in 2013. At the same time, total US non-agricultural jobs have increased 3% since 2007 to 141.8 million in 2013.

Unemployment Rate, Florida vs. U.S. Fiscal Years 2003-2013

| Fiscal Year | Total Civilian Labor Force (in thousands) | | Total Employment (in thousands) | | Annual Average Unemployment Rate (percent) | |
|----------------|--|-----------|------------------------------------|-----------|--|------|
| | Florida | U.S. | Florida | U.S. | Florida | U.S. |
| | 2003-04..... | 8,337.4 | 146,800.0 | 7,924.5 | 138,300.0 | 5.0% |
| 2004-05..... | 8,572.4 | 148,200.0 | 8,203.1 | 140,400.0 | 4.3 | 5.3 |
| 2005-06..... | 8,806.6 | 150,400.0 | 8,499.6 | 143,100.0 | 3.5 | 4.8 |
| 2006-07..... | 9,055.5 | 152,500.0 | 8,727.1 | 145,500.0 | 3.6 | 4.5 |
| 2007-08..... | 9,220.9 | 153,700.0 | 8,790.2 | 146,100.0 | 4.7 | 4.9 |
| 2008-09..... | 9,183.0 | 154,600.0 | 8,420.6 | 142,800.0 | 8.3 | 7.6 |
| 2009-10..... | 9,159.4 | 153,900.0 | 8,143.6 | 138,900.0 | 11.1 | 9.7 |
| 2010-11..... | 9,195.1 | 153,600.0 | 8,186.6 | 139,400.0 | 11.0 | 9.3 |
| 2011-12..... | 9,319.9 | 154,300.0 | 8,441.0 | 141,200.0 | 9.4 | 8.5 |
| 2012-13..... | 9,409.8 | 155,300.0 | 8,670.6 | 143,200.0 | 7.9 | 7.8 |
| 2013-14..... | 9,476.1 | 155,694.0 | 8,868.8 | 146,221.0 | 6.4 | 6.1 |

Source: Office of Economic and Demographic Research, The Florida Legislature (July, 2014)

Composition of Nonagricultural Employment Florida and the Nation 2007 and 2013⁽¹⁾ (thousands)

| | 2007 | | | | 2013 | | | |
|----------------------------------|----------------|---------------|-----------------|---------------|----------------|---------------|-----------------|---------------|
| | Florida | | United States | | Florida | | United States | |
| | # of Jobs | % of Total | # of Jobs | % of Total | # of Jobs | % of Total | # of Jobs | % of Total |
| Natural Resources & Mining | 6.7 | 0.1 | 724.0 | 0.5 | 5.7 | 0.1 | 1,062.0 | 0.7 |
| Construction | 622.9 | 7.8 | 7,630.0 | 5.5 | 368.3 | 4.9 | 8,864.0 | 6.3 |
| Manufacturing | 399.0 | 5.0 | 13,879.0 | 10.1 | 321.9 | 4.2 | 14,763.0 | 10.4 |
| Transportation & Warehousing | 229.8 | 2.9 | 4,540.9 | 3.3 | 252.6 | 3.3 | 5,200.0 | 3.7 |
| Utilities | 23.7 | 0.3 | 553.4 | 0.4 | 22.6 | 0.3 | 870.0 | 0.6 |
| Wholesale Trade | 361.2 | 4.5 | 6,015.2 | 4.4 | 317.7 | 4.2 | 3,630.0 | 2.6 |
| Retail Trade | 1,028.5 | 12.8 | 15,520.0 | 11.3 | 979.0 | 12.9 | 15,912.0 | 11.2 |
| Information | 162.7 | 2.0 | 3,032.0 | 2.2 | 133.9 | 1.8 | 2,792.0 | 2.0 |
| Financial Activities | 551.2 | 6.9 | 8,348.0 | 6.1 | 512.6 | 6.8 | 9,613.0 | 6.8 |
| Professional & Business Services | 1,156.2 | 14.4 | 17,942.0 | 13.0 | 1,116.8 | 14.7 | 16,338.0 | 11.5 |
| Education & Health Services | 1,016.5 | 12.7 | 18,322.0 | 13.3 | 1,128.1 | 14.9 | 22,303.0 | 15.7 |
| Leisure & Hospitality Services | 983.5 | 12.3 | 13,427.0 | 9.8 | 1,036.9 | 13.7 | 13,111.0 | 9.2 |
| Other Services | 345.6 | 4.3 | 5,494.0 | 4.0 | 306.5 | 4.0 | 7,095.0 | 5.0 |
| Government | <u>1,122.6</u> | 14.0 | <u>22,218.0</u> | 16.1 | <u>1,076.6</u> | 14.2 | <u>20,247.0</u> | 14.3 |
| Total Non-farm | 8,009.8 | | 137,645.0 | | 7,579.2 | | 141,800.0 | |

Source: US Department of Labor, Bureau of Labor Statistics (April, 2014)

⁽¹⁾ Not Seasonally adjusted.

Income

Historically, Florida's total personal income has grown at rates similar to those of the U.S. and the other southeastern states. From 2004 to 2013, Florida's total personal income grew by 42% and per capita income increased approximately 25%. For the nation and the Southeast, total personal income increased by 41% and 44%, while per capita income grew 34% and 29%, respectively, over the same time period. With the exception of 2009, personal income and per capita income have increased annually for the past ten years.

Florida per capita income remains above the Southeast region, but below the nation. The following table shows total and per capita personal income for the U.S., the Southeast, and Florida for the past ten calendar years.

The table on the following page shows Florida personal income and earnings by major source for calendar years 2008 and 2013. Total income in Florida has increased approximately 10.7% over the five year time period. Increases and decreases in income varied across industries, with health care realizing the largest increase and construction seeing the biggest decrease.

Total and Per Capita Personal Income U.S., Southeast and Florida

| Year | Total Personal Income (In millions of Current Dollars) | | | | | | Per Capita Personal Income (In Current Dollars) | | | | | |
|------|---|-------------|-------------|-------------|-----------|-------------|--|-------------|----------|-------------|----------|-------------|
| | U.S. | % Change | S.E. | % Change | Florida | % Change | U.S. | % Change | S.E. | % Change | Florida | % Change |
| 2004 | \$10,048,300 | 7.2 | \$2,249,054 | 6.9 | \$582,766 | 9.7 | \$33,909 | 5.0 | \$30,801 | 5.4 | \$33,463 | 7.1 |
| 2005 | 10,609,300 | 5.6 | 2,403,753 | 6.9 | 633,193 | 8.7 | 35,452 | 4.6 | 32,418 | 5.2 | 35,489 | 6.1 |
| 2006 | 11,389,000 | 7.3 | 2,580,723 | 7.4 | 690,268 | 9.0 | 37,725 | 6.4 | 34,379 | 6.0 | 37,996 | 7.1 |
| 2007 | 11,994,900 | 5.3 | 2,728,855 | 5.7 | 721,052 | 4.5 | 39,506 | 4.7 | 35,848 | 4.3 | 39,256 | 3.3 |
| 2008 | 12,429,600 | 3.6 | 2,843,864 | 4.2 | 740,676 | 2.7 | 40,947 | 3.6 | 36,906 | 3.0 | 39,978 | 1.8 |
| 2009 | 12,087,500 | (2.8) | 2,722,901 | (4.3) | 687,337 | (7.2) | 38,637 | (5.6) | 34,992 | (5.2) | 36,849 | (7.8) |
| 2010 | 12,429,300 | 2.8 | 2,831,622 | 4.0 | 722,368 | 5.1 | 39,791 | 3.0 | 36,047 | 3.0 | 38,345 | 4.1 |
| 2011 | 13,202,000 | 6.2 | 2,968,900 | 4.8 | 755,358 | 4.6 | 41,560 | 4.4 | 37,473 | 4.0 | 39,636 | 3.4 |
| 2012 | 13,887,700 | 5.2 | 3,068,647 | 3.4 | 779,339 | 3.2 | 42,693 | 2.7 | 38,382 | 2.4 | 40,344 | 1.8 |
| 2013 | 14,166,900 | 2.0 | 3,236,336 | 5.5 | 828,438 | 6.3 | 45,543 | 6.7 | 39,746 | 3.6 | 41,692 | 3.3 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis (May, 2014).

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Florida Personal Income and Earnings by Major Source: 2008 vs. 2013
(thousands of current dollars)

| | <u>2008</u> | <u>% Total</u> | <u>2013</u> | <u>% Total</u> |
|--|---------------------|----------------|---------------------|----------------|
| Earnings | | | | |
| Wages and Salaries: | | | | |
| Farm | \$2,075,776 | 0.2% | \$2,562,865 | 0.3% |
| Non Farm: | 453,173,468 | 53.2% | 485,718,748 | 51.5% |
| Private: | | | | |
| Forestry, fishing and other | 1,458,293 | 0.2% | 1,827,378 | 0.2% |
| Mining | 774,358 | 0.1% | 702,440 | 0.1% |
| Utilities | 2,754,812 | 0.3% | 2,980,955 | 0.3% |
| Construction | 32,305,436 | 3.8% | 25,642,316 | 2.7% |
| Manufacturing | 24,790,005 | 2.9% | 23,752,367 | 2.5% |
| Wholesale Trade | 26,248,652 | 3.1% | 28,289,803 | 3.0% |
| Retail Trade | 35,188,547 | 4.1% | 38,231,253 | 4.1% |
| Transportation & Warehousing | 14,455,843 | 1.7% | 16,461,994 | 1.7% |
| Information | 13,511,916 | 1.6% | 13,015,981 | 1.4% |
| Finance and Insurance | 29,743,145 | 3.5% | 35,129,169 | 3.7% |
| Real Estate and Rental and Leasing | 10,630,491 | 1.2% | 10,695,284 | 1.1% |
| Professional and Technical Services | 41,910,647 | 4.9% | 46,256,597 | 4.9% |
| Management of Companies and Enterprises | 8,145,056 | 1.0% | 10,497,034 | 1.1% |
| Administrative and Waste Services | 25,168,006 | 3.0% | 26,494,780 | 2.8% |
| Educational Services | 5,925,799 | 0.7% | 7,377,765 | 0.8% |
| Health Care and Social Assistance | 53,242,374 | 6.2% | 63,672,031 | 6.7% |
| Arts, Entertainment and Recreation | 9,093,942 | 1.1% | 10,138,248 | 1.1% |
| Accommodation and Food Services | 19,615,622 | 2.3% | 23,603,440 | 2.5% |
| Other Services, except Public Administration | <u>19,072,791</u> | <u>2.2%</u> | <u>21,168,707</u> | <u>2.2%</u> |
| Total Private | 374,035,735 | 43.9% | 405,937,542 | 43.0% |
| Government & Government Enterprises | 79,137,733 | 9.3% | 79,781,210 | 8.5% |
| Total Wages & Salaries | 455,249,244 | 53.4% | 488,281,617 | 51.7% |
| Other Income: | | | | |
| plus: Dividends, Interest & Rent | 207,642,200 | 24.4% | 219,489,052 | 23.3% |
| plus: Personal current transfer receipts | 123,042,492 | 14.4% | 162,856,947 | 17.3% |
| plus: Adjustment for residence | 1,943,554 | 0.2% | 2,159,290 | 0.2% |
| Less: Contributions for social insurance | <u>(51,679,144)</u> | <u>(6.1)%</u> | <u>(57,598,280)</u> | <u>(6.1)%</u> |
| Total Other Income: | 280,949,102 | 33.0% | 326,907,009 | 34.6% |
| Total Personal Income | 736,198,346 | 86.3% | 815,188,626 | 86.4% |
| Other Earnings: | | | | |
| Supplements to wages and salaries | 76,725,907 | 9.0% | 80,565,712 | 8.5% |
| Proprietors' income: | <u>39,658,650</u> | <u>4.7%</u> | <u>47,980,573</u> | <u>5.1%</u> |
| Total Earnings: | 116,384,557 | 13.7% | 128,546,285 | 13.6% |
| TOTAL INCOME | \$852,582,903 | 100.0% | \$943,734,911 | 100.0% |

Source: U.S. Department of Commerce, Bureau of Economic Analysis (August 2014)

International Trade

Florida's location lends itself to international trade and travel. Florida was the 7th largest exporter in the nation in 2014. The State's international merchandise trade (imports and exports) totaled \$153.2 billion in 2014, a decrease of 3.4% over 2013. Despite the decline, 2014 merchandise trade was the third highest level ever reported. Between 2013 and 2014, Florida's merchandise exports declined by 4.4% while imports decreased 2.2%. During the same period, the nation's exports and imports increased by 2.8% and 3.4%, respectively.

The State's top five exports for 2014 were precious metals, aircraft, vehicles, telecommunications equipment, and computers. The top imports were oil, gold, vehicles, telecommunications equipment, and electronics. Florida's top trading partners for 2014 were Brazil, Colombia, China, Chile and Japan.

(Source: Enterprise Florida, April 2015)

Florida's International Trade: 2004-2014 *(millions of U.S. dollars)*

| <u>Year</u> | <u>Exports</u> | <u>% Change</u> | <u>Imports</u> | <u>% Change</u> |
|-------------|----------------|-----------------|----------------|-----------------|
| 2004 | \$37,501 | 15.7 | \$43,896 | 8.5 |
| 2005 | 44,115 | 17.6 | 51,169 | 16.6 |
| 2006 | 51,767 | 17.3 | 57,399 | 12.2 |
| 2007 | 58,915 | 13.8 | 55,925 | (2.6) |
| 2008 | 73,022 | 23.9 | 57,525 | 2.9 |
| 2009 | 59,884 | (18.0) | 43,107 | (25.1) |
| 2010 | 73,064 | 22.0 | 53,164 | 23.3 |
| 2011 | 86,753 | 18.7 | 62,413 | 17.4 |
| 2012 | 90,360 | 4.2 | 71,833 | 15.1 |
| 2013 | 85,460 | (5.4) | 73,119 | 1.8 |
| 2014 | 81,724 | (4.4) | 71,508 | (2.2) |

Source: Enterprise Florida (April 2015)

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Primary Sources of Sales Tax

The following tables illustrate taxable sales by category of expenditure over the past ten years, and compare the top twenty-five types of businesses generating sales tax revenues in Fiscal Year 2009 and 2014.

**Florida Taxable Sales and Sales Tax Liability by Category
Fiscal Years ended June 30, 2005-2015
(millions of current dollars)**

| Fiscal Year | <u>Consumer Non-durables</u> | | | | <u>Consumer Durables</u> | | | | <u>Building</u> | | <u>Business</u> | |
|----------------|------------------------------|--------------|--------------|--------------|--------------------------------|--------------|--------------|--------------|-------------------|--------------|-------------------|--------------|
| | <u>Recreation/Tourism</u> | | <u>Other</u> | | <u>Autos & Accessories</u> | | <u>Other</u> | | <u>Investment</u> | | <u>Investment</u> | |
| | <u>Sales</u> | <u>Taxes</u> | <u>Sales</u> | <u>Taxes</u> | <u>Sales</u> | <u>Taxes</u> | <u>Sales</u> | <u>Taxes</u> | <u>Sales</u> | <u>Taxes</u> | <u>Sales</u> | <u>Taxes</u> |
| 2005 | 58,821 | 3,517.3 | 84,393 | 5,099.0 | 60,332 | 3,607.6 | 25,735 | 1,538.9 | 22,868 | 1,367.4 | 63,723 | 3,733.4 |
| 2006 | 63,247 | 3,781.9 | 92,961 | 5,616.7 | 64,883 | 3,879.9 | 28,704 | 1,716.4 | 26,525 | 1,586.1 | 71,783 | 4,205.0 |
| 2007 | 65,019 | 3,887.9 | 97,809 | 5,909.6 | 62,511 | 3,737.9 | 27,831 | 1,664.2 | 23,745 | 1,419.8 | 72,464 | 4,245.5 |
| 2008 | 65,772 | 3,932.9 | 98,075 | 5,925.7 | 54,885 | 3,281.9 | 24,363 | 1,456.8 | 20,319 | 1,215.0 | 66,612 | 3,902.7 |
| 2009 | 61,767 | 3,693.4 | 92,760 | 5,604.6 | 43,547 | 2,603.9 | 19,938 | 1,192.2 | 16,362 | 978.4 | 59,961 | 3,513.0 |
| 2010 | 60,407 | 3,610.5 | 91,404 | 5,515.3 | 43,641 | 2,608.7 | 18,299 | 1,094.1 | 14,845 | 888.2 | 55,154 | 3,233.9 |
| 2011 | 63,818 | 3,816.1 | 94,741 | 5,724.3 | 45,889 | 2,744.0 | 19,271 | 1,152.3 | 15,129 | 904.6 | 56,836 | 3,329.9 |
| 2012 | 68,168 | 4,076.2 | 98,880 | 5,974.3 | 48,803 | 2,918.3 | 20,431 | 1,221.7 | 15,845 | 947.4 | 58,543 | 3,429.8 |
| 2013 | 72,029 | 4,306.9 | 102,711 | 6,205.6 | 53,922 | 3,224.5 | 21,711 | 1,298.1 | 17,893 | 1,069.8 | 61,397 | 3,597.1 |
| 2014 | 77,043 | 4,606.9 | 107,830 | 6,515.1 | 59,673 | 3,568.2 | 23,194 | 1,386.9 | 20,061 | 1,199.5 | 65,615 | 3,844.3 |
| 2015 | 83,618 | 5,000.0 | 113,922 | 6,883.2 | 65,391 | 3,910.1 | 25,044 | 1,497.5 | 22,039 | 1,317.8 | 70,668 | 4,140.3 |

Source: Office of Economic and Demographic Research (January 2016).

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**State Sales Tax Collections by Top 25 Business Types
Fiscal Years Ended June 30, 2010 vs. 2015 ⁽¹⁾**

| <u>Type of Business</u> | <u>2010</u> | <u>2015</u> |
|--|-----------------|-----------------|
| Automotive Dealers | \$2,066,873,420 | \$3,279,690,634 |
| General Miscellaneous Merchandise Stores | 2,464,695,345 | 3,137,799,860 |
| Restaurants, Lunchrooms, Catering Services | 1,668,673,218 | 2,267,094,237 |
| Leased or Rental of Commercial Real Property | 1,309,212,726 | 1,483,527,151 |
| Hotels/Motels Accommodations & Other Lodging Places | 840,588,507 | 1,332,241,033 |
| Food & Beverage Stores | 893,574,821 | 1,122,002,895 |
| Lumber and Other Building Materials Dealers Stores | 646,478,894 | 965,531,546 |
| Apparel & Accessory Stores | 641,956,932 | 918,833,921 |
| Admissions, Amusement & Recreation Services | 573,831,733 | 832,925,908 |
| Wholesale Dealers | 448,635,288 | 735,181,725 |
| Radio, Television, Consumer Electronics, Computers, Music Stores | 460,986,047 | 592,395,406 |
| Manufacturing | 403,461,692 | 547,320,131 |
| Utilities, Electric, Gas, Water, Sewer | 515,976,710 | 523,878,145 |
| Home Furniture, Furnishings & Equipment | 319,369,469 | 511,939,342 |
| Automotive Accessories & Parts | 220,338,848 | 312,343,011 |
| Rental of Tangible Personal Property | 255,205,409 | 297,267,935 |
| Automobile Repair & Services | 229,876,444 | 268,118,040 |
| Communications ⁽²⁾ | 134,971,720 | 244,314,955 |
| Building Contractors | 99,151,523 | 193,309,262 |
| Paint, Wallpaper & Hardware Dealers | 121,771,535 | 180,524,719 |
| Taxable Services (per Chapter 212, F.S.) | 149,077,641 | 165,637,388 |
| Drinking Places (Alcoholic beverages served on premises) | 140,320,492 | 151,907,772 |
| Insurance, Banking, Savings and Loans | 117,478,005 | 137,162,103 |
| Repair of Tangible Personal Property | 96,949,541 | 136,553,610 |
| Store & Office Equipment, Office Supplies | 142,175,426 | 134,155,526 |

Source: Florida Department of Revenue, Office of Tax Research (January 2016).

⁽¹⁾ Arranged in descending order of collection amounts for Fiscal Year ended June 30, 2015. In that Fiscal Year, "Miscellaneous" and unspecified business types accounted for \$142,368,401 in sales tax collections.

⁽²⁾ Includes sales and use tax portion of Communications Service Tax.

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FLORIDA RETIREMENT SYSTEM

(Source: Florida Department of Management Services, Division of Retirement)

General. The Florida Retirement System ("FRS") was established by the Florida Legislature effective December 1, 1970 pursuant to Chapter 121, Florida Statutes (the "Act") by consolidating the state's existing State-administered retirement systems into one system. In addition to Chapter 121, the FRS is governed by Article X, Section 14 of the State Constitution, which prohibits increasing benefits without concurrently providing for funding the increase on a sound actuarial basis. The FRS provides retirement, disability and death benefits for participating public employees. The FRS is a cost-sharing, multiple employer, retirement plan. The FRS Defined Benefit Program (also referred to as the FRS Pension Plan) is administered by the Division of Retirement in the Department of Management Services. The assets of the FRS Defined Benefit Program are held in the FRS Trust Fund and are invested by the State Board of Administration. The FRS Investment Plan was created by the Florida Legislature as a defined contribution plan alternative to the FRS Pension Plan and is administered by the State Board of Administration. In addition to these two primary, integrated programs there are non-integrated defined contribution plan alternatives available to targeted employee groups in the State University System, the State Community College System, and members of the Senior Management Service Class.

In the defined benefit pension plan, a monthly benefit is paid to retired employees in a fixed amount calculated at the time of retirement as determined by a statutory formula. The amount of the monthly benefit is generally based on the years of service credits and salary. The benefit is paid to the retiree for life and, if applicable, a survivor benefit is paid to the designated beneficiary at the death of the retiree.

In the defined contribution plan, the employee's benefit is comprised of the accumulated required contributions and investment earnings on those contributions. Instead of guaranteed benefits based on a formula, the contributions to the member account are guaranteed by the plan and the investment risk is assumed by the employee. Since the employer's obligation to make contributions to the defined contribution plan does not extend beyond the required contribution from current payroll, the employer's funding obligation for a defined contribution plan is fully funded as long as these contributions are made.

FRS membership is compulsory for employees working in regularly established positions for a state agency, county governmental unit, district school board, state university, state college or participating city, independent special district, charter school or metropolitan planning district. There are five classes of plan membership: Regular Class, Special Risk Class, Special Risk Administrative Support Class, Elected Officers' Class ("EOC"), and Senior Management Service Class ("SMSC"). Elected officials who are eligible to participate in the EOC may elect to withdraw from the FRS altogether or choose to participate in the SMSC in lieu of the EOC. Regular Class membership covers any position that is not designated to participate in any other membership class.

Participation by cities, municipalities, special districts, charter schools, and metropolitan planning districts although optional, is generally irrevocable once the election to participate is made. As of June 30, 2014, there were 1,014 participating employers, and 1,133,798 individual members, as follows:

| | |
|---------------------------|------------------------|
| Retirees & Beneficiaries | 362,216 ¹ |
| Terminated Vested Members | 111,435 |
| DROP Participants | 38,058 |
| Active Vested Members | 472,116 |
| Active Non-vested members | <u>149,973</u> |
| TOTAL | 1,133,798 ² |

¹ Excludes Teachers' Retirement System Survivors' Benefit ("TRS-SB"), General Revenue payment recipients and FRS Investment Plan members who received a distribution.

² Includes FRS Pension Plan and Investment Plan members.

Benefits. Chapter 2011-68, Laws of Florida, became law on July 1, 2011. Chapter 2011-68 provides for significant reforms to the FRS, most notably by requiring that FRS members contribute to the FRS and by establishing a "two-tier" benefit system with less generous benefits for employees who became members of the FRS on or after July 1, 2011 ("New Members"), as compared to those provided to employees who were members of the FRS prior to July 1, 2011 ("Existing Members"). See "2011 Legislation Affecting FRS Benefits and Funding" below for further details. FRS Pension Plan members receive one month of service credit for each month in which any salary is paid. Existing Members vest after 6 years of service for all membership classes and New Members vest after 8 years of service for all membership classes. Members vest after 8 years for non-duty related disability benefits. After they are vested, members are eligible for normal retirement when they have met the minimum age or service requirements for their membership class. For Existing Members of the Regular Class, SMSC and the EOC, normal retirement is age 62 and vested, or 30 years of service regardless of age, and age 65 and vested, or 33 years of service regardless of age for New Members. For Existing Members of the Special Risk Class and the Special Risk Administrative Support Class, normal retirement is age 55 and vested, or 25 years of service regardless of age, and age 60 and vested, or 30 years of service regardless of age, for New Members. Early retirement may be taken any time after vesting subject to a 5% benefit reduction for each year prior to normal retirement age.

Summary of FRS Pension Plan Benefits

| | <u>Vesting Period</u> | <u>Regular Class, SMSC, EOC</u> | <u>Special Risk Classes</u> |
|------------------|---------------------------|--|--|
| Existing Members | 6 Years | 62 years old or 30 years of service | 55 years old or 25 years of service |
| New Members | 8 years | 65 years old or 33 years of service | 60 years old or 30 years of service |

Retirement benefits under the FRS Pension Plan are computed using a formula comprised of age and/or years of service at retirement, average final compensation and total percentage based on the accrual value by plan or membership class of service credit.

FRS Pension Plan members who reach normal retirement may participate in the Deferred Retirement Option Program ("DROP"), which allows a member to effectively retire while deferring termination and to continue employment for up to 60 months (or 96 months for some educational personnel under certain conditions). The retirement benefit is calculated as of the beginning of DROP participation and no further service is accrued. During DROP participation the member's retirement benefits accumulate in the FRS Trust Fund, earning monthly interest at an equivalent annual rate of 6.50 percent for members with an effective DROP begin date before July 1, 2011, and an equivalent annual rate of 1.3 percent for members with an effective DROP begin date on or after July 1, 2011. At termination the member's DROP accumulation may be paid out as a lump sum, a rollover, or a combination of these two payout methods and the member begins receiving monthly benefits determined when DROP participation began, increased by annual cost of living adjustments.

FRS Investment Plan members invest their contributions in the investment options offered under the plan. FRS Investment Plan members receive one month of service credit for each month in which any salary is paid and vest in their employer contributions after one year of service under the FRS Investment Plan. Members are immediately vested in their employee contributions. If a present value amount is transferred from the FRS Pension Plan to the member's FRS Investment Plan account as the opening balance, the member must meet the FRS Pension Plan vesting requirement for any such transferred funds and associated earnings.

FRS members vest immediately for in-line-of-duty disability benefits or after eight years for non-duty related disability benefits if totally and permanently disabled from all employment. FRS Pension Plan members receive disability monthly benefits until no longer disabled. Periodic reexamination is conducted to verify continued disability retirement eligibility. FRS Investment Plan members may elect to surrender their account balance to the FRS Trust Fund to receive guaranteed monthly benefits under the FRS Pension Plan. Alternatively, FRS Investment Plan members may retain their account balance to fund their future retirement needs in lieu of guaranteed monthly benefits under the FRS Pension Plan. FRS Investment Plan members who retain their account balances to fund their disability retirement may leave their funds invested in the plan, structure periodic payments, purchase an annuity, receive a lump-sum payment of their account balance, rollover their monies into another eligible plan qualified under the Internal Revenue Code, or a combination of these options.

The service retirement benefits of FRS Investment Plan members are their account balances at the time they choose to retire as managed by the member throughout retirement. FRS Investment Plan members may leave their funds invested in the plan, structure periodic benefit payments under their investment contracts, purchase an annuity, rollover their funds to a different qualified plan, receive a lump-sum payment representing their account balance in part or in whole, annuitize some or all of their account, or a combination of these options.

Senior Management Service Class members, State University System faculty, Executive Service staff, Administrative and Professional Service staff, and Florida College System faculty and certain administrators may elect to participate in the existing, nonintegrated optional defined contribution programs for these targeted employee groups instead of either of the two primary integrated programs offered under the FRS, the FRS Pension Plan and the FRS Investment Plan.

Funding. From the establishment of the FRS through 1975 both employers and members were required to pay retirement contributions. Members contributions were made on a post-tax basis. From 1975 through June 30, 2011, employers paid all required contributions. Beginning July 1, 2011, both employer and members are required to pay retirement contributions. Members contribute 3% of their salary as retirement contributions, on a pre-tax basis, with the employer automatically deducting the employee contributions from the members' salary. The contribution rates for the FRS Investment Plan are set by statute and the FRS Pension Plan rates, which are determined annually by the Legislature based on an actuarial valuation and any plan changes adopted during the legislative session. (See "Schedule of Funding Progress" below). These two rates are "blended" to create the uniform contribution rate for the primary, integrated FRS programs as required under Part III of Chapter 121, F.S. FRS employers pay a single rate by membership class or sub-class for members of the two primary, integrated FRS plans. The portion of the required FRS Investment Plan contribution rate destined for the member's account is forwarded to the FRS Investment Plan's administrator and the portion for Pension Plan funding is forwarded to the FRS Trust Fund. The employer contribution rates for the non-integrated defined contribution plans are set by statute and forwarded to the specified provider company under the program.

2011 Legislation Affecting FRS Benefits and Funding. Chapter 2011-68, Laws of Florida, became law on July 1, 2011 and provides for significant reforms to the FRS, most notably by requiring that FRS members contribute to the FRS and phasing out post-retirement cost-of-living adjustments. The changes also effectively establish a "two-tier" benefit system with less generous benefits for employees who are initially enrolled in the FRS on or after July 1, 2011, as compared to those provided to employees who were initially enrolled in the FRS prior to July 1, 2011. Among other changes, Chapter 2011-68 provides:

Employee Contributions -

- Effective July 1, 2011, most FRS members must contribute 3% of their salary as retirement contributions, on a pre-tax basis, automatically deducted by the employer
- Members participating in the Deferred Retirement Option Program ("DROP") and re-employed retirees, who are not allowed to renew membership in the FRS, are not required to make 3% employee contributions

DROP -

- The annualized DROP interest rate will be 1.3% for members whose DROP participation begins on or after July 1, 2011
- Members with an effective DROP begin date on or before June 30, 2011 will retain an annual interest rate of 6.5%

Cost-of-Living Adjustment (COLA) -

- Members with an effective retirement date (includes DROP participation) before August 1, 2011 will retain their 3% post-retirement COLA
- Members with an effective retirement date or DROP begin date on or after August 1, 2011 will have an individually calculated COLA that is a reduction from 3% and will be calculated by dividing the total years of service before July 1, 2011 by the total years of service at retirement, and then multiplying the result by 3% to get the retiree's COLA
- Members initially enrolled on or after July 1, 2011, will not have a post-retirement COLA

Benefit changes for members first enrolled in the FRS on or after July 1, 2011 -

- Vesting requirement for FRS Pension Plan benefit eligibility is increased from 6 to 8 years of creditable service
- The average final compensation used in calculating retirement benefits is increased from the highest 5 fiscal years to the highest 8 fiscal years of salary
- Increased the "normal retirement date" for unreduced benefit eligibility
- For members of the Regular Class, Senior Management Service Class and Elected Officers Class, to
 - The first day of the month the member reaches age 65 (rather than 62) and is vested, or
 - The first day of the month following the month the member completes 33 (rather than 30) years of creditable service, regardless of age before age 65
- For members of the Special Risk Class, to
 - The first day of the month the member reaches age 60 (rather than 55) and is vested, or
 - The first day of the month following the month the member completes 30 (rather than 25) years of creditable service in the Special Risk Class, regardless of age before age 60.

Actuarial Valuation of Assets. The Actuarial Value of Assets measures the value of plan assets to determine the funded ratio of the plan as compared to the actuarial liabilities. The actuarial valuation measure reflects a five-year averaging methodology (the "Asset Smoothing Method"), as required by Section 121.031(3)(a), Florida Statutes. Under the Asset Smoothing Method, the expected actuarial value of assets in the Florida Retirement System Trust Fund is determined by crediting the rate of investment return assumed in the valuation (7.75% through June 30, 2014; 7.65% beginning July 1, 2014) to the prior year's actuarial value of assets and net cash flow. Then, 20% of the difference between the actual market value and the expected actuarial value of assets is recognized. The actuarial value of assets are also restricted by a 20% corridor around the market value of assets. The actuarial value of assets used for the valuation is the lesser of the actuarial value described above or 120% of market value but not less than 80% of the market value. The Asset Smoothing Method, which is an allowed method for determining the Actuarial Value of Assets under GASB 25, prevents extreme fluctuations in the actuarial value of assets, the Unfunded Actuarial Accrued Liability (UAAL) and the funded ratio that may otherwise occur as a result of market volatility. Asset smoothing delays recognition of gains and losses and is intended to decrease the volatility of employer contribution rates. The actuarial value of assets is not the market value of Florida Retirement System Trust Fund assets at the time of measurement. As a result, presenting the actuarial value of assets using the Asset Smoothing Method might provide a more or less favorable presentation of the current financial position of a pension plan than would a method that recognizes investment gains and losses annually.

The actuarial valuation of the FRS uses a variety of assumptions to calculate the actuarial accrued liability and the actuarial value of assets. No assurance can be given that any of the assumptions underlying the actuarial valuations will reflect the actual results experienced by the FRS. Variances between the assumptions and actual results may cause an increase or decrease in the actuarial value of assets, the actuarial accrued liability, the UAAL, or the funded ratio.

As of July 1, 2015, FRS actuarial determinations are based on the following:

Actuarial Cost Method: Entry Age Normal (Alternative Ultimate Entry Age Calculation)

Amortization method: Level Percentage of Pay, Closed, Layered Remaining amortization period: 28 years¹
Asset valuation method: 5-year Smoothed Method
Investment rate of return: 7.65%
Projected salary increases: 3.25%²
Inflation level: 2.60%
Cost of living adjustments: 3.00%³

¹ Used for GASB Statement #27 reporting purposes.

² Includes individual salary growth of 3.25 percent plus an age- and service-graded merit scale defined by gender and employment class. See page A-17 of the July 1, 2014 actuarial valuation.

³ Granted only for pre-July 1, 2011 service.

The FRS is required to conduct an actuarial valuation of the plan annually. The valuation process includes a review of the major actuarial assumptions used by the plan actuary, which may be changed during the FRS Actuarial Assumptions Conference that occurs each fall. In addition, the FRS conducts an actuarial experience study every five years. The purpose of the experience study is to compare the actual plan experience with the assumptions for the previous five-year period and determine the adequacy of the non-economic actuarial assumptions including, for example, those relating to mortality, retirement, disability, employment, and turnover of the members and beneficiaries of the FRS. Based upon the results of this review and the recommendation of the actuary, the FRS Actuarial Assumptions Conference may adopt changes to such actuarial assumptions as it deems appropriate for incorporation beginning with the valuation following the experience study period.

Assumed Investment Rate of Return. The actuarial valuation assumes a long-term investment rate of return on the assets in the Florida Retirement System Trust Fund. Due to the volatility of the marketplace, however, the actual rate of return earned by the Florida Retirement System Trust Fund on its assets may be higher or lower than the assumed rate. Changes in the Florida Retirement System Trust Fund's assets as a result of market performance will lead to an increase or decrease in the UAAL and the funded ratio. The five-year Asset Smoothing Method required by Florida law attenuates the impact of sudden market fluctuations. Only a portion of these increases or decreases will be recognized in the current year, with the remaining gain or loss spread over the remaining four years.

Adverse market conditions resulted in negative investment returns on the Florida Retirement System Trust Fund's assets in Fiscal Years 2008 and 2009, contributing to (in conjunction with plan experience) a significant reduction in the Funded Ratio and a corresponding increase in the UAAL. Investment returns in Fiscal Year 2012 fell below the assumed rate, while returns in Fiscal Years 2013 and 2014 surpassed the assumed rate. No assurance can be given about future market performance and its impact on the UAAL.

The assumed rate of investment return for Fiscal Year 2015 was 7.65 percent; the actual return calculated on the basis of fair value was 3.76 percent. As of June 30, 2015, the Florida Retirement System Trust Fund was valued at \$148.5 billion (market value), and invested in the classes and approximate percentages as follows:

| | |
|-------|-----------------------|
| 60.2% | Global Equity |
| 20.2% | Fixed Income |
| 7.4% | Real Estate |
| 5.4% | Private Equity |
| 5.4% | Strategic Investments |
| 1.3% | Cash |

For additional information, see the Florida Retirement System Pension Plan Annual Report under the "System Information" tab of the "Publications" page on their website at: <http://frs.myflorida.com> or contact the Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000.

For a discussion of investment policies, see "MISCELLANEOUS - Investment of Funds - *Investment by the Board of Administration*" in the body of this Official Statement.

Financial statements are prepared using the accrual basis of accounting, and reporting is done in accordance with Government Accounting Standards Board requirements.

Annuitants and Annualized Benefit Payments Under the FRS Pension Plan^{1,2}

(in thousands where amounts are dollars)

| Fiscal Year | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Annuitants | 304,337 | 319,689 | 334,682 | 347,962 | 363,034 |
| Benefits Payments (000 omitted) | \$5,315,144 | \$5,775,405 | \$6,233,606 | \$6,691,437 | \$7,175,496 |
| Average Benefits | \$17,465 | \$18,066 | \$18,625 | \$19,230 | \$19,765 |

Source: Florida Department of Management Services, Division of Retirement. Florida Retirement System Annual Reports for Fiscal Years 2010 through 2013 and the FRS CAFR for Fiscal Year 2014.

- Figures include disability payments, General Revenue, Institute of Food and Agricultural Sciences Supplemental Program and TRS-SB, but do not include refunds of member contributions.
- Figures exclude FRS Investment Plan and DROP participants.

Funded Status. As shown in the table below, the value of the assets increased from \$131.7 billion in Fiscal Year 2013 to \$138.6 billion in Fiscal Year 2014 on an actuarial basis and increased from \$133.0 billion to \$150.0 billion on a market value basis. The actuarial liabilities increased from \$154.1 billion in Fiscal Year 2013 to \$160.0 billion in Fiscal Year 2014. As of the end of Fiscal Year 2014, the FRS had an aggregate UAAL of approximately \$21.51 billion on an actuarial basis (using the Asset Smoothing Method) and \$10.15 billion on a market value basis. The respective Funded Ratios for these UAALs are 86.56% and 93.66%. The following tables summarize the current financial condition and the funding progress of the FRS.

Schedule of Funding Progress

Actuarial Value of Assets

(thousands of dollars)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (%) (a/b)</u> | <u>Annualized Covered Payroll¹ (c)</u> | <u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u> |
|---------------------------------|--------------------------------------|--|----------------------------------|-------------------------------|---|--|
| July 1, 2006 | \$117,159,615 | \$110,977,831 | (\$6,181,784) | 105.57% | \$25,327,922 | (24.41)% |
| July 1, 2007 | 125,584,704 | 118,870,513 | (6,714,191) | 105.65 | 26,385,768 | (25.45) |
| July 1, 2008 | 130,720,547 | 124,087,214 | (6,633,333) | 105.35 | 26,891,340 | (24.67) |
| July 1, 2009 | 118,764,692 | 136,375,597 | 17,610,905 | 87.09 | 26,573,196 | 66.27 |
| July 1, 2010 | 120,929,666 | 139,652,377 | 18,722,711 | 86.59 | 25,765,362 | 72.67 |
| July 1, 2011 | 126,078,053 | 145,034,475 | 18,956,422 | 86.93 | 25,686,138 | 73.80 |
| July 1, 2012 | 127,891,781 | 148,049,596 | 20,157,815 | 86.38 | 24,491,371 | 82.30 |
| July 1, 2013 | 131,680,615 | 154,125,953 | 22,445,338 | 85.44 | 24,568,642 | 91.36 |
| July 1, 2014 | 138,621,201 | 160,130,502 | 21,509,301 | 86.56 | 24,723,565 | 87.00 |
| July 1, 2015 | 143,195,531 | 165,548,928 | 22,353,397 | 86.50 | 25,036,048 | 89.19 |

Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

¹ Includes DROP payroll.

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Schedule of Funding Progress
Market Value of Assets
(thousands of dollars)

| Fiscal Year | Market Value of Assets ¹ (a) | Actuarial Accrued Liability (AAL) Entry Age ² (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (%) (a/b) | Annualized Covered Payroll ³ (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|-------------|--|---|------------------------------|---------------------------|--|--|
| 2006 | \$116,340,049 | \$110,977,831 | \$(5,362,218) | 104.83% | \$25,327,922 | (21.17)% |
| 2007 | 134,315,241 | 118,870,513 | (15,444,728) | 112.99 | 26,385,768 | (58.53) |
| 2008 | 124,466,800 | 124,087,214 | (379,586) | 100.31 | 26,891,340 | (1.41) |
| 2009 | 96,503,162 | 136,375,597 | 39,872,435 | 70.76 | 26,573,196 | 150.05 |
| 2010 | 107,179,990 | 139,652,377 | 32,472,387 | 76.75 | 25,765,362 | 126.03 |
| 2011 | 126,579,720 | 145,034,475 | 18,454,755 | 87.28 | 25,686,138 | 71.85 |
| 2012 | 119,981,465 | 148,049,596 | 28,068,131 | 81.04 | 24,491,371 | 114.68 |
| 2013 | 129,672,088 | 154,125,953 | 24,453,865 | 84.13 | 24,568,642 | 99.53 |
| 2014 | 150,014,292 | 160,130,502 | 10,116,210 | 93.68 | 24,723,565 | 40.92 |
| 2015 | 148,454,394 | 165,548,928 | 17,094,534 | 89.67 | 25,063,048 | 68.21 |

¹ Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

² Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports. Actuarial Accrued Liability is determined as of the July 1 immediately after the end of each Fiscal Year.

³ Includes DROP payroll. Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

The following table shows employer contributions to the FRS Pension Plan for Fiscal Years 2005 through 2014. Annually, the FRS's actuary recommends rates, determined as a percentage of employee payrolls that FRS employers must contribute to fully fund their annual pension obligations, comprised of the FRS's Normal Cost plus any Unfunded Actuarial Liability, which is also called the Actuarially Determined Contribution (the "ADC"). The ADC reflects only the actuarially determined employer contributions. The Florida Legislature adopts rates that all participating FRS employers must pay on behalf of their employees, which may or may not correspond to the actuary's recommended rates.

During Fiscal Years 2004 through 2008, the FRS was in a surplus position. Florida law allows a portion of the surplus to be used to reduce the ADC, therefore lowering the required rates and contributions FRS employers must make on behalf of employees to the FRS Pension Plan. In addition, the Florida Legislature failed to adopt rates sufficient to fully fund the ADC between Fiscal Years 2004 and 2006 but adopted rates during Fiscal Years 2007 through 2010 that more than funded the ADC. Again during Fiscal Years 2011 through 2013, the Florida Legislature did not adopt the actuarially recommended rates. Failure to adopt rates sufficient to fully fund the ADC has contributed to the decline in the funded status of the FRS.

For Fiscal Years 2014 and 2015, the Florida Legislature adopted the actuarially determined rates, which is expected to result in the ARC being fully funded based on plan assumptions.

Employer Contributions to the FRS Pension Fund
(thousands of dollars)

| Fiscal Year | State Employer Contributions (a) | Non-State Employer Contributions (b) | Total Employer Contributions (a+b) | Actuarially Determined Contribution (ADC) ¹ (c) | Percent of ADC Contributed (a+b)/c | Amount of ADC Unfunded c-(a+b) |
|-------------------|-------------------------------------|---|---------------------------------------|---|---------------------------------------|-----------------------------------|
| 2005 | \$518,488 | \$1,547,700 | \$2,066,187 | \$2,141,862 | 96.47% | \$75,675 |
| 2006 | 476,437 | 1,619,089 | 2,095,527 | 2,193,928 | 95.51 | 98,401 |
| 2007 | 589,123 | 2,141,612 | 2,730,735 | 2,455,255 | 111.22 | (275,480) |
| 2008 | 560,990 | 2,232,013 | 2,793,002 | 2,612,672 | 106.90 | (180,330) |
| 2009 | 575,035 | 2,229,146 | 2,804,181 | 2,535,854 | 110.58 | (268,327) |
| 2010 | 570,420 | 2,144,136 | 2,714,556 | 2,447,374 | 110.92 | (267,182) |
| 2011 | 648,006 | 2,377,183 | 3,025,189 | 3,680,042 ² | 82.21 | 654,853 |
| 2012 ³ | 226,098 | 925,901 | 1,151,999 | 1,962,816 | 58.70 | 810,817 |
| 2013 ⁴ | 273,351 | 1,064,090 | 1,337,441 | 2,091,343 | 63.95 | 753,902 |
| 2014 ⁵ | 474,077 | 1,715,559 | 2,189,636 | 2,190,424 | 99.96 | 788 |

Source: Florida Department of Management Services, Division of Retirement, Florida Retirement System Annual Reports.

¹ For fiscal years prior to 2014 the Annual Required Contribution ("ARC") under GASB Statement No. 27 is shown.

² The increase in the ARC between Fiscal Year 2010 and 2011 primarily resulted from elimination of the surplus, which was used to reduce the rates and contributions necessary to fully fund the ARC, and significant market losses, which increased the unfunded liability, and therefore the ARC.

³ Beginning in Fiscal Year 2012, both the ARC and the employer contributions which fund the ARC, reflects FRS plan changes that reduced retirement benefits and required employees to contribute 3% of their salaries to the FRS. Required employer contributions decreased by the amount of the employee contributions totaling \$674.2 million.

⁴ Employee contributions totaled \$694.9 million.

⁵ Employee contributions totaled \$699.6 million.

RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS

(The information contained under the heading "RETIREE HEALTH INSURANCE SUBSIDY AND OTHER POSTEMPLOYMENT BENEFITS" has been obtained from the State of Florida's Comprehensive Annual Financial Reports except as otherwise indicated.)

Retiree Health Insurance Subsidy Program

The Retiree Health Insurance Subsidy ("HIS") Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Department of Management Services. For the fiscal year ended June 30, 2014, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare. The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. Effective July 1, 2014, the statutorily required contribution rate pursuant to Section 112.363, F.S. increased to 1.26% of payroll. The State has contributed 100% of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

Information relating to the statutorily required State contribution, benefits paid and the resulting trust fund assets is shown below, for Fiscal Years ending June 30.

Retiree Health Insurance Subsidy Program Information
(in thousands where amounts are dollars)

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Recipients | 269,999 | 283,479 | 297,303 | 310,139 | 323,098 |
| Contributions | \$332,023 | \$334,449 | \$322,610 | \$327,574 | \$342,566 |
| Benefits Paid | \$338,892 | \$356,150 | \$374,444 | \$390,973 | \$407,276 |
| Trust Fund Net Assets | \$291,459 | \$271,348 | \$220,346 | \$157,928 | \$93,385 |

Beginning with Fiscal Year 2007, the Department of Management Services has obtained biennial actuarial valuations of assets and liabilities of the HIS Program, and actuarially determined Annual Required Contributions for the HIS Program.

HIS actuarial determinations are based on the following:

| | |
|--|-------------------------------|
| Valuation Date: | July 1, 2014 |
| Actuarial Cost Method: | Entry Age Normal |
| Amortization method: | Level Percentage of Pay, Open |
| Equivalent Single amortization period: | 30 years ¹ |
| Asset valuation method: | Market Value |
| Actuarial Assumptions: | |
| Investment rate of return: | 4.29% ^{2,3} |
| Projected salary increases: | 3.25% ² |
| Cost of living adjustments: | 0.00% |

Source: Florida Department of Management Services, Division of Retirement.

¹ Used for GASB Statement #27 reporting purposes.

² Includes inflation at 2.60%.

³ In general, the discount rate used for calculating the HIS liability under GASB 67 is equal to the single rate that results in the same Actuarial Present Value as would be calculated by using two different discount rates as follows: (1) Discount at the long-term expected rate of return for benefit payments prior to the projected depletion of the fiduciary net position (trust assets); and (2) Discount at a municipal bond rate for benefit payments after the projected depletion date. Because the HIS is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to a long-duration, high-quality, tax-exempt municipal bond rate selected by the plan sponsor. In September 2014 the Actuarial Assumptions Conference adopted the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the applicable municipal bond index. As a result, the discount rate will change annually.

Retiree Health Insurance Subsidy Program Schedule of Funding Progress

(in thousands where amounts are dollars)

| <u>Actuarial Valuation Date</u> | <u>Actuarial Value of Assets (a)</u> | <u>Actuarial Accrued Liability (AAL) Entry Age (b)²</u> | <u>Unfunded AAL (UAAL) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Annualized Covered Payroll¹ (c)</u> | <u>UAAL as a Percentage of Covered Payroll (b-a)/c)</u> |
|---|--|--|--|-----------------------------------|---|---|
| July 1, 2006 | \$192,808 | \$4,667,058 | \$4,474,250 | 4.13% | \$27,712,320 | 16.15% |
| July 1, 2008 | \$275,139 | \$5,109,683 | \$4,834,544 | 5.38% | \$30,665,477 | 15.77% |
| July 1, 2010 | \$291,459 | \$8,464,530 | \$8,173,071 | 3.44% | \$31,717,281 | 25.77% |
| July 1, 2012 | \$220,346 | \$9,018,467 | \$8,798,121 | 2.44% | \$31,345,990 | 28.07% |
| July 1, 2014 | \$93,385 | \$9,443,629 | \$9,350,244 | 0.99% | \$29,676,340 | 31.51% |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of Retirement.

¹ Includes DROP and PEORP payroll.

² The actuarially assumed investment rate of return fluctuates annually as noted in HIS assumptions on prior page.

Schedule of Employer Contributions

(in thousands where amounts are dollars)

| <u>Fiscal Year Ended June 30</u> | <u>Annual Required Contribution (ARC)¹</u> | <u>Actual Contribution</u> | <u>Contribution as a Percentage of ARC</u> |
|--------------------------------------|---|----------------------------|--|
| 2007 | \$363,175 | \$326,052 | 90% |
| 2008 | \$391,847 | \$334,819 | 85% |
| 2009 | \$395,256 | \$341,569 | 86% |
| 2010 | \$409,546 | \$332,023 | 81% |
| 2011 | \$563,907 | \$334,449 | 59% |
| 2012 | \$584,600 | \$322,610 | 55% |
| 2013 | \$539,831 | \$327,575 | 60% |
| 2014 | n/a | \$342,566 | n/a |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of Retirement.

¹ The Annual Required Contribution is the actuarially determined cost of the benefits allocated to the current year, consisting of the normal cost, that is the portion of the actuarial present value of the benefits and expenses which is allocated to a valuation year, and a payment to amortize the unfunded actuarial accrued liability.

Other Postemployment Benefits (OPEB)

The following is based on the October 16, 2013 update to the July 1, 2013 actuarial valuation of the State Employees' Health Insurance Program.

Plan Description

The State Employees' Group Health Insurance Program ("Program") operates as a cost-sharing multiple-employer defined benefit health plan; however, current administration of the Program is not through a formal trust and therefore disclosure requirements are those applicable to an agent multiple-employer plan. The Division of State Group Insurance within the Department of Management Services is designated by Section 110.123, F.S., to be responsible for all aspects of the purchase of healthcare for state and university employees and retirees under the Program.

The State implicitly subsidizes the healthcare premium rates paid by retirees by allowing them to participate in the same group health plan offered to active employees. Although retirees pay 100% of the premium amount, the premium cost to the retiree is implicitly subsidized due to commingling of the claims experience in a single risk pool with a single premium determination for active employees and retirees under age 65. Section 110.123, F.S., authorizes the offering of health insurance benefits to retired state and university employees. Section 112.0801, F.S., requires all public employers that offer benefits through a group insurance plan to allow their retirees to continue participation in the plan. The law also requires the claims experience of the retirees under 65 group to be combined with the claims experience of active employees for premium determination and the premium offered to retired employees to be no more than the premium applicable to active employees. Retirees under age 65 pay the same premium amounts as applicable to active employees. Retirees over age 65 are included in the overall risk pool but pay a lesser premium amount than is applicable to active employees because the plan is secondary payer to Medicare Parts A and B.

There are 21 participating employers including the primary government of the state, the 12 state universities, and other governmental entities. There was an average enrollment of 172,190 contracts including 36,485 retirees and 135,705 employees and COBRA participants for Fiscal Year 2013. Employees must make an election to participate in the plan within 31 days of the effective date of their retirement to be eligible to continue in the plan as a retiree. Four types of health plans are offered to eligible participants: a standard statewide Preferred Provider Organization ("PPO") Plan, a Health Investor PPO Plan, a standard Health Maintenance Organization ("HMO") Plan, and a Health Investor HMO Plan. HMO coverage is

available only to those retirees who live or work in the HMO's service area. The four PPO and HMO options are considered managed-care plans and have specific provider networks.

Funding Policy

Benefit provisions are described by Section 110.123, F.S. and, along with contributions, can be amended by the Florida Legislature. The state has not pre-funded OPEB costs or the net OPEB obligation. The Self-Insurance Estimating Conference develops official information for determining the budget levels needed for the state's planning and budgeting process. The Governor's recommended budget and the General Appropriations Act provide for a premium level necessary for funding the program each year on a pay-as-you-go basis.

Monthly premiums, through June 2013 coverage, for active employees and retirees under the age of 65 for the standard plan were \$587.74 and \$1,329.14 for single and family contracts, respectively. Retirees over the age of 65 pay premiums for a Medicare supplement. Monthly premiums, through June 2013 coverage, for the standard Preferred Provider Organization Plan were \$326.92 for a single contract, \$653.84 for two Medicare eligible members, and \$942.64 for a family contract when only one member is Medicare eligible.

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The entry age actuarial cost method was used for the actuarial valuation as of July 1, 2013. This method allocates the value of a member's benefit as a level percentage of pay between entry age and retirement age. Allocating costs as a level percentage of pay, even though the benefits are not pay-related, helps with budgeting for these employee benefits costs as a percentage of payroll. Actuarial assumptions included a 3% inflation rate, a 4% return on invested assets, and a 4% payroll growth rate. Initial healthcare cost trend rates used for the Preferred Provider Organization ("PPO") Plans are 7.4%, 7.0%, and 8.2% for the first three years followed by 7.6% in the fourth year grading to 5.00% over the course of 70 years. For the Health Maintenance Organization ("HMO") Plans, initial healthcare cost trend rates of 3.9%, 7.8% and 8.3% for the first three years followed by 8.2% in the fourth year and grading to 5.00% over the course of 70 years. The unfunded actuarial accrued liability is being amortized as a level percentage of pay - on an open basis, over a 30 year period.

Estimates are based on information available at the time of the estimates. Such estimates are subject to revision as additional information becomes available. Also, estimates are subject to risks and uncertainties which may cause results to differ materially from those estimates set forth above. No assurance is given that actual results will not differ materially from the estimates provided above.

The following disclosure regarding OPEB Schedule of Funding Progress and Schedule of Employer Contributions relate to the cost-sharing plan as a whole, of which the State of Florida is one participating employer.

Other Postemployment Benefits Schedule of Funding Progress
(thousands of dollars)

| Actuarial Valuation Date | Actuarial Value of Assets (a) ¹ | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annualized Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|---|---|------------------------------------|--------------------------|---|---|
| July 1, 2007 | -- | \$3,081,834 | \$3,081,834 | 0.00% | \$6,542,945 | 47.10% |
| July 1, 2008 | -- | \$2,848,428 | \$2,848,428 | 0.00% | \$6,492,858 | 43.87% |
| July 1, 2009 | -- | \$4,831,107 | \$4,831,107 | 0.00% | \$7,318,965 | 66.01% |
| July 1, 2010 ² | -- | \$4,545,845 | \$4,545,845 | 0.00% | \$7,574,317 | 60.02% |
| July 1, 2011 | - | \$6,415,754 | \$6,415,754 | 0.00% | \$7,256,798 | 88.41% |
| July 1, 2012 ² | - | \$6,782,210 | \$6,782,210 | 0.00% | \$7,188,525 | 94.35% |
| July 1, 2013 | - | \$7,487,708 | \$7,487,708 | 0.00% | n/a | n/a |

Source: State of Florida Comprehensive Annual Financial Reports and Florida Department of Management Services, Division of State Group Insurance.

¹ The State of Florida does not hold assets in a formal trust, so none are actuarially valued to offset the liability.

² Update of the previous year's actuarial valuation. A new valuation was not performed.

Schedule of Employer Contributions
(thousands of dollars)

| Fiscal Year Ended June 30 | Annual Required Contribution (ARC)¹ | Actual Contribution as a Percentage of ARC |
|--------------------------------------|---|---|
| 2008 | \$200,973 | 43.70% |
| 2009 | \$186,644 | 54.36% |
| 2010 | \$336,419 | 30.87% |
| 2011 | \$313,415 | 32.80% |
| 2012 | \$455,584 | 27.07% |
| 2013 | \$452,658 | 28.50% |

Source: State of Florida Comprehensive Annual Financial Reports.

¹ The Annual Required Contribution is the actuarially determined cost of the benefits allocated to the current year, consisting of the normal cost, that is the portion of the actuarial present value of the benefits and expenses which is allocated to a valuation year, and a payment to amortize the unfunded actuarial accrued liability.

The following disclosure relates only to the State of Florida's share of the OPEB. The State of Florida's participation in the annual required contribution is approximately 72.4% and the actuarial accrued liability is approximately 65.2%.

Actuarially-Determined Annual OPEB Cost and Net OPEB Obligation as of June 30, 2013 (dollars in thousands):

| | |
|--|------------------|
| Annual Required Contribution (ARC) | \$327,829 |
| Interest on the Net OPEB Obligation | 28,412 |
| Adjustments to the ARC | <u>(24,624)</u> |
| Annual OPEB Cost | 331,617 |
| Employer Contribution | <u>(103,428)</u> |
| Increase/Decrease in the Net OPEB Obligation | 228,189 |
| Net OPEB Obligation - July 1, 2012 | <u>710,309</u> |
| Net OPEB Obligation - June 30, 2013 | <u>\$938,498</u> |
| Percent of annual OPEB cost contributed | 31.19% |

Funded Status

The funded status of the plan as of June 30, 2013, was as follows (dollars in thousands):

| | |
|--|--------------------|
| Actuarial valuation date | July 1, 2012 |
| Actuarial accrued liability (AAL) | \$4,878,629 |
| Actuarial value of plan assets | - |
| Unfunded actuarial accrued liability (UAAL) | <u>\$4,878,629</u> |
| Actuarial value of assets as a percentage of the AAL | 0.00% |
| Covered payroll | \$4,248,022 |
| UAAL as a percentage of covered payroll | 114.84% |

Source: State of Florida Comprehensive Annual Financial Reports.

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APPENDIX B
FINANCIAL STATEMENTS OF THE FLORIDA HURRICANE CATASTROPHE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014

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FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

FLORIDA HURRICANE CATASTROPHE FUND

Table of Contents

| | Page |
|--|-------------|
| Independent Auditors' Report | 1 |
| Required Supplementary Information – Management's Discussion and Analysis | 3 |
| Combined Financial Statements: | |
| Combined Statements of Net Position | 7 |
| Combined Statements of Revenues, Expenses, and Changes in Net Position | 8 |
| Combined Statements of Cash Flows | 9 |
| Notes to Combined Financial Statements | 12 |
| Required Supplementary Information – Net Pension Liability | 46 |
| Required Supplementary Information – Schedule of Contributions | 47 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 48 |



KPMG LLP
 4200 Wells Fargo Center
 90 South Seventh Street
 Minneapolis, MN 55402

Independent Auditors' Report

The Trustees of the State Board of Administration of Florida
 Florida Hurricane Catastrophe Fund:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Florida Hurricane Catastrophe Fund of the State of Florida (the Fund), a proprietary fund of the State of Florida, as of and for the years ended June 30, 2015 and 2014, and the related notes to the combined financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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 fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors' 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 Fund'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 Fund'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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership,
 the U.S. member firm of KPMG International Cooperative
 ("KPMG International"), a Swiss entity.



Emphasis of Matters

Emphasis of Matter Regarding Adoption of a New Accounting Pronouncement

As discussed in note 1 to the combined financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in 2015. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Fund Financial Statements

As discussed in note 1, the combined financial statements present only the Fund and do not purport to, and do not, present the financial position of the State of Florida as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–7, the schedule of Fund's proportionate share of net pension liability on page 47, and the schedule of Fund's contributions on page 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
 January 28, 2016

FLORIDA HURRICANE CATASTROPHE FUND

Management's Discussion and Analysis

June 30, 2015 and 2014

Our discussion and analysis of the financial performance of the Florida Hurricane Catastrophe Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read this information in conjunction with the Fund's combined financial statements and notes to the combined financial statements.

Overview of the Financial Statements

The statements presented are the *combined statements of net position, the combined statements of revenues, expenses, and changes in net position, and the combined statements of cash flows*. These statements represent the financial position of the Fund, which includes the State Board of Administration Finance Corporation (the Corporation), formerly known as the Florida Hurricane Catastrophe Fund Finance Corporation. The Corporation was created to provide a mechanism for the cost-effective and efficient issuance of bonds necessary to enable the Fund to carry out its purposes. The Corporation is included as a blended component unit of the Fund because it provides services exclusively for the benefit of the Fund. Separate stand-alone audited financial statements of the blended component unit are not available. Combining statements can be found in the notes to the combined financial statements.

The *combined statements of net position* present the ending balances of all assets and liabilities of the Fund using the economic resources measurement focus and the accrual basis of accounting. The difference between assets and liabilities is reported as net position of the Fund.

The *combined statements of revenues, expenses, and changes in net position* present all revenues and expenses of the Fund occurring during the year resulting from operations and the effect of this activity on net position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The *combined statements of cash flows* provide information about how the Fund finances and meets the cash flow needs of its activities.

The *notes to the combined financial statements* provide additional information related to the data provided in the combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Management's Discussion and Analysis

June 30, 2015 and 2014

Financial Summary

A summary of the *combined statements of net position* for the Fund and the Corporation is presented below (in thousands):

| | June 30 | | |
|---------------------------------------|----------------------|-------------------|-------------------------------------|
| | 2015 | 2014 | 2013 (As restated) |
| Current assets | \$ 6,140,297 | 11,957,961 | 10,218,231 |
| Long-term assets | <u>7,524,464</u> | <u>1,412,556</u> | <u>1,834,026</u> |
| Total assets | <u>13,664,761</u> | <u>13,370,517</u> | <u>12,052,257</u> |
| Deferred outflows related to pensions | <u>137</u> | <u>—</u> | <u>—</u> |
| Current liabilities | 31,340 | 523,902 | 748,387 |
| Long-term liabilities | <u>2,000,656</u> | <u>2,686,394</u> | <u>3,018,906</u> |
| Total liabilities | <u>2,031,996</u> | <u>3,210,296</u> | <u>3,767,293</u> |
| Deferred inflows related to pensions | <u>262</u> | <u>—</u> | <u>—</u> |
| Net position: | | | |
| Net investment in capital assets | 4 | 4 | 5 |
| Unrestricted | 11,632,636 | 10,160,217 | 8,284,937 |
| Restricted for hurricane mitigation | <u>—</u> | <u>—</u> | <u>22</u> |
| Total net position | <u>\$ 11,632,640</u> | <u>10,160,221</u> | <u>8,284,964</u> |

FLORIDA HURRICANE CATASTROPHE FUND

Management's Discussion and Analysis

June 30, 2015 and 2014

A summary of the combined statements of revenues, expenses, and changes in net position for the Fund and the Corporation is presented below (in thousands):

| | Year ended June 30 | | |
|---|--------------------|------------|-----------------------|
| | 2015 | 2014 | 2013 (As restated) |
| Net premium revenue (net of reinsurance premium) | \$ 1,276,738 | 1,269,709 | 1,254,198 |
| Net interest on premium adjustments | 27 | 36 | 7 |
| Net interest on loss disbursement adjustments/advances | — | — | 8 |
| Other | 41 | 41 | 1,667 |
| Total operating revenues | 1,276,806 | 1,269,786 | 1,255,880 |
| Total nonoperating revenue net of nonoperating expenses | 211,920 | 434,479 | 445,012 |
| Total revenues | 1,488,726 | 1,704,265 | 1,700,892 |
| Hurricane losses (reduction in losses) | — | (186,004) | (178,500) |
| Other operating expenses | 5,709 | 5,010 | 4,963 |
| Depreciation | 3 | 2 | 3 |
| Total expenses | 5,712 | (180,992) | (173,534) |
| Income before transfers | 1,483,014 | 1,885,257 | 1,874,426 |
| Transfers to other state agencies | (10,000) | (10,000) | (10,000) |
| Change in net position | 1,473,014 | 1,875,257 | 1,864,426 |
| Net position at beginning of year | 10,160,221 | 8,284,964 | 6,420,538 |
| Adjustments to net position related to pensions | (595) | — | — |
| Net position at beginning of year, restated | 10,159,626 | 8,284,964 | 6,420,538 |
| Net position at end of year | \$ 11,632,640 | 10,160,221 | 8,284,964 |

Financial Highlights

- The Corporation had \$372.85 million on June 30, 2014 in cash on deposit with its Master Trustee, a financial institution, pursuant to the Master Trust Indenture between the Corporation and the Trustee that was used to pay the debt service on the Revenue Bonds on the following day, July 1, 2014.
- The decrease in current assets and corresponding increase in long-term assets between 2014 and 2015 is primarily a result of the changes to the Investment Policy Statement (Policy) allowing for longer maturities. The Policy was amended effective September 1, 2014 and again on January 1, 2015.

FLORIDA HURRICANE CATASTROPHE FUND

Management's Discussion and Analysis

June 30, 2015 and 2014

- The emergency assessment funds receivable is significantly decreased from 2014 to 2015 because the collection of emergency assessments has ended for all new or renewal policies issued on or after January 1, 2015.
- The increase in deferred outflows of resources in fiscal year 2015 is related to the adoption of the new Governmental Accounting Standards Board (GASB) Statements No. 68. These standards require that contributions made by employers to defined benefit pension plans subsequent to the measurement date be recorded as deferred outflows of resources. These contributions made after the measurement date of June 30, 2014, along with the Fund's recognition of the effect of changes in assumptions related to pensions, and the Fund's increase in the change in proportion in regards to its share of the net pension liability in one pension plan, make up the balance in deferred outflows of resources.
- From 2013 to 2015, the decrease in current liabilities and long-term liabilities is primarily the result of the maturity of the Series 2008A Revenue Bonds, which became due and were paid on July 1, 2014; and the defeasance of the Series 2010A Revenue Bonds on July 11, 2014. The defeasance resulted in the Corporation recognizing a loss on the early extinguishment of the debt in the amount of \$34.7 million in 2015.
- The increase in deferred inflows of resources in fiscal year 2015 is related to the adoption of the new GASB Statements No. 68. Most of the deferred inflows were the result of one of the defined benefit pension plan's earnings exceeding expected earnings during the fiscal year ended June 30, 2014, which is the measurement date for the two defined benefit plan's net pension liability.
- The decrease in restricted for hurricane mitigation from 2013 to 2014 is the result of the transfer of \$22.4 thousand from a prior year appropriation to unrestricted. Based on a review of the Florida Legislature's appropriations process, it was determined that it was not necessary to carry a restricted item reflecting past appropriations activity.
- Aggregate excess catastrophe reinsurance providing coverage for \$1.0 billion in excess of \$12.5 billion was purchased effective June 1, 2015 through May 31, 2016. Reinsurance deposit premiums and broker commissions are due in three equal installments on August 1, October 1 and December 1 of 2015 and an accrual of \$5,650,000 as of June 30, 2015 was established for one month's pro-rata portion of the aggregate reinsurance deposit premium and broker commission. The reinsurance premium ceded and broker commission expenses are reported as operating activities net of the reimbursement premium received.
- For losses from hurricanes occurring in 2004 and 2005, the Fund reimbursed participating insurers \$9.40 billion with \$3.86 billion for 2004 losses and \$5.54 billion for 2005 losses. "Hurricane losses" expense includes a reduction in hurricane loss expenses of \$178.50 million in 2013 and \$186.00 million in 2014 for the prior years' storms due to estimates revised downward as a result of favorable loss development, actuarial analysis, and loss settlement. There were no hurricane losses outstanding as of June 30, 2015 and 2014.
- Other operating revenue in 2013 is higher than in 2014 and 2015 primarily due to \$1.59 million of revenue received from several participating insurers in the form of an administrative charge pursuant to an agreement related to the selection of an optional coverage.
- The increase in settlement income in 2015 is the result of a settlement of a claim in the Lehman Brothers, Inc., Securities Investor Protection Act of 1970 (SIPA) insolvency proceeding.

FLORIDA HURRICANE CATASTROPHE FUND

Management's Discussion and Analysis

June 30, 2015 and 2014

- Total nonoperating revenue includes investment income, which was \$39.62 million for the year ended June 30, 2013, \$26.76 million for the year ended June 30, 2014, and \$37.70 million for the year ended June 30, 2015. The decrease in 2014 was due to the decline in interest rates. The increase in 2015 was primarily a result of changes made to our Policy allowing for longer maturities. The primary goal of the Fund is defined in the Policy by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. The Fund's objective is to invest in securities that are highly liquid, relatively short term, and have a credit quality in accordance with the Policy.
- Total nonoperating revenue also includes emergency assessment revenue. In order to reimburse participating insurers for losses occurring in 2005, the Fund, through the Corporation, issued tax-exempt revenue bonds in 2006 in the amount of \$1.35 billion, which matured on July 1, 2012, an additional \$625.00 million in 2008, which matured on July 1, 2014, and an additional \$675.92 million in 2010. The funding source for the repayment of these bonds was from an emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The assessment was initially 1.0% on all policies issued or renewed on or after January 1, 2007 and was increased to 1.3% on January 1, 2011. A defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014; as a result, the Florida Office of Insurance Regulation issued orders on July 21, 2014 making the emergency assessment 0.0% for all policies issued or renewed on or after January 1, 2015.
- With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities in 2014, the 2013 financials were restated.
- GASB Statement No. 68, Accounting and Financial Reporting for Pensions was implemented for fiscal year ended June 30, 2015. This resulted in a reduction to the net position as of June 30, 2014, of \$595 thousand dollars.
- At June 30, 2015, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA-; and Fitch, AA.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Net Position

June 30, 2015 and 2014

(In thousands)

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|-------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9 | 374,748 |
| Short-term investments | 6,131,572 | 11,443,010 |
| Emergency assessment funds receivable | 3,057 | 138,285 |
| Accrued interest | 5,648 | 1,918 |
| Prepaid expenses | 11 | — |
| Total current assets | <u>6,140,297</u> | <u>11,957,961</u> |
| Long-term assets: | | |
| Long-term investments | 7,524,460 | 1,412,552 |
| Capital assets, net of accumulated depreciation of \$32 and \$48 for June 30, 2015 and 2014, respectively | 4 | 4 |
| Total long-term assets | <u>7,524,464</u> | <u>1,412,556</u> |
| Total assets | <u>13,664,761</u> | <u>13,370,517</u> |
| Deferred outflows of resources: | | |
| Deferred outflows related to pensions (note 13) | 137 | — |
| Liabilities: | | |
| Current liabilities: | | |
| Premium refunds payable | — | 145 |
| Accrued expenses | 7,842 | 921 |
| Bonds payable | — | 325,000 |
| Payable for securities purchased | — | 149,985 |
| Accrued bond interest expense | 23,488 | 47,851 |
| Net pension liability (note 13) | 10 | — |
| Total current liabilities | <u>31,340</u> | <u>523,902</u> |
| Long-term liabilities: | | |
| Bonds payable | 2,000,000 | 2,686,249 |
| Net pension liability (note 13) | 420 | — |
| Compensated absences, net of current portion | 181 | 145 |
| Other post-employment benefits payable | 55 | — |
| Total long-term liabilities | <u>2,000,656</u> | <u>2,686,394</u> |
| Total liabilities | <u>2,031,996</u> | <u>3,210,296</u> |
| Deferred inflows of resources: | | |
| Deferred inflows related to pensions (note 13) | 262 | — |
| Net position: | | |
| Net investment in capital assets | 4 | 4 |
| Unrestricted | 11,632,636 | 10,160,217 |
| Total net position | <u>\$ 11,632,640</u> | <u>10,160,221</u> |

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(In thousands)

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| Operating revenues: | | |
| Net premium revenue (net of reinsurance premium) | \$ 1,276,738 | 1,269,709 |
| Net interest on premium adjustments | 27 | 36 |
| Other | 41 | 41 |
| Total operating revenues | <u>1,276,806</u> | <u>1,269,786</u> |
| Operating expenses: | | |
| Hurricane losses (reduction in losses) | — | (186,004) |
| Administrative and actuarial fees | 2,772 | 2,420 |
| Other professional fees | 1,249 | 1,130 |
| Personnel expenses | 1,432 | 1,277 |
| Depreciation | 3 | 2 |
| Other | 256 | 183 |
| Total operating expenses | <u>5,712</u> | <u>(180,992)</u> |
| Operating income | <u>1,271,094</u> | <u>1,450,778</u> |
| Nonoperating revenue (expense): | | |
| Investment income | 37,699 | 26,764 |
| Investment advisor fees | (2,863) | (2,574) |
| Settlement income | 2,798 | — |
| Emergency assessment revenue | 256,880 | 498,556 |
| Emergency assessment interest revenue | 3 | 6 |
| Custodian fees | (171) | (107) |
| Bond interest expense | (47,703) | (88,166) |
| Bond early extinguishment of debt expense | (34,723) | — |
| Total nonoperating revenue | <u>211,920</u> | <u>434,479</u> |
| Income before transfers | 1,483,014 | 1,885,257 |
| Transfers to other state agencies | <u>(10,000)</u> | <u>(10,000)</u> |
| Change in net position | <u>1,473,014</u> | <u>1,875,257</u> |
| Net position at beginning of year | 10,160,221 | 8,284,964 |
| Adjustments to net position related to pensions (note 13) | <u>(595)</u> | <u>—</u> |
| Net position at beginning of year, restated | 10,159,626 | 8,284,964 |
| Net position at end of year | \$ <u>11,632,640</u> | \$ <u>10,160,221</u> |

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

| | <u>2015</u> | <u>2014</u> |
|--|------------------|-------------------|
| Operating activities: | | |
| Premium received | \$ 1,282,270 | 1,270,342 |
| Hurricane losses paid | — | (20,941) |
| Other cash received from customers | 41 | 41 |
| Administrative and actuarial fees | (2,745) | (2,513) |
| Other professional fees | (1,067) | (1,116) |
| Personnel expenses | (1,370) | (1,243) |
| Other cash paid to vendors | (246) | (224) |
| Net cash provided by operating activities | <u>1,276,883</u> | <u>1,244,346</u> |
| Investing activities: | | |
| Purchases of investments | (113,089,071) | (224,030,751) |
| Sales and maturities of investments | 112,143,527 | 223,048,555 |
| Interest received | 29,058 | 18,110 |
| Settlement income received | 2,798 | — |
| Investment advisor fees | (2,829) | (2,551) |
| Custodian fees | (167) | (68) |
| Net cash (used) by investing activities | <u>(916,684)</u> | <u>(966,705)</u> |
| Financing from noncapital activities: | | |
| Transfers to other state agencies | (10,000) | (10,000) |
| Emergency assessment funds received | 393,102 | 495,269 |
| Emergency assessment interest received | 3 | 6 |
| Bond principal paid | (1,000,920) | (300,000) |
| Bond interest paid | (82,396) | (88,296) |
| Bond early extinguishment of debt | (34,723) | — |
| Bond cost of issuance | — | (10) |
| Net cash (used) provided by financing from noncapital activities | <u>(734,934)</u> | <u>96,969</u> |
| Financing from capital activity: | | |
| Purchases of capital assets | <u>(4)</u> | <u>—</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(374,739)</u> | <u>374,610</u> |
| Cash and cash equivalents at beginning of year | 374,748 | 138 |
| Cash and cash equivalents at end of year | \$ <u>9</u> | \$ <u>374,748</u> |

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows
Years ended June 30, 2015 and 2014
(In thousands)

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|------------------|
| Operating income | \$ 1,271,094 | 1,450,778 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 3 | 2 |
| (Increase) decrease in premiums receivable | 9,438 | 453 |
| Increase (decrease) in allowance for uncollectables | (9,438) | — |
| (Increase) decrease in deposits and prepaid expenses | (11) | — |
| Increase (decrease) in premium refunds payable | (145) | 145 |
| Increase (decrease) in compensated absences | 45 | 32 |
| Increase (decrease) in unpaid hurricane losses | — | (204,891) |
| Increase (decrease) in losses payable | — | (2,054) |
| Increase (decrease) in accrued expenses | 5,882 | (119) |
| Increase (decrease) in other post-employment benefits payable | 55 | — |
| Increase (decrease) in pension liability and deferrals | (40) | — |
| Net cash provided by operating activities | <u>\$ 1,276,883</u> | <u>1,244,346</u> |

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements
June 30, 2015 and 2014

(1) Organization

(a) Business

The Florida Hurricane Catastrophe Fund (the Fund), a trust fund created in November 1993 during a special Florida Congressional legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to all authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the approximately 160 insurers using rates developed based on hurricane modeling of the trended data from the prior year. The modeling takes into consideration factors such as historical records of hurricane strength and landfall patterns, geographic location, type of business, construction, coverage selected, deductible, and mitigation features. The Fund is administered by the State Board of Administration of Florida (SBA), which has contracted for administrative and actuarial services.

The Fund also includes the accounts of its blended component unit, the State Board of Administration Finance Corporation (the Corporation). The Corporation, a public benefits corporation and an instrumentality of the State of Florida, was created to provide a mechanism for the cost-effective and efficient issuance of bonds necessary to enable the Fund to carry out its purposes. The Corporation is included as a blended component unit because it provides services exclusively for the benefit of the Fund. Separate stand-alone audited financial statements of the component unit are not available.

(b) Basis of Presentation

The Fund is classified as an enterprise fund, which is a type of proprietary fund. The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of the Fund are included in the combined statements of net position. The combined statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net total assets. The combined statements of cash flows provide information about how the Fund finances and meets the cash flow needs of its activities.

The combined financial statements presented herein relate solely to the financial position and changes in financial position of the Fund, and are not intended to present the financial position of the SBA or the results of its operations and cash flows. The Fund follows Governmental Accounting Standards Board (GASB) pronouncements.

(c) Adoption of New Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassified certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. The requirements of this statement were effective for the Fund for the year ended June 30, 2014. GASB 65 requires debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The Fund implemented GASB 65 in fiscal year 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Fund implemented GASB's 68 in fiscal year 2015. This resulted in a \$595,000 reduction of beginning

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

net position at July 1, 2014. The Fund also implemented the requirements of GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Because information was not available relative to prior fiscal years, GASB 68 was adopted effective July 1, 2014 and prior year financial statements have not been restated.

(d) Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the Fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net position as of December 31 of the applicable contract year, to which is added reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund; and the amount the SBA is able to raise through the issuance of revenue bonds up to the statutory annual aggregate fund limit; and from which is subtracted any reinsurance recovered prior to, or recoverable as of, December 31; any obligations paid or expected to be paid with bonding proceeds or receipts from emergency assessments; amounts needed for administration for the then-current State of Florida fiscal year, which have not been spent and, which are not reflected on the combined statements of net position; and the amount of undisbursed mitigation funds appropriated for the then-current State of Florida fiscal year.

The Fund has no risk that it will be unable to meet its contractual obligations to participating insurers because its obligation is limited to its ability to pay. Although revenue bonds were issued on behalf of the Fund under authorization of Section 215.555(6) of the Florida Statutes, the State of Florida assumes no liability for the repayment of the bonds. Additionally, the State of Florida has no legal responsibility to make any contribution to the Fund should its obligations exceed available resources.

(e) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. Cash and investments held in the Fund's unrestricted funds are available to pay for hurricane losses for the current year and subsequent years. However, the use of reimbursement premiums and the investment earnings thereon to pay for prior year hurricane losses may jeopardize the tax-exempt status of the bonds currently issued and future bonds to be issued under the private letter rulings issued to the Corporation by the Internal Revenue Service (IRS).

(2) Significant Accounting Policies

(a) Measurement Focus

As mentioned in note 1, the Fund uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, premium revenues are recognized when billed. Expenses are recorded at the time they are incurred.

(b) Investments

The Fund's cash is invested according to an Investment Policy Statement, which sets forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. These investments are recorded at fair value and, the fair values are primarily obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2015 and 2014. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment advisory services are provided by the SBA. The Investment Policy Statement was amended on September 1, 2014 and again on January 1, 2015. Significant changes to the Investment Policy Statement are further outlined in Footnote 3(a) and (c).

(c) Emergency Assessment Receivable

Emergency assessments are remitted as a percentage of quarterly direct written premium and are due 45 days following the end of each quarter. Insureds procuring coverage and filing under Section 626.938 of the Florida Statutes report such coverage 30 days after the insurance is procured and remit emergency assessments within 45 days following the quarter after the insurance is procured. The collection of emergency assessments has ended for all new or renewal policies issued on or after January 1, 2015 and refunds or return of erroneously paid emergency assessments formerly paid out of the Corporation's account are now being paid out of the Fund's corpus account.

(d) Premiums Receivable

Premiums receivable represent amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings. As of June 30, 2015 and 2014, an allowance exists equal to the premium receivable of \$10,537,971 for two insurers and \$19,976,652 for three insurers, respectively, that have entered into receivership and the collectibility of this amount is uncertain.

(e) Loss Reimbursement Advances Receivable

Certain companies may qualify for advances from the Fund, which are in essence loans based on a company's potential recoveries from the Fund (i.e., based on incurred losses rather than paid losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2015 and 2014, there are no outstanding loss reimbursement advances.

(f) Capital Assets

Capital assets, primarily electronic data processing equipment, are stated at cost, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives, ranging from three to seven years.

(g) Deferred Outflows of Resources

A consumption of net assets by the Fund that is applicable to a future reporting period is presented as a deferred outflow of resources.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

(h) Premium Refunds Payable

Premium refunds payable represent amounts due to participating insurers where provisional or estimated premium payments are in excess of amounts actually owed based upon the current exposure data. Also included are premium amounts received from companies pending exemption. These amounts are returned once an exemption is granted.

(i) Bonds Payable

Under authorization of Section 215.555(6) of the Florida Statutes, the Fund has issued post-event revenue bonds and pre-event revenue bonds in order to meet current and future obligations. The Fund classifies amounts expected to be paid within the next year as current liabilities, with remaining amounts classified as long-term liabilities. Bond issuance costs are recognized as an expense in the period incurred.

(j) Compensated Absences

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid leave indefinitely. The short-term portion of this liability, \$61,908 in 2015 and \$53,154 in 2014, is included in accrued expenses on the combined statements of net position. The remaining liability is included as compensated absences with long-term liabilities on the combined statements of net position.

(k) Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the Fund that is applicable to a future reporting period.

(l) Current Contract Year Premium Revenue

Premium revenue is recognized when billed. Coverage is provided to the participating insurers on a contract-year basis, which runs from June 1 to May 31. Premiums are billed in three installments, with provisional payments due August 1 and October 1 and a final payment due December 1.

(m) Reinsurance

The reinsurance premium ceded and commission expenses are reported as operating activities net of the reimbursement premium received. As of June 30, 2015, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium.

(n) Prior Contract Year Adjustments

Participating insurers remit premium to the Fund based upon current policyholder exposure information. When insurers provide updated or corrected exposure information, the Fund may bill and receive additional premium relating to a prior contract year which is recorded as premium revenue in the year billed; the Fund may also be required to refund amounts to insurers relating to a prior contract year which is recorded as a reduction to premium revenue in the year refunded.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

(o) Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Fund, these revenues are primarily the premiums charged to all participating insurers. Operating expenses include incurred losses and necessary costs incurred to administer the Fund and to provide loss reimbursements to its participants.

(p) Net Interest on Premium Adjustments

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments are too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2015, the interest rate was 0.00% for overpayments of premium and 5.00% for underestimated payments. For the contract year ended May 31, 2014, the interest rate was 0.20% for overpayments of premium and 5.20% for underestimated payments.

(q) Hurricane Losses

Hurricane losses represent the estimated ultimate cost of all reported and incurred but not reported claims (IBNR) during the year that exceed the participating insurers' individual company retention levels. The reserves for unpaid claims are estimated primarily by management's review of reported loss information obtained from the participating insurers. Although considerable variability is inherent in such estimates, management believes that the reserves for hurricane losses are adequate. The estimates are continually reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations.

(r) Emergency Assessment

Section 215.555(6)(b) of the Florida Statutes provides for an emergency assessment on all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2016) medical malpractice premiums. A maximum annual assessment of 6% is allowed for losses attributable to any one contract year and a maximum aggregate annual assessment of 10% for all contract years. For policies issued or renewed on or after January 1, 2007, a 1% emergency assessment has been levied; except for policies issued or renewed on or after January 1, 2011, where a 1.3% emergency assessment has been levied. For policies issued or renewed on or after January 1, 2015, the emergency assessment is 0.0%. The emergency assessment revenue was the funding source for repayment of the Series 2006A, 2008A, and 2010A Revenue Bonds.

(s) Transfers

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature will appropriate from the Fund an amount no less than \$10,000,000 and no more than 35% of the investment income from the prior fiscal year, providing that the actuarial soundness of the Fund is not jeopardized, for the purpose of providing funding for governments, agencies, and educational institutions to support programs intended to improve hurricane preparedness or reduce potential losses in the event of a

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

hurricane. For these purposes, in each of fiscal years 2015 and 2014, \$10,000,000 was appropriated from the Fund.

(t) Income Taxes

The Fund and the Corporation are exempt from federal and state income taxes. The Fund's tax-exempt status was affirmed by a private letter ruling obtained from the IRS in November 1994. The Corporation received its initial private letter ruling to issue tax-exempt debt in March 1998, and a permanent ruling was received in June 2008.

(u) Cash and Cash Equivalents

The Fund generally considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

On June 30, 2014, the Corporation had cash on deposit with its Master Trustee, a financial institution, for the purpose of funding debt service on the Corporation's outstanding Revenue Bonds. The cash was on deposit with the Master Trustee pursuant to the Master Trust Indenture between the Corporation and the Trustee and was used to pay the debt service on the Revenue Bonds on July 1, 2014, which was the following day.

(v) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net position available and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of changes in net position during the reporting period. Actual amounts could differ from those estimates.

(3) Investments

Funds are invested in accordance with Section 215.47 of the Florida Statutes, and the Fund's Investment Policy Statement, which includes, but is not limited to, corporate debt securities such as variable rate notes, certificates of deposit, bonds, commercial paper, U.S. government agency notes, U.S. government Treasury bills, state and local government series (SLGS), shares of money market funds, and repurchase agreements that enhance the Fund's investment income while maintaining liquidity and safety of principal.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The fair value of the Fund's investments is as follows (in thousands):

| | June 30 | |
|---|----------------------|-------------------|
| | 2015 | 2014 |
| Short-term investments: | | |
| Certificates of deposit | \$ 274,975 | — |
| Commercial paper | 1,978,733 | 5,275,541 |
| Money market funds | 54,805 | 787 |
| Repurchase agreements | 894,726 | 2,514,866 |
| U.S. Treasury bills | — | 49,948 |
| U.S. Treasury bonds, notes and SLGS | 39,173 | 919,523 |
| Federal agencies – discount notes | 911,554 | 482,228 |
| Federal agencies – unsecured | 570,527 | 1,789,102 |
| Domestic corporate bonds and notes | 1,276,869 | 261,024 |
| International corporate bonds and notes | 80,200 | 149,991 |
| International bonds – government agency | 50,010 | — |
| Total short-term investments | <u>6,131,572</u> | <u>11,443,010</u> |
| Long-term investments: | | |
| Certificates of deposit | 2,232,208 | — |
| U.S. Treasury bonds, notes and SLGS | — | 34,824 |
| Federal agencies – unsecured | 4,429,204 | 1,371,789 |
| Domestic corporate bonds and notes | 432,978 | — |
| Domestic nongovernment mortgage-backed securities | — | 5,939 |
| International corporate bonds and notes | 230,100 | — |
| International bonds – government agency | 199,970 | — |
| Total long-term investments | <u>7,524,460</u> | <u>1,412,552</u> |
| Total | <u>\$ 13,656,032</u> | <u>12,855,562</u> |

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

As of June 30, 2015, the weighted average maturity of the Fund's investments is as follows (in thousands):

| <u>Investment type</u> | <u>Fair value</u> | <u>Weighted average maturity (days)</u> |
|---|----------------------|---|
| Certificates of deposit | \$ 2,507,183 | 32 |
| Commercial paper | 1,978,733 | 55 |
| Money market funds | 54,805 | 1 |
| Repurchase agreements | 894,726 | 15 |
| U.S. Treasury bonds, notes and SLGS | 39,173 | 184 |
| Federal agencies – discount notes | 911,554 | 117 |
| Federal agencies – unsecured | 4,999,731 | 90 |
| Domestic corporate bonds and notes | 1,709,847 | 37 |
| International corporate bonds and notes | 310,300 | 64 |
| International bonds – government agency | 249,980 | 59 |
| Total fair value | \$ <u>13,656,032</u> | |
| Portfolio weighted average maturity | | 63 |

As of June 30, 2014, the weighted average maturity of the Fund's investments is as follows (in thousands):

| <u>Investment type</u> | <u>Fair value</u> | <u>Weighted average maturity (days)</u> |
|--|----------------------|---|
| Commercial paper | \$ 5,275,541 | 52 |
| Money market funds | 787 | 1 |
| Repurchase agreements | 2,514,866 | 7 |
| U.S. Treasury bills | 49,948 | 360 |
| U.S. Treasury bonds, notes and SLGS | 954,347 | 34 |
| Federal agencies – discount notes | 482,228 | 114 |
| Federal agencies – unsecured | 3,160,891 | 130 |
| Domestic corporate bonds and notes | 261,024 | 70 |
| Domestic nongovernment mortgage-backed securities* | 5,939 | * |
| International corporate bonds and notes | 149,991 | 38 |
| Total fair value | \$ <u>12,855,562</u> | |
| Portfolio weighted average maturity | | 65 |

* Due to the nature of certain mortgage-backed securities that have been restricted after default, the weighted average maturity is not available. When the original liquidity notes defaulted, the SBA (on behalf of certain funds) elected for a distribution of the underlying collateral in lieu of a cash payment (the Collateral Securities). The SBA-issued notes were issued to the participatory funds that had an interest in the original liquidity notes, and these notes hold the Collateral Securities as security for repayment of the notes. The Collateral Securities consist of domestic nongovernment

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

mortgage-backed securities. The note payouts were set to pay interest at one-month LIBOR + 35 basis points. Any additional amount collected as principal or interest on the underlying mortgages is used to first pay the note holders the interest (calculated at one-month LIBOR + 35 basis points), and anything collected over that is used to pay down the note principal for each note holder. These segregated securities are subject to the Investment Management Guidelines of the Investment Management Agreement for the sale, exchange, or disposition of the collateral and are no longer under the Fund's Investment Policy Statement.

(a) Interest Rate Risk

Liquidity being a primary concern, the Fund's objective as defined in the Investment Policy Statement is to invest in high quality, highly liquid, relatively short-term investment strategies, which are reviewed on an annual basis to ensure the appropriateness of the strategic goal. The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the Investment Policy Statement, no individual security shall have a final maturity date longer than 545 days, with the exception of those for government securities and agency securities, which shall not exceed 1,188 days. No more than 30% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 545 days. The dollar weighted average maturity to reset (DWAM) of the portfolio shall not exceed 270 days. For purposes of the DWAM calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the nongovernment mortgage-backed securities. The dollar weighted average final maturity of the portfolio shall not exceed 540 days.

(b) Credit Risk

Funds are invested in accordance with Section 215.47 of the Florida Statutes and the Fund's Investment Policy Statement, which includes, but is not limited to, corporate debt securities such as variable rate notes, certificates of deposit, bonds, commercial paper, U.S. government agency notes, U.S. government Treasury bills, state and local government series (SLGS), shares of money market mutual funds, and repurchase agreements that enhance the Fund's investment income while maintaining liquidity and safety of principal.

The Investment Policy Statement further states that all securities must be investment grade at time of purchase. For short-term ratings, this has been defined as being in the highest applicable rating categories by at least two of Moody's, S&P, and/or Fitch and must be a minimum of P-1 by Moody's, A-1 by S&P, and/or F1 by Fitch. For long-term ratings, this has been defined as being obtained from at least two of Moody's, S&P, and/or Fitch and must be a minimum of A2 by Moody's, A by S&P, and/or A by Fitch.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2015 (in thousands):

| Investment type | Fair value | Credit quality ratings | |
|---|----------------------|------------------------|-----------|
| | | S & P | Moody's |
| Certificates of deposit | \$ 348,894 | A | Aa |
| Certificates of deposit | 473,663 | Not Rated | Aa |
| Certificates of deposit* | 1,684,626 | Not Rated | Not Rated |
| Commercial paper | 1,978,733 | A-1 | P-1 |
| Money market funds | 54,805 | AAAm | Aaa-mf |
| Repurchase agreements (Collateralized by U.S. guaranteed obligations) | 114,289 | Not Rated | Not Rated |
| Repurchase agreements | 668 | AA | Aaa |
| Repurchase agreements | 779,769 | Not Rated | Not Rated |
| U.S. Treasuries | 39,173 | Not Rated | Not Rated |
| Federal agencies – discount notes | 911,554 | Not Rated | Not Rated |
| Federal agencies | 3,541,994 | AA | Aaa |
| Federal agencies | 275,057 | AA | Not Rated |
| Federal agencies | 1,182,680 | Not Rated | Not Rated |
| Domestic corporate bonds and notes | 437,212 | AA | Aa |
| Domestic corporate bonds and notes | 199,810 | AA | A |
| Domestic corporate bonds and notes | 1,072,825 | A | A |
| International corporate bonds and notes | 225,033 | AA | Aa |
| International corporate bonds and notes | 5,067 | A | Aa |
| International corporate bonds and notes | 80,200 | A | A |
| International bonds – government agency | 50,010 | AAA | Aaa |
| International bonds – government agency | 199,970 | A | Aa |
| | <u>\$ 13,656,032</u> | | |

* All certificates of deposit, including the \$1,684,626 "not rated" certificates of deposit had short-term issuer ratings of A-1 for S&P and P-1 for Moody's.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2014 (in thousands):

| Investment type | Fair value | Credit quality ratings | |
|---|----------------------|------------------------|-----------|
| | | S & P | Moody's |
| Commercial paper | \$ 5,200,541 | A-1 | P-1 |
| Commercial paper* | 75,000 | Not Rated | Not Rated |
| Money market funds | 787 | AAAm | Aaa-mf |
| Repurchase agreements (Collateralized by U.S. guaranteed obligations) | 644,955 | Not Rated | Not Rated |
| Repurchase agreements | 63,481 | AA | Aaa |
| Repurchase agreements | 1,806,430 | Not Rated | Not Rated |
| U.S. Treasuries | 1,004,295 | Not Rated | Not Rated |
| Federal agencies – discount notes | 482,228 | Not Rated | Not Rated |
| Federal agencies – unsecured | 1,911,232 | AA | Aaa |
| Federal agencies – unsecured | 125,030 | AA | Not Rated |
| Federal agencies – unsecured | 1,124,629 | Not Rated | Not Rated |
| Domestic corporate bonds and notes | 179,973 | AA | A |
| Domestic corporate bonds and notes | 81,051 | A | A |
| Domestic nongovernment mortgage-backed securities | 5,939 | Not Rated | Not Rated |
| International corporate bonds and notes | 149,991 | A-1 | P-1 |
| | <u>\$ 12,855,562</u> | | |

* The \$75,000 "not rated" commercial paper had issuer ratings of A-1 for S&P and P-1 for Moody's.

(c) Concentration of Credit Risk

Pursuant to the Investment Policy Statement, securities of a single issuer shall not represent more than 3% of total portfolio amortized cost (excluding government securities, repurchase agreements, money market mutual funds and custodian cash sweep vehicles). For fiscal year-end 2014, single issuer was interpreted to be each separate issuer and not the aggregate of all affiliated issuers; and where total holdings by affiliated issuers represented more than 3% of the total portfolio amortized cost the amounts are provided in these notes for informational purposes. With the changes to the Investment Policy Statement in fiscal year 2015, single issuer is interpreted to be the aggregate of all affiliated issuers. The maximum single issuer limit can be 5% if timing issues related to delayed delivery transactions are the sole cause of the discrepancy, so long as the percentage is reduced back to 3% within five business days. Repurchase agreements, which are collateralized at least 102% with U.S. government, agency, or agency mortgage-backed securities, are excluded by the SBA in determining compliance with the guidelines. No more than 10% of the portfolios may be invested in an individual money market fund (including any one treasury or agency money market mutual fund). No more than 25% of total portfolio amortized cost may be in a single industry sector. For fiscal year-end 2014, that limit did not apply to the financial services industry sector.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

At June 30, 2015, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 9.11% of the portfolio's total fair value. The fair value of Bank of Nova Scotia holdings at June 30, 2015 was \$1,244,468,788, of which, \$869,726,000 was held in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2015.

At June 30, 2015, the Fund also held \$5,911,285,311 in federal agency bonds and notes, which was in compliance with the Investment Policy Statement and represented 43.29% of the portfolio's fair value. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2015 are as follows (in thousands):

| <u>Investment type</u> | <u>Fair value</u> | <u>Percentage of portfolio</u> |
|---------------------------------------|-------------------|--------------------------------|
| Federal Farm Credit Bank | \$ 1,707,981,365 | 12.51% |
| Federal Home Loan Mortgage Corp | 1,519,275,828 | 11.13 |
| Federal Home Loan Banks | 1,428,856,478 | 10.46 |
| Federal Agricultural Mortgage Corp | 1,182,679,970 | 8.66 |
| Federal National Mortgage Association | 72,491,670 | 0.53 |

At June 30, 2014, securities issued by Bank of America were in compliance with the Investment Policy Statement and represented 3.30% of the portfolio's total amortized cost. The fair value of Bank of America holdings at June 30, 2014 was \$424,998,000, held in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, securities issued by RBC Capital were in compliance with the Investment Policy Statement and represented 7.88% of the portfolio's total amortized cost. The fair value of RBC Capital holdings at June 30, 2014 was \$1,015,000,000, held in repurchase agreements issued by RBC Capital. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 6.99% of the portfolio's total amortized cost. The fair value of Bank of Nova Scotia holdings at June 30, 2014 was \$900,000,000, held in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, holdings directly in Commonwealth Bank of Australia were in compliance with the Investment Policy Statement and represented 1.94% of the portfolio's amortized cost. Holdings in ASB Finance Ltd, a subsidiary of Commonwealth Bank of Australia, were in compliance with the Investment Policy Statement and represented 1.67% of the portfolio's amortized cost. The combined holdings of Commonwealth Bank of Australia and its subsidiary totaled 3.61% of the portfolio's amortized cost. The fair value of these holdings at June 30, 2014 was \$464,995,500, held in commercial paper issued by National Australia Bank and its subsidiary.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

At June 30, 2014, holdings directly in Mitsubishi UFJ Trust & Banking Corporation were in compliance with the Investment Policy Statement and represented 2.62% of the portfolio's amortized cost. Holdings in Bank of Tokyo-Mitsubishi UFJ Ltd were in compliance with the Investment Policy Statement and represented 2.53% of the portfolio's amortized cost. The combined holdings in Mitsubishi UFJ Financial group totaled 5.15% of the portfolio's amortized cost. The fair value of these holdings at June 30, 2014 was \$663,805,100, all in commercial paper. \$318,965,000 of these holdings matured in July 2014.

At June 30, 2014, the Fund held \$1,004,295,444 in U.S. Treasuries, which was in compliance with the Investment Policy Statement and represented 7.82% of the portfolio's amortized cost. Specifically, the Fund held \$49,947,500 in US Treasury bills, \$70,304,599 in US Treasury notes, and \$884,043,345 in US Treasury State and Local Government Series Securities (SLGS). SLGS are nonmarketable securities that are only available for purchase by state and local governments and other issuers of tax-exempt securities. SLGS are direct obligations of the U.S. government, backed by the full faith and credit of the U.S. government.

At June 30, 2014, the Fund also held \$3,643,119,162 in federal agency bonds and notes, which was in compliance with the Investment Policy Statement and represented 28.34% of the portfolio's holdings. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2014 are as follows (in thousands):

| <u>Investment type</u> | <u>Fair value</u> | <u>Percentage of portfolio</u> |
|---------------------------------------|-------------------|--------------------------------|
| Federal Home Loan Banks | \$ 1,304,515,599 | 10.15% |
| Federal Agricultural Mortgage Corp | 998,633,428 | 7.77 |
| Federal Farm Credit Bank | 900,344,168 | 7.00 |
| Federal National Mortgage Association | 251,091,133 | 1.95 |
| Federal Home Loan Mortgage Corp | 188,534,834 | 1.47 |

(d) Custodial Credit Risk

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The Fund does not have a formal investment policy for custodial credit risk. At June 30, 2015 and 2014, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

(e) Foreign Currency Risk

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2015 and 2014.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2015 and 2014 is as follows (in thousands):

| | <u>Equipment</u> | <u>Accumulated depreciation</u> | <u>Net</u> |
|------------------------------------|------------------|---------------------------------|------------|
| Balance as of June 30, 2013 | \$ 66 | (61) | 5 |
| Additions and depreciation expense | 1 | (2) | (1) |
| Sales or disposals | <u>(15)</u> | <u>15</u> | <u>—</u> |
| Balance as of June 30, 2014 | 52 | (48) | 4 |
| Additions and depreciation expense | 3 | (3) | — |
| Sales or disposals | <u>(19)</u> | <u>19</u> | <u>—</u> |
| Balance as of June 30, 2015 | \$ <u>36</u> | <u>(32)</u> | <u>4</u> |

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006 to 2014 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). As of June 30, 2015 and 2014, no hurricane losses remain unpaid.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). As of June 30, 2015 and 2014, no hurricane losses remain unpaid.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2015 and 2014 (in thousands):

| | <u>Year ended June 30</u> | |
|--|---------------------------|------------------|
| | <u>2015</u> | <u>2014</u> |
| Reserve for unpaid hurricane losses at beginning of year | \$ — | 204,891 |
| Provision for hurricane losses occurring in: | | |
| Current year | — | — |
| Prior years | — | <u>(186,004)</u> |
| Net incurred losses during the current year | <u>—</u> | <u>(186,004)</u> |
| Payments for claims occurring in: | | |
| Current year | — | — |
| Prior years | — | <u>18,887</u> |
| Net claim payments during the current year | <u>—</u> | <u>18,887</u> |
| Reserve for unpaid hurricane losses at end of year | \$ <u>—</u> | <u>—</u> |

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The Fund's reserve for prior years' unpaid hurricane losses was zero at June 30, 2015. At June 30, 2014, the Fund's reserve for prior years' unpaid hurricane losses was reduced by \$186.0 million to zero as a result of ongoing loss development, actuarial analyses, and loss settlement. The final commutation of losses with participating insurers was concluded in May 2014.

(6) Bonds Payable

Long-term liability activity for the years ended June 30, 2015 and 2014 was as follows (in thousands):

| | <u>Long-term liabilities as of June 30, 2015</u> | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> |
|-----------------|--|--------------------------|------------------|-------------------|-----------------------|
| Long-term bonds | \$ 2,675,920 | — | (675,920) | 2,000,000 | 2,000,000 |
| | | | | | |
| | <u>Long-term liabilities as of June 30, 2015</u> | <u>Beginning balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending balance</u> |
| Long-term bonds | \$ 3,000,920 | — | (325,000) | 2,675,920 | 2,675,920 |

Post-event Bonds – The Fund paid loss reimbursements of \$3.86 billion to participating insurers for the calendar year 2004 hurricanes and paid \$5.54 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net position as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of \$1,350,025,000 during the year ended June 30, 2006. The funding for these bonds came from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. At June 30, 2015, none of these bonds were outstanding as they matured on July 1, 2012.

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of \$625 million. The Series 2008A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same 1% emergency assessment mentioned above. At June 30, 2015, none of these bonds were outstanding as they matured on July 1, 2014.

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of \$675.9 million. The Series 2010A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same emergency assessment mentioned above. An Order was issued by the Florida Office of Insurance Regulation concurrently with the issuance of the Series 2010A Revenue Bonds to supersede the 1% emergency assessment with a 1.3% emergency assessment. The increased emergency assessment was effective for all policies issued or renewed on or after January 1, 2011. A legal defeasance of the bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture. See note 10 for additional discussion.

Pre-event Notes and Bonds – In April 2013, the Corporation issued pre-event Series 2013A Revenue Bonds in the amount of \$2.0 billion to maximize the ability of the Fund to meet future obligations. The proceeds from these bonds will be used to pay for losses incurred from future covered events. Investment earnings on

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

these funds, as well as reimbursement premiums, if necessary, are used to pay the debt service requirements of these bonds. The bonds are stated to mature, notwithstanding a prior right of redemption, on July 1 of the following years and bear interest at rates ranging from 1.298% to 2.995% as follows (in thousands):

| | Par outstanding | Interest rates |
|-------|----------------------------|---------------------------|
| Year: | | |
| 2016 | \$ 500,000 | 1.298% |
| 2018 | 500,000 | 2.107 |
| 2020 | 1,000,000 | 2.995 |
| | \$ 2,000,000 | |

(7) Compensated Absences

Compensated absences were as follows (in thousands):

| | |
|-----------------------------|---------|
| Balance as of June 30, 2013 | \$ 166 |
| Increases | 125 |
| Decreases | (93) |
| Balance as of June 30, 2014 | 198* |
| Increases | 146 |
| Decreases | (101) |
| Balance as of June 30, 2015 | \$ 243* |

* Includes long-term and current balances, of which \$61,908 and \$53,154 is estimated due within one year of June 30, 2015 and 2014, respectively.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

(8) Premium Revenue

Fiscal year premiums, net of prior contract year adjustments, as reported in the combined statements of revenues, expenses, and changes in net position, relate to contract years as follows (in thousands):

| | Year ended June 30 | |
|--------------------|---------------------------|-------------|
| | 2015 | 2014 |
| Contract year 2015 | \$ (5,650) * | — |
| Contract year 2014 | 1,284,837 | — |
| Contract year 2013 | (3,397) | 1,270,240 |
| Contract year 2012 | (424) | (411) |
| Contract year 2011 | — | (120) |
| Contract year 2010 | — | — |
| Contract year 2009 | 1,372 | — |
| | \$ 1,276,738 | 1,269,709 |

* As of June 30, 2015, which is in contract year 2015 running June 1, 2015 through May 31, 2016, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium.

(9) Related Parties

The Fund paid the SBA \$2,412,609 for the Fund and \$450,646 for the Corporation in the fiscal year ended June 30, 2015, and \$2,116,795 for the Fund and \$456,830 for the Corporation in the fiscal year ended June 30, 2014, for investment advisory services.

(10) Legal Defeasance

A legal defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture; therefore, the bonds are no longer outstanding as of that date. At the time of defeasance, outstanding debt service on the bonds was as follows:

| Payment date | Rate | Payment for principal | Payment for interest |
|---------------------|-------------|----------------------------------|---------------------------------|
| January 1, 2015 | 3.50%–5.00% | \$ — | 16,638,425 |
| July 1, 2015 | 3.50%–5.00% | 342,455,000 | 16,638,425 |
| January 1, 2016 | 3.75%–5.00% | — | 8,224,188 |
| July 1 2016 | 3.75%–5.00% | 333,465,000 | 8,224,188 |
| | | \$ 675,920,000 | 49,725,226 |

To provide for the payment of principal and interest on the bonds, and all fees of the escrow agent, \$721.7 million was placed in an irrevocable trust, along with interest earnings thereon. The defeasance resulted in the Corporation recognizing a \$34.7 million loss on the early extinguishment of debt in fiscal year ended June 30, 2015.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

With the defeasance of the Series 2010A Revenue Bonds and no outstanding hurricane losses, the Florida Office of Insurance Regulation issued Orders on July 21, 2014 establishing that for all policies issued or renewed on or after January 1, 2015 the emergency assessment is 0.0%.

(11) Lehman Settlement

In 2009, the SBA filed a claim on behalf of the Fund, along with two other funds, in the Lehman Brothers, Inc. (LBI) Securities Investor Protection Act of 1970 (SIPA) insolvency proceeding in connection with the defaults of the KKR Atlantic, KKR Pacific and Ottimo securities. In this claim, the SBA alleged that LBI sold the SBA unregistered securities without proper reliance on any exemption under the Securities Act.

After several months of discussions and exchanging of formal motions and objections in the litigation, the parties participated in mediation on August 20, 2014, which resulted in a settlement and stipulation by the parties. The court approved this stipulation on September 30, 2014.

After the court approved the stipulation, the SBA had an allowed claim that could be sold, and began seeking quotes from the market. The SBA received a portion of the settlement directly from an LBI trustee, and sold the remainder of the claim to Banc of America Credit Products, Inc. (BACP). The funds from LBI and BACP related to the settlement were received by the SBA on November 26, 2014 and December 3, 2014, respectively, and immediately made distributions to the holders of the defaulted securities. The Fund's share of the proceeds received on November 26, 2014 and December 3, 2014 was \$1,043,060 and \$1,754,688, respectively.

(12) Reinsurance

Aggregate excess catastrophe reinsurance providing coverage for \$1.0 billion in excess of \$12.5 billion was purchased effective June 1, 2015 through May 31, 2016. The deposit premium including commission is \$67.8 million. The final premium may be adjusted down, but not adjusted up, and will be determined based on the actual reimbursement contract aggregate reimbursement premium as of December 31, 2015. Reinsurance deposit premium and commission are due in three equal installments on August 1, October 1 and December 1 of 2015. The effect of reinsurance on premiums for the years ended June 30 was as follows:

| | <u>Year ended June 30</u> | |
|-----------------|---------------------------|----------------------|
| | <u>2015</u> | <u>2014</u> |
| Direct premiums | \$ 1,282,388,000 | 1,269,709,000 |
| Reinsurance | (5,650,000) | — |
| Net premiums | <u>\$ 1,276,738,000</u> | <u>1,269,709,000</u> |

(13) Pension and Other Postemployment Benefits

All permanent Fund employees are eligible to participate in the following cost-sharing multiple-employer defined benefit pension plans (Plans):

- Florida Retirement System Pension Plan
- Health Insurance Subsidy Program Pension Plan

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

As an alternative to the Florida Retirement System Pension Plan, employees may elect to participate in the Florida Retirement System Investment Plan (a defined contribution plan).

The Florida Department of Management Services (Department) is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems. Beginning with the fiscal year ended June 30, 2014, the Department issued a publicly available, audited comprehensive annual financial report (CAFR) that includes financial statements, notes and required supplementary information for each of the pension plans which it administers. Detailed information about the plans is provided in the CAFR which is available online or by contacting the Department.

Copies of this report, as well as the plans' actuarial valuations, can be obtained from the Department of Management Services, Division of Retirement (Division), Bureau of Research and Member Communications, P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at 877-377-1737 or 850-488-5706; by email at rep@dms.myflorida.com; or at the Division's website (www.frs.myflorida.com).

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the Florida Department of Management Services. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

1. Defined Benefit Plans

The Florida Retirement System Pension Plan

The Florida Retirement System (FRS) Pension Plan was created in Chapter 121, Florida Statutes (F.S.), effective December 1, 1970, by consolidating and closing these existing plans to new members: the Teachers' Retirement System (Chapter 238, F.S.), the State and County Officers and Employees' Retirement System (Chapter 122, F.S.), and the Highway Patrol Pension Trust Fund (Chapter 321, F.S.). In 1972, the Judicial Retirement System (Chapter 123, F.S.) was closed and consolidated into the FRS. The FRS was created to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution plan is the FRS Investment Plan, which is administered by the State Board of Administration.

Membership

FRS membership is compulsory for employees filling a regularly established position in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Section 121.053 or Section 121.122, F.S., or allowed to participate in a nonintegrated defined contribution plan in lieu of FRS membership.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

There are five general classes of membership, as follows. Fund employees are all included in one of the first two classes:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions in state and local governments as well as assistant state attorneys, assistant statewide prosecutors, assistant public defenders, assistant attorneys general, deputy court administrators, and assistant capital collateral representatives. Members of the Elected Officers’ Class may elect to withdraw from the FRS or participate in the SMSC in lieu of the Elected Officers’ Class.
- *Special Risk Class* – Members who are employed as law enforcement officers, firefighters, firefighter trainers, fire prevention officers, state fixed-wing pilots for aerial firefighting surveillance, correctional officers, emergency medical technicians, paramedics, community-based correctional probation officers, youth custody officers (from July 1, 2001 through June 30, 2014), certain health-care related positions within state forensic or correctional facilities, or specified forensic employees of a medical examiner’s office or a law enforcement agency, and meet the criteria to qualify for this class.
- *Special Risk Administrative Support Class* – Former Special Risk Class members who are transferred or reassigned to nonspecial risk law enforcement, firefighting, emergency medical care, or correctional administrative support positions within an FRS special risk-employing agency.
- *Elected Officers’ Class (EOC)* – Members who are elected state and county officers and the elected officers of cities and special districts that choose to place their elected officials in this class.

Beginning July 1, 2001, through June 30, 2011, the FRS Pension Plan provided for vesting of benefits after six years of creditable service for members initially enrolled during this period. Members not actively working in a position covered by the FRS on July 1, 2001, must return to covered employment for up to one work year to be eligible to vest with less service than was required under the law in effect before July 1, 2001. Members initially enrolled on or after July 1, 2011, vest after eight years of creditable service. Regular Class and Senior Management Service Class members are eligible for normal retirement when they have met the requirements listed below. Early retirement may be taken any time after vesting within 20 years of normal retirement age; however, there is a 5% benefit reduction for each year prior to the normal retirement age.

Regular Class Senior Management Service Class eligibility requirements for normal retirement:

- For members initially enrolled in the FRS before July 1, 2011, six or more years of creditable service and age 62, or the age after completing six years of creditable service if after age 62. Thirty years of creditable service regardless of age before age 62.
- For members initially enrolled in the FRS on or after July 1, 2011, eight or more years of creditable service and age 65, or the age after completing eight years of creditable service if after age 65. Thirty-three years of creditable service regardless of age before age 65.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

Benefits

Benefit terms under the FRS Pension Plan are established in Chapter 121, F.S. and may only be amended by the Florida Legislature. Benefits under the FRS Pension Plan are computed on the basis of age, average final compensation, creditable years of service, and accrual value per year by membership class. Members are also provided in-line-of-duty or regular disability and survivors’ benefits. Pension benefits of retirees and annuitants are increased each July 1 by a cost-of-living adjustment. If the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Pension Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

The Deferred Retirement Option Program (DROP) became effective July 1, 1998, subject to provisions of Section 121.091(13), F.S. FRS Pension Plan members who reach normal retirement are eligible to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a maximum of 60 months. Authorized instructional personnel may participate in the DROP for up to 36 additional months beyond their initial 60-month participation period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest.

Administration

The FRS is a cost-sharing multiple-employer public-employee retirement system with two primary plans. The Department of Management Services, Division of Retirement administers the FRS Pension Plan. The State Board of Administration invests the assets of the Pension Plan held in the FRS Trust Fund. Costs of administering the FRS Pension Plan are funded from earnings on investments of the FRS Trust Fund. Reporting of the FRS is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Contributions

All participating employers must comply with statutory contribution requirements. Section 121.031(3), F.S., requires an annual actuarial valuation of the FRS Pension Plan, which is provided to the Legislature as guidance for funding decisions. Employer and employee contribution rates are established in Section 121.71, F.S. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary but set by the Legislature. Statutes require that any unfunded actuarial liability (UAL) be amortized within 30 plan years. Pursuant to Section 121.031(3) (f), F.S., any surplus amounts available to offset total retirement system costs are to be amortized over a 10-year rolling period on a level-dollar basis. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The table below presents FRS retirement employer contribution rates. Rates indicated are uniform rates for all FRS members and include UAL contribution rates. These rates do not include a 1.26%

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements
June 30, 2015 and 2014

Retiree Health Insurance Subsidy (HIS) contribution rate and a 0.04% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2014, statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the Deferred Retirement Option Program.

| Membership class | Uniform employer rates recommended by actuarial valuation as of July 1, 2013 for fiscal year 2014-2015* | July 1, 2014 Statutory rates* (Ch. 121, F.S.) |
|---|--|--|
| Regular | 6.07% | 6.07% |
| Senior Management Service | 19.84 | 19.84 |
| Special Risk | 18.52 | 18.52 |
| Special Risk Administrative Support | 40.77 | 40.77 |
| Elected Officers – Judges | 31.87 | 31.87 |
| Elected Officers – Legislators/Attorneys/Cabinet | 44.96 | 44.96 |
| Elected Officers – County | 41.94 | 41.94 |
| Deferred Retirement Option Program – applicable to members from all of the above classes or plans | 11.02 | 11.02 |

* Rates indicated are uniform rates for all FRS members created by blending the FRS Investment Plan and FRS Pension Plan rates and including UAL contribution rates. These rates do not include a 0.04% contribution for the FRS Investment Plan administration and educational program fee. In addition, the July 1, 2014 statutory employer rates do not include 3.00% mandatory employee contributions required for all membership classes except for members in the Deferred Retirement Option Program.

Employee eligibility, benefits, and contributions by class are as previously described. Employees not filling regular established positions and working under the other personal services (OPS) or temporary status are not covered by the FRS.

The amount of contributions recognized by the plan from the Fund during the reporting period (i.e., July 1, 2013 to June 30, 2014) was \$52,457.

Retiree Health Insurance Subsidy Program

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. by the authority of the Florida Legislature. Benefit terms are established in Chapter 112.363, F.S. and may only be amended by the Florida Legislature. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. For the fiscal year ended June 30, 2015, eligible retirees and

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements
June 30, 2015 and 2014

beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26% of payroll pursuant to Section 112.363, F.S. The Fund contributed 100% of its statutorily required contributions for the current and preceding two years. The amount of contributions recognized by the plan from the Fund during the reporting period (i.e., July 1, 2013 to June 30, 2014) was \$10,388. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

Pension Amounts for Defined Benefit Pension Plans

Net Pension Liability

At June 30, 2015, the Fund reported a total liability of \$429,649 for its proportionate share of the net pension liabilities of the defined benefit, multiple employer cost sharing pension plans. The table below presents the fiduciary net position for each plan as well as the Fund's proportion and proportionate share as of the measurement date of June 30, 2014:

| | FRS | HIS | Total |
|----------------------------------|--------------------|---------------|--------------|
| Plan total pension liability (A) | \$ 156,115,762,947 | 9,443,629,461 | |
| Plan fiduciary net position (B) | (150,014,292,372) | (93,385,450) | |
| Plan net pension liability (A-B) | 6,101,470,575 | 9,350,244,011 | |
| Fund's proportion | 0.002394824% | 0.003032327% | |
| Fund's proportionate share* | \$ 146,119 | 283,530 | 429,649 |

* The amount of the Fund's proportionate share due within one year is \$0 for the FRS Pension and \$10,116 for the HIS Pension.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The Fund's proportion of the net pension liability was based on contributions paid to the plans by the Fund relative to the contributions paid by all participating employers. The table below shows the change in proportion since the prior measurement date:

| | <u>FRS</u> | <u>HIS</u> |
|---|----------------------|-----------------------|
| Fund's proportion at prior measurement date, June 30, 2013 | 0.002230016 % | 0.003151299 % |
| Fund's proportion at measurement date, June 30, 2014 | <u>0.002394824</u> | <u>0.003032327</u> |
| Increase/(decrease) in proportion | <u>0.000164808 %</u> | <u>(0.000118972)%</u> |

There are no known changes between the measurement date of the collective net pension liability and the Fund's reporting date that are expected to have a significant effect on the Fund's proportionate share of the collective net pension liability of either defined benefit pension plan.

Actuarial Methods and Assumptions

Actuarial assumptions for both defined benefit cost sharing plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement date, of July 1, 2014, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%.

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.65%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 4.29% was used to determine the total pension liability for the program. The source of the municipal bond rate is the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate in effect as of June 30, 2014. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

There were no changes in benefit terms for either FRS or HIS that affected the total pension liability since the prior measurement date. There were no changes between the measurement date and the

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

reporting date which significantly impact the State's proportionate share of the net pension liability, deferred outflows, deferred inflows and pension expense for either FRS or HIS.

The following changes in actuarial assumptions occurred in 2014:

- FRS: As of June 30, 2014, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term expected rate of return decreased from 7.75% to 7.65%
- HIS: The municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.

The long-term expected rate of return on FRS pension plan investments was determined using a forward-looking capital market economic model, which includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset class</u> | <u>Target allocation</u> | <u>Long-term expected real rate of return</u> |
|-----------------------------|--------------------------|---|
| Cash | 1.00% | 3.11% |
| Intermediate-term bonds | 18.00 | 4.18 |
| High yield bonds | 3.00 | 6.79 |
| Broad U.S. equities | 26.50 | 8.51 |
| Developed foreign equities | 21.20 | 8.66 |
| Emerging market equities | 5.30 | 11.58 |
| Private equity | 6.00 | 11.80 |
| Hedge funds/absolute return | 7.00 | 5.81 |
| Real estate (property) | <u>12.00</u> | <u>7.11</u> |
| | <u>100.00%</u> | |

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Fund's proportionate share of each plan's net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2014.

| | <u>Florida Retirement System</u> | | | <u>Health Insurance Subsidy</u> | | |
|----|----------------------------------|--|------------------------------|---------------------------------|--|------------------------------|
| | <u>1% Decrease 6.65%</u> | <u>Current discount rate 7.65%</u> | <u>1% Increase 8.65%</u> | <u>1% Decrease 3.29%</u> | <u>Current discount rate 4.29%</u> | <u>1% Increase 5.29%</u> |
| \$ | 624,972 | 146,119 | (252,195) | 322,492 | 283,530 | 251,008 |

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

Pension Expense and Deferred Outflows / (Inflows) of Resources

In accordance with GASB 68, paragraph 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments – amortized over five years

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2014, was 6.3 years for FRS and 7.2 years for HIS. The Fund's proportionate share of the components of collective pension expense reported in the pension allocation schedules for the fiscal year ended June 30, 2014, are presented below for each plan.

| Florida Retirement System | | | | |
|--|--|-------------------------------|---|--|
| | Recognized in expense reporting period ending June 30, 2015 | Recognition period | Deferred outflows of resources | Deferred inflows of resources |
| Service cost | \$ 54,045 | Current | — | — |
| Interest cost | 275,163 | Current | — | — |
| Effect of plan changes | — | Current | — | — |
| Effect of economic/demographic gains or losses (difference between expected and actual experience) | (1,706) | 6.3 years | — | (9,042) |
| Effect of assumptions changes or inputs | 4,775 | 6.3 years | 25,305 | — |
| Member contributions | (16,345) | Current | — | — |
| Projected investment earnings | (241,625) | Current | — | — |
| Changes in proportion and differences between contributions and proportionate share of contributions | 4,503 | 6.3 years | 23,868 | — |
| Net difference between projected and actual investment earnings | (60,938) | 5 years | — | (243,752) |
| Contributions subsequent to the measurement date | — | 1 years | 64,650 | — |
| Administrative expenses | 440 | Current | — | — |
| Total | \$ 18,312 | | 113,823 | (252,794) |

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

| Health Insurance Subsidy | | | | |
|--|--|-------------------------------|---|--|
| | Recognized in expense reporting period ending June 30, 2015 | Recognition period | Deferred outflows of resources | Deferred inflows of resources |
| Service cost | \$ 5,773 | Current | — | — |
| Interest cost | 12,430 | Current | — | — |
| Effect of plan changes | — | Current | — | — |
| Effect of economic/demographic gains or losses (difference between expected and actual experience) | — | 7.2 years | — | — |
| Effect of assumptions changes or inputs | 1,627 | 7.2 years | 10,089 | — |
| Member contributions | — | Current | — | — |
| Projected investment earnings | (177) | Current | — | — |
| Changes in proportion and differences between contributions and proportionate share of contributions | (1,439) | 7.2 years | — | (8,919) |
| Net difference between projected and actual investment earnings | 34 | 5 years | 136 | — |
| Contributions subsequent to the measurement date | — | 1 years | 12,394 | — |
| Administrative expenses | 2 | Current | — | — |
| Total | \$ 18,250 | | 22,619 | (8,919) |
| Total for all defined benefit pension plans | \$ 36,562 | | 136,442 | (261,713) |

Deferred outflows of resources related to contributions paid subsequent to the measurement date as shown in the tables above will be recognized as a reduction of the net pension liability in the reporting period ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pension expense will be recognized as follows:

| | FRS expense | HIS expense |
|----------------------------------|---------------------|--------------------|
| Reporting period ending June 30: | | |
| 2016 | \$ (53,366) | 223 |
| 2017 | (53,366) | 223 |
| 2018 | (53,366) | 223 |
| 2019 | (53,366) | 223 |
| 2020 | 7,572 | 189 |
| Thereafter | 2,271 | 225 |
| Total | \$ (203,621) | 1,306 |

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

Payables to the Defined Benefit Pension Plans

The Fund reported payables of \$5,894 to the FRS and \$1,102 to the HIS Program as of June 30, 2015, for legally required contributions to the plans. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

| <u>Payable at June 30, 2015</u> | <u>FRS pension plan</u> | <u>HIS Program pension plan</u> |
|--|-----------------------------|-------------------------------------|
| Employer pension contribution payable for defined benefit plan participants Plus UAL employer contributions for FRS Investment Plan participants | \$ 5,356 | 1,102 |
| | 538 | — |
| Total defined benefit pension expense payable at June 30, 2015 | <u>\$ 5,894</u> | <u>1,102</u> |

2. Defined Contribution Programs

FRS Investment Plan

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. Retirement benefits are based upon the value of the member's account upon retirement. The FRS Investment Plan provides vesting after one year of service regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, six years of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. The Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income.

Pension Amounts for the FRS Investment Plan

During the fiscal year ended June 30, 2015, the Fund recognized \$8,006 in pension expense related to the FRS Investment Plan, and employee contributions totaled \$7,278. As of June 30, 2015, the Fund reported a current liability of \$705 for the June 2015 employer contributions to be paid to employee accounts in the following month. This liability is included in accrued expenses as a current liability on the Combined Statements of Net Position.

Blended rates paid by the employer for employees participating in the FRS Investment Plan include required contributions paid to the Health Insurance Subsidy (HIS) Program Pension Plan, the unfunded actuarial liability (UAL) contributions to the FRS Pension Plan, disability fees (also paid into the FRS Pension Plan), contributions to defined contribution participant accounts, and administrative fees.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

Amounts paid into the two defined benefit pension plans are already included in the net pension liability for those plans. Forfeiture amounts for the Fund are not available, as forfeitures are used only to offset the overall administrative cost of the defined contribution plan and the amount attributable to reducing the Fund's administrative expenses is unknown. A schedule of employer contributions on behalf of employees in the FRS Investment Plan is presented below:

| <u>FRS Investment Plan expenses</u> | <u>Reporting period ended June 30, 2015</u> | <u>Payable at June 30, 2015</u> |
|--|---|---|
| Gross pension employer contribution | \$ 17,880 | 1,574 |
| Less contributions to HIS Pension Plan | (3,057) | (269) |
| Less UAL contributions to FRS Pension Plan | (6,114) | (538) |
| Less disability fees | (606) | (53) |
| Less administrative fees | (97) | (9) |
| Net pension expense/liability | <u>\$ 8,006</u> | <u>705</u> |

3. Other Postemployment Benefits (OPEB)

The Fund participates in the State Employees's Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Fund's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State of Florida's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Statement 45, the State of Florida has been reporting its portion of the implicit postemployment health benefit liability beginning in the fiscal year ended June 30, 2008. Since June 30, 2008, the State of Florida has included the Fund's portion of the implicit postemployment health benefit liability as part of the liability reported for all state employees in the State of Florida's Comprehensive Annual Financial Report. Beginning this fiscal year, the State of Florida requested that the Fund begin reporting its portion of the implicit postemployment health benefit liability separately. Due to the immateriality of the amount, the Fund has elected to record the entire liability as of June 30, 2015, as an expense for the fiscal year ending June 30, 2015. The Fund's postemployment health benefits payable at June 30, 2015, was \$55,436.

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

(14) Subsequent Events

The Fund has reviewed and considered the events subsequent to the date of the consolidated financial statements through January 28, 2016, which is the date the consolidated financial statements were available to be issued, and is aware of only one significant event that would require disclosure. On April 14, 2015, the Trustees of the SBA approved a resolution that authorizes and directs the Corporation to negotiate, approve, execute and deliver a contract for the sale of the Series 2015A Bonds, up to but not exceeding, \$2.2 billion in aggregate principal amount less the amount of any risk-transfer arrangements procured by the SBA. On the same day, the Board of Directors of the Corporation followed with a resolution that authorizes the issuance and sale of up to, but not exceeding, \$2.2 billion in aggregate principal amount of Series 2015A Revenue Bonds taking into account any risk-transfer arrangements so that it shall not exceed \$2.2 billion on a combined basis. As of this date, bonds have not been issued but are anticipated to be issued before the end of the first quarter of calendar 2016.

(15) Condensed Combining Information

The combined financial statements represent the financial position of the Fund, which includes the Corporation. The Corporation is included as a blended component unit of the Fund because it provides services exclusively for the benefit of the Fund.

The following table provides the condensed combining assets information of the Fund as of June 30, 2015 (in thousands):

| <u>Assets</u> | <u>Combined</u> | <u>Florida Hurricane Catastrophe Fund</u> | <u>State Board of Administration Finance Corporation</u> |
|---|----------------------|---|--|
| Current assets: | | | |
| Cash and cash equivalents | \$ 9 | — | 9 |
| Short-term investments | 6,131,572 | 5,006,661 | 1,124,911 |
| Emergency assessment funds receivable | 3,057 | — | 3,057 |
| Accrued interest | 5,648 | 3,864 | 1,784 |
| Prepaid expenses | 11 | 11 | — |
| Total current assets | <u>6,140,297</u> | <u>5,010,536</u> | <u>1,129,761</u> |
| Long-term assets: | | | |
| Long-term investments | 7,524,460 | 6,591,783 | 932,677 |
| Capital assets, net of accumulated depreciation | 4 | 4 | — |
| Total long-term assets | <u>7,524,464</u> | <u>6,591,787</u> | <u>932,677</u> |
| Total assets | <u>\$ 13,664,761</u> | <u>11,602,323</u> | <u>2,062,438</u> |
| Deferred outflows of resources: | | | |
| Deferred outflows related to pensions (note 13) | \$ 137 | 137 | — |

41

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2015 (in thousands):

| <u>Liabilities</u> | <u>Combined</u> | <u>Florida Hurricane Catastrophe</u> | <u>State Board of Administration Finance Corporation</u> |
|--|----------------------|--|--|
| Current liabilities: | | | |
| Accrued expenses | \$ 7,842 | 7,793 | 49 |
| Accrued bond interest expense | 23,488 | — | 23,488 |
| Net pension liability (note 13) | 10 | 10 | — |
| Total current liabilities | <u>31,340</u> | <u>7,803</u> | <u>23,537</u> |
| Long-term liabilities: | | | |
| Bonds payable | 2,000,000 | — | 2,000,000 |
| Net pension liability (note 13) | 420 | 420 | — |
| Compensated absences, net of current portion | 181 | 181 | — |
| Other post-employment benefits payable | 55 | 55 | — |
| Total long-term liabilities | <u>2,000,656</u> | <u>656</u> | <u>2,000,000</u> |
| Total liabilities | <u>2,031,996</u> | <u>8,459</u> | <u>2,023,537</u> |
| Deferred inflows of resources: | | | |
| Deferred inflows related to pensions (note 13) | 262 | 262 | — |
| Net position: | | | |
| Net investment in capital assets | 4 | 4 | — |
| Unrestricted | 11,632,636 | 11,593,735 | 38,901 |
| Total net position | <u>\$ 11,632,640</u> | <u>11,593,739</u> | <u>38,901</u> |

42

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2015 (in thousands):

| | <u>Combined</u> | <u>Florida Hurricane Catastrophe Fund</u> | <u>State Board of Administration Finance Corporation</u> |
|---|----------------------|---|--|
| Operating revenues: | | | |
| Net premium revenue (net of reinsurance premium) | \$ 1,276,738 | 1,276,738 | — |
| Net interest on premium adjustments | 27 | 27 | — |
| Other | 41 | 41 | — |
| Total operating revenues | <u>1,276,806</u> | <u>1,276,806</u> | <u>—</u> |
| Operating expenses: | | | |
| Hurricane losses (reduction in losses) | — | — | — |
| Administrative and actuarial fees | 2,772 | 2,772 | — |
| Other professional fees | 1,249 | 1,223 | 26 |
| Personnel expenses | 1,432 | 1,432 | — |
| Depreciation | 3 | 3 | — |
| Other | 256 | 234 | 22 |
| Total operating expenses | <u>5,712</u> | <u>5,664</u> | <u>48</u> |
| Operating income | <u>1,271,094</u> | <u>1,271,142</u> | <u>(48)</u> |
| Nonoperating revenue (expense): | | | |
| Investment income | 37,699 | 31,564 | 6,135 |
| Investment advisor fees | (2,863) | (2,412) | (451) |
| Settlement income | 2,798 | 2,798 | — |
| Emergency assessment revenue (expense) | 256,880 | (993) | 257,873 |
| Emergency assessment interest revenue | 3 | — | 3 |
| Custodian fees | (171) | (143) | (28) |
| Bond interest expense | (47,703) | — | (47,703) |
| Bond early extinguishment of debt expense | (34,723) | — | (34,723) |
| Total nonoperating revenue | <u>211,920</u> | <u>30,814</u> | <u>181,106</u> |
| Income before transfers | 1,483,014 | 1,301,956 | 181,058 |
| Transfers to (from) component units | — | 582,466 | (582,466) |
| Transfers to other state agencies | (10,000) | (10,000) | — |
| Change in net position | 1,473,014 | 1,874,422 | (401,408) |
| Net position at beginning of year | 10,160,221 | 9,719,912 | 440,309 |
| Adjustments to net position related to pensions (note 13) | (595) | (595) | — |
| Net position at beginning of year, restated | 10,159,626 | 9,719,317 | 440,309 |
| Net position at end of year | \$ <u>11,632,640</u> | <u>11,593,739</u> | <u>38,901</u> |

43

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2015 (in thousands):

| | <u>Combined</u> | <u>Florida Hurricane Catastrophe Fund</u> | <u>State Board of Administration Finance Corporation</u> |
|--|------------------|---|--|
| Operating activities | | | |
| Premium received | \$ 1,282,270 | 1,282,270 | — |
| Hurricane losses paid | — | — | — |
| Other cash received from customers | 41 | 41 | — |
| Administrative and actuarial fees | (2,745) | (2,745) | — |
| Other professional fees | (1,067) | (1,046) | (21) |
| Personnel expenses | (1,370) | (1,370) | — |
| Other cash paid to vendors | (246) | (224) | (22) |
| Net cash provided (used) by operating activities | <u>1,276,883</u> | <u>1,276,926</u> | <u>(43)</u> |
| Investing activities | | | |
| Purchases of investments | (113,089,071) | (96,016,466) | (17,072,605) |
| Sales and maturities of investments | 112,143,527 | 94,143,478 | 18,000,049 |
| Interest received | 29,058 | 23,318 | 5,740 |
| Settlement income received | 2,798 | 2,798 | — |
| Investment advisor fees | (2,829) | (2,378) | (451) |
| Custodian fees | (167) | (139) | (28) |
| Net cash (used) provided by investing activities | <u>(916,684)</u> | <u>(1,849,389)</u> | <u>932,705</u> |
| Financing from noncapital activities | | | |
| Transfers to other state agencies | (10,000) | 572,466 | (582,466) |
| Emergency assessments funds received | 393,102 | — | 393,102 |
| Emergency assessments interest received | 3 | — | 3 |
| Bond principal paid | (1,000,920) | — | (1,000,920) |
| Bond interest paid | (82,396) | — | (82,396) |
| Bond early extinguishment of debt | (34,723) | — | (34,723) |
| Net cash (used) provided by financing from noncapital activities | <u>(734,934)</u> | <u>572,466</u> | <u>(1,307,400)</u> |
| Financing from capital activity | | | |
| Purchases of capital assets | (4) | (4) | — |
| Net (decrease) in cash and cash equivalents | <u>(374,739)</u> | <u>(1)</u> | <u>(374,738)</u> |

44

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Notes to Combined Financial Statements

June 30, 2015 and 2014

| | <u>Combined</u> | <u>Florida Hurricane Catastrophe Fund</u> | <u>State Board of Administration Finance Corporation</u> |
|--|-----------------|---|--|
| Cash and cash equivalents at beginning of year | \$ — | — | — |
| Cash and cash equivalents at end of year | (374,739) | (1) | (374,738) |
| Cash and cash equivalents at beginning of year | <u>374,748</u> | <u>1</u> | <u>374,747</u> |
| Cash and cash equivalents at end of year | <u>\$ 9</u> | <u>—</u> | <u>9</u> |

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2015

**Cost-Sharing Multiple-Employer Defined Benefit Pension Plans – Last 10 Fiscal Years*
Schedule of Fund's Proportionate Share of Net Pension Liability and Related Ratios as of
Measurement Date**

| | <u>Florida Retirement System 2014</u> | <u>Health Insurance Subsidy Program 2014</u> |
|--|---|--|
| Fund's proportion of the net pension liability (asset) | 0.002394824% | 0.003032327% |
| Fund's proportionate share of the net pension liability (asset) | \$ 146,119 | 283,530 |
| Fund's covered-employee payroll | 672,572 | 900,947 |
| Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 21.73% | 31.47% |
| Plan fiduciary net position as a percentage of the total pension liability | 96.09 | 0.99 |

* Fiscal year 2015 was the first year of implementation; therefore, only one year is shown.
The amounts presented were determined using a measurement date of June 30, 2014.

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2015

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans – Last 10 Fiscal Years*
Schedule of Fund's Contributions

| | Florida Retirement System | | Health Insurance Subsidy Program | |
|--|---------------------------|-----------------|----------------------------------|-----------------|
| | FY 2014–2015 | FY 2013–2014 | FY 2014–2015 | FY 2013–2014 |
| Contractually required contributions | \$ 64,650 | 52,457 | 12,394 | 10,388 |
| Fund's contributions in relation to the contractually required contributions | <u>(64,650)</u> | <u>(52,457)</u> | <u>(12,394)</u> | <u>(10,388)</u> |
| Contribution deficiency (excess) | \$ — | — | — | — |
| Fund's covered-employee payroll | \$ 741,047 | 672,572 | 983,644 | 900,947 |
| Contributions as a percentage of covered-employee payroll | 8.72% | 7.80% | 1.26% | 1.15% |

* Fiscal year 2015 was the first year of implementation. Additional years' information will be included as it becomes available in future years.



KPMG LLP
 4200 Wells Fargo Center
 90 South Seventh Street
 Minneapolis, MN 55402

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Trustees of the State Board of Administration of Florida
 Florida Hurricane Catastrophe Fund:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the Florida Hurricane Catastrophe Fund (the Fund), which comprise the combined statements of net position as of June 30, 2015 and 2014, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated January 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Minneapolis, Minnesota
January 28, 2016

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APPENDIX C-1
DEFINITIONS

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DEFINITIONS

"Accreted Amount" means with respect to Capital Appreciation Bonds, the amount set forth in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bonds as the amount representing the initial public offering price, plus the accumulated and compounded interest on such Capital Appreciation Bonds.

"Act" means Section 215.555, Florida Statutes, as amended, or any successor statute.

"Actual Claims-paying Capacity" means the sum of the balance of the fund as of December 31 of a contract year, plus any reinsurance purchased by the fund, plus the amount the board is able to raise through the issuance of revenue bonds under Section 215.555(6), Florida Statutes.

"Actuarially indicated" or "actuarially-determined" means, with respect to premiums paid by insurers for reimbursement provided by the fund, an amount determined according to principles of actuarial science to be adequate, but not excessive, in the aggregate, to pay current and future obligations and expenses of the fund, including additional amounts if needed to pay debt service on revenue bonds issued under the Act and to provide required debt service coverage in excess of the amounts required to pay actual debt service on revenue bonds issued under subsection (6), and determined according to principles of actuarial science to reflect each insurer's relative exposure to hurricane losses.

"Audited Financial Statements" means the combined financial statements of the FHCF and the Corporation for a 12-month period, or for such other period for which an audit has been performed, that have been audited and reported upon by an Auditor in accordance with generally accepted auditing standards.

"Auditor" means an independent certified public accountant or firm of independent public accountants selected by the State Board of Administration.

"Authorized Officer of the Corporation" means each person who is authorized by resolution of the Governing Body of the Corporation to perform the duties imposed on an Authorized Officer of the Corporation by the Master Indenture and whose name is filed with the Master Trustee for such purpose.

"Authorized Officer of the State Board of Administration" means each person who is authorized by resolution of the Governing Body of the FHCF to perform the duties imposed on an Authorized Officer of the State Board of Administration by the Master Indenture and whose name is filed with the Master Trustee for such purpose.

"Balloon Indebtedness" means Indebtedness twenty-five percent (25%) or more of the principal payments of which are due in a single Fiscal Year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is incurred to be amortized by payment or redemption prior to such year.

"Bond" or "Bonds" means the bonds issued under the provisions of the Master Indenture and secured on a parity with each other and any Parity Debt by the Master Indenture.

"Bond Counsel" means a firm of lawyers, selected by the Corporation, nationally recognized for legal expertise in matters relating to municipal bonds.

"Bond Fund" means the Florida Hurricane Catastrophe Fund Finance Corporation Bond Fund created and so designated by Section 501 of the Master Indenture.

"Bond Registrar" means, with respect to any Series of Bonds, the Bond Registrar at the time serving as such under the Supplemental Indenture authorizing the issuance of such Series, whether the original or a successor Bond Registrar. With respect to the Series 2016A Bonds, "Bond Registrar" means the institution serving at the time as Master Trustee.

"Business Day" means a day on which the Corporation, the Fund, the Master Trustee and each Bond Registrar are open for the purpose of conducting their businesses.

"Capital Appreciation Bonds" means Bonds the interest on which is compounded at the rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such Bonds and is payable upon redemption or on the maturity date of such Bonds.

"Capitalized Interest Account" means the account in the Bond Fund created and so designated by Section 501 of the Master Indenture.

"Closing" means the delivery of and payment for the Series 2016A Bonds.

"Closing Date" means the date of the Closing.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Consultant" means a firm or firms which are not, and no member, director, officer, trustee or employee of which is, an officer, director, trustee or employee of the Corporation, the FHCF, the State Board of Administration or the State, and which has a national reputation for having the skill and experience necessary to render the particular

report or recommendations required by the provision of the Master Indenture in which such requirement appears.

"Contract Year" means the term of the reimbursement contracts between the State Board of Administration and insurers writing Covered Policies, presently June 1 to May 31 of each year.

"Corporation" means the State Board of Administration Finance Corporation, a public benefits corporation, which is an instrumentality of the State, and its legal successors.

"Corpus Earnings" means the income derived from the investment of the Corpus of the FHCF.

"Corpus of the FHCF" means, as of a particular date, the sum of (i) the unrestricted net assets held by the FHCF on the last day of the preceding Fiscal Year, (ii) the Reimbursement Premiums and Reimbursement Premium Earnings held by the FHCF in the then current Fiscal Year that are in excess of the amounts required for deposit to the credit of the accounts and subaccounts in the Revenue Fund in accordance with the provisions of Section 502 of the Master Indenture and as shall be required for application in accordance with the provisions of Sections 503 and 504 of the Master Indenture, and (iii) without duplication, the amount of the Reimbursement Premiums and Emergency Assessments released in accordance with the provisions of Section 3(f) hereof and Section 503(e)(ii)(Y) of the Master Indenture, the amount of the Emergency Assessments released in accordance with the provisions of Section 503(e)(ii)(Z) of the Master Indenture from the pledge and security interest granted by the Pledge Agreement. Proceeds of Bonds do not constitute a portion of the Corpus of the FHCF for purposes of this definition.

"Costs of Issuance" means those costs that are payable from Bond proceeds with respect to the authorization, sale and issuance of Bonds, deposits to the funds, accounts and subaccounts established by the Master Indenture and any Supplemental Indenture, underwriting fees, auditors' or accountants' fees, printing costs, costs of reproducing documents, filing and recording fees, fees and expenses of fiduciaries, legal fees and charges, professional consultants' fees, costs of credit ratings, fees and charges for the execution, transportation and safekeeping of Bonds, governmental charges, costs of entering into Derivative Agreements, obtaining Investment Obligations and establishing or obtaining Credit Facilities, and other costs, charges and fees in connection with the foregoing. Notwithstanding the foregoing, Costs of Issuance may be paid from other available funds of the Corporation.

"Costs of Issuance Fund" means the Florida Hurricane Catastrophe Fund Finance Corporation Costs of Issuance Fund created and so designated by Section 401 of the Master Indenture.

"Covered Event" means any one storm declared to be a hurricane by the National Hurricane Center, which storm causes insured losses in the State.

"Covered Events Relief Fund" means the Florida Hurricane Catastrophe Fund Covered Events Relief Fund created and so designated by Section 8 of the Pledge Agreement.

"Covered Policy" means any insurance policy covering residential property in this state, including, but not limited to, any homeowner's, mobile home owner's, farm owner's, condominium association, condominium unit owner's, tenant's, or apartment building policy, or any other policy covering a residential structure or its contents issued by any authorized insurer, including the Citizens Property Insurance Corporation and any joint underwriting association or similar entity created pursuant to law. The term "covered policy" includes any collateral protection insurance policy covering personal residences which protects both the borrower's and the lender's financial interests, in an amount at least equal to the coverage for the dwelling in place under the lapsed homeowner's policy, if such policy can be accurately reported as required in Section 215.555(5), Florida Statutes. Additionally, covered policies include policies covering the peril of wind removed from the Florida Residential Property and Casualty Joint Underwriting Association or from the Citizens Property Insurance Corporation, created pursuant to Section 627.351(6) Florida Statutes, or from the Florida Windstorm Underwriting Association, created pursuant to Section 627.351(2) Florida Statutes, by an authorized insurer under the terms and conditions of an executed assumption agreement between the authorized insurer and such association or Citizens Property Insurance Corporation. Each assumption agreement between the association and such authorized insurer or Citizens Property Insurance Corporation must be approved by the Office of Insurance Regulation prior to the effective date of the assumption, and the Office of Insurance Regulation must provide written notification to the board within 15 working days after such approval. "Covered policy" does not include any policy that excludes wind coverage or hurricane coverage or any reinsurance agreement and does not include any policy otherwise meeting this definition which is issued by a surplus lines insurer or a reinsurer. All commercial residential excess policies and all deductible buy-back policies that, based on sound actuarial principles, require individual ratemaking shall be excluded by rule if the actuarial soundness of the fund is not jeopardized. For this purpose, the term "excess policy" means a policy that provides insurance protection for large commercial property risks and that provides a layer of coverage above a primary layer insured by another insurer.

"Credit Facility" means a line of credit, letter of credit, standby bond purchase agreement, bond insurance policy or similar liquidity or credit facility established or obtained in connection with the issuance of any Bonds, incurrence of any other Parity Debt or incurrence of any Subordinated Indebtedness.

"Credit Provider" means the Person providing a Credit Facility, as designated in the Supplemental Indenture authorizing the issuance of a Series of Bonds or in the Parity Debt Resolution authorizing the incurrence of Parity Debt or in the Subordinated Indebtedness Resolution authorizing the incurrence of Subordinated Indebtedness.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the Cross-over Refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such Cross-over Refunding Indebtedness until the Cross-over Date and (ii) shall not be used directly or indirectly to pay interest on the Cross-over Refunded Indebtedness.

"Current Expenses of the Corporation" means all expenses incurred by the Corporation in the administration of the Corporation, including, without limiting the generality of the foregoing, arbitrage rebate and penalties, all administrative expenses, salaries and other compensation, personnel expenses properly chargeable to the Corporation, fees and expenses incurred for professional consultants and fiduciaries, including the fees and expenses of the Master Trustee and any Bond Registrar, and all Current Expenses of the Corporation so identified in the Master Indenture, a Parity Resolution, a Subordinated Indebtedness Resolution or any other resolution adopted by the Governing Body of the Corporation, but Current Expenses of the Corporation shall not include (i) depreciation or amortization, (ii) any deposit to any fund, account and subaccount established under the Master Indenture or any Supplemental Indenture or any payment of principal, redemption premium, if any, and interest on any Bonds from any such fund, account and subaccount or (iii) any debt service payment in respect of Parity Debt or Subordinated Indebtedness.

"Current Expenses of the FHCF" means the current expenses for the operation of the FHCF, including, without limiting the generality of the foregoing, all administrative expenses, salaries and other compensation, personnel expenses properly chargeable to the

FHCF, fees and expenses incurred for professional consultants and fiduciaries, refunds related to over-payments of Reimbursement Premiums or refunds of interest related to loss reimbursements or overpayments of Reimbursement Premiums, the premiums, fees and costs of procuring reinsurance for the FHCF, all operating transfers or contributions required by the Act, including operating transfers or contributions pursuant to Section 215.555(7)(c) of the Act, and all Current Expenses of the FHCF so identified in the Pledge Agreement or in a resolution adopted by the State Board of Administration; but Current Expenses of the FHCF shall not include (i) depreciation or amortization, (ii) any deposit to any fund, account and subaccount established under the Master Indenture or any Supplemental Indenture or any payment of principal, redemption premium, if any, and interest on any Bonds from any such fund, account and subaccount, (iii) any debt service payment in respect of Parity Debt or Subordinated Indebtedness, or (iv) payments or advances to insurers writing Covered Policies in the State for hurricane losses pursuant to reimbursement contracts entered into with such insurers by the State Board of Administration pursuant to the Act.

"Current Interest Bonds" means Bonds the interest on which is payable on the Interest Payment Dates provided therefor in the Supplemental Indenture authorizing the issuance of such Bonds.

"Debt service coverage" means the amount, if any, required by the documents under which revenue bonds are issued, which amount is to be received in any fiscal year in excess of the amount required to pay debt service for such fiscal year.

"Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing the Premium and Assessment Revenue Available for Debt Service by the Maximum Debt Service Requirement.

"Debt service" means the amount required in any fiscal year to pay the principal of, redemption premium, if any, and interest on revenue bonds and any amounts required by the terms of documents authorizing, securing, or providing liquidity for revenue bonds necessary to maintain in effect any such liquidity or security arrangements.

"Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Indebtedness during such period, also taking into account:

- (i) with respect to Balloon Indebtedness, the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis, at an interest rate equal to the current market rate for a fixed rate, 30-year obligation, set forth in an opinion, delivered to the Master Trustee, of a banking

institution or an investment banking institution, selected by the Corporation and knowledgeable in municipal finance, as the interest rate at which the Person that incurred such Indebtedness could reasonably expect to borrow the same by incurring Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation;

(ii) with respect to Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness, the interest rate on such Indebtedness on the date of its incurrence shall be calculated at the lesser of (a) the initial rate at which such Indebtedness is incurred and (b) the rate certified by a banking institution or an investment banking institution, selected by the Corporation and knowledgeable in municipal finance, as being the average rate such Indebtedness would have borne for the most recent twelve-month period immediately preceding the date of calculation if such Indebtedness had been outstanding for such period, and thereafter shall be calculated as set forth above; provided, however, that if the Corporation enters into a Derivative Agreement with respect to such Indebtedness, the interest on such Indebtedness shall be calculated as set forth in clause (iv) below;

(iii) with respect to any Credit Facility, (a) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to the reimbursement obligation for such Credit Facility shall not be included in the Debt Service Requirement and (b) to the extent that such Credit Facility shall have been drawn upon, the payment provisions of such Credit Facility with respect to repayment of principal and interest thereon shall be included in the Debt Service Requirement;

(iv) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period thereunder shall be calculated by adding (a) the amount of interest payable by the Corporation pursuant to its terms and (b) the amount payable by the Corporation under the Derivative Agreement and subtracting (c) the amount payable by the Derivative Agreement Counterparty at the rate specified in the Derivative Agreement, except that to the extent that the Derivative Agreement Counterparty has defaulted on its payment obligations under the Derivative Agreement, the amount of interest payable by the

Corporation from the date of default shall be the interest calculated as if such Derivative Agreement had not been executed;

(v) subject to the provisions of clause (iv) above, to the extent that any Indebtedness incurred pursuant to the Master Indenture requires that the Corporation pay the principal of or interest on such Indebtedness in any currency or currencies other than United States dollars, in calculating the amount of the Debt Service Requirement, the currency or currencies in which the Corporation is required to pay shall be converted to United States dollars using a conversion rate equal to the applicable conversion rate in effect on a date that is not more than thirty (30) days prior to the date on which such Indebtedness is incurred;

(vi) in the case of Indebtedness a feature of which is an option on behalf of the Owners or Holders to tender to the Corporation or the Master Trustee, or any agent of either, all or a portion of such Indebtedness, the options of such Owners or Holders shall be ignored, provided that such Indebtedness shall have the benefit of a Credit Facility and the institution or a guarantor of its obligations shall have ratings from at least two of the Rating Agencies in not less than one of the two highest short-term rating categories (without gradations such as plus or minus); and

(vii) in the case of Indebtedness, having the benefit of a Credit Facility that provides for a term loan facility that requires the payment of the Principal of such Indebtedness in one (1) year or more, such Indebtedness shall be considered Balloon Indebtedness and shall be assumed to have the maturity schedule provided clause (i)(a) of this definition;

provided, however, that interest shall be excluded from the determination of Debt Service Requirement to the extent that provision for payment of the same is made from the proceeds of the Indebtedness or otherwise provided so as to be available for deposit into the Capitalized Interest Account or similar account not later than the date of delivery of and payment for such Indebtedness or the reissuance date of any Pre-Event Parity Obligations reissued Post-Event as Parity Obligations; and provided further that, notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Indebtedness shall not include principal and/or interest payable from Qualified Escrow Funds.

"Defaulted Interest" means Defaulted Interest as defined in Section 203 of the Seventh Supplemental Indenture.

"Defeasance Obligations" means, with respect to the Series 2016A Bonds, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations,

which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity of custodian, (iii) Defeased Municipal Obligations, (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity of custodian, (v) the obligations of (A) Export-Import Bank, (B) Rural Economic Community Development Administration, (C) U.S. Maritime Administration, (D) Small Business Administration, (E) U.S. Department of Housing & Urban Development, (F) Federal Housing Administration, and (G) Federal Financing Bank; (vi) senior debt obligations issued by Federal National Mortgage Association or Federal Home Loan Mortgage Corporation; (vii) obligations of the Resolution Funding Corporation; and (viii) senior debt obligations of the Federal Home Loan Bank System.

"Defeased Municipal Obligations" means, to the extent from time to time permitted by law, obligations of state or local government municipal bond issuers rated in the highest rating category by any two Rating Agencies and provision for the payment of the principal of and redemption premium, if any, and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state or territory thereof in the capacity as custodian, the maturing principal of and interest on which Government Obligations, when due and payable, shall have been verified by an independent certified public accountant or firm of independent certified public accountants to be sufficient to pay the principal of and redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

"Depository" means one or more banks or trust companies or other institutions, including the Master Trustee, duly authorized by law to engage in the banking business and designated by the Corporation as a depository of moneys under this Master Indenture.

"Derivative Agreement" means (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls or to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Corporation determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to

maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Agreement Counterparty" means, with respect to a Derivative Agreement, the Person that is identified in such agreement as the counterparty to, or contracting party with, the Corporation.

"Derivative Agreements Account" means the account in the Revenue Fund created and so designated by Section 501 of the Master Indenture.

"Derivative Indebtedness" means Indebtedness or any portion thereof with respect to which the Corporation shall have entered into a Derivative Agreement.

"Derivative Period" means the period during which a Derivative Agreement is in effect.

"Emergency Assessment Base" means the total of direct written premium reported for all assessable lines of insurance under the Act.

"Emergency Assessments" means the money paid or payable to the Corporation or the FHCF from the emergency assessments levied with respect to assessable lines insurance as provided from time to time by the Act. There shall be included within the ambit of "Emergency Assessments" any interest, penalty or surcharge paid or payable on late payments of such emergency assessments.

"Emergency Assessments Account" means the account in the Revenue Fund created and so designated by Section 501 hereof.

"Emergency Assessment Earnings" means the income derived from the investment of Emergency Assessments.

"Estimated claims-paying capacity" means the sum of the projected year-end balance of FHCF as of December 31 of a contract year, plus any reinsurance purchased by FHCF, plus the board's estimate of the board's borrowing capacity.

"Event of Default" means any one or more of those events set forth in Section 802 of the Master Indenture.

"FHCF" means Florida Hurricane Catastrophe Fund, a trust fund established for bond covenants, indentures or resolutions within the meaning of Section 19(f)(3), Article III of the State Constitution, and its legal successors.

"Fiscal Year" means the fiscal year of the FHCF, which shall be the period beginning on July 1 of each year and ending on June 30 of the following year, unless the

Master Trustee is notified in writing by an Authorized Officer of the State Board of Administration of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice. The Corporation shall have the same Fiscal Year as the FHCF.

"Fitch" means Fitch Inc., and its legal successors, provided that references to "Fitch" are effective only so long as Fitch is a Rating Agency.

"Florida Insurance Code" means Chapters 624-632, 634, 635, 636, 641, 642, 648, and 651, Florida Statutes, as amended.

"Governing Body" means, with respect to the Corporation, its board of directors or other board of individuals or designees in which the powers of the Corporation are vested under the Act. With respect to the FHCF, "Governing Body" means the State Board of Administration.

"Government Obligations" means direct obligations of, and obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Gross Receipts" means all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of the Corporation, including, without limitation, (a) Emergency Assessments, (b) Emergency Assessment Earnings, (c) Reimbursement Premiums, (d) Reimbursement Premium Earnings, (e) Other Pledged Money, (f) proceeds derived from (i) securities and other investments and (ii) contract rights and other rights and assets now or hereafter owned, held or possessed by the Corporation and (g) interest or investment income on all investments, including investments of proceeds of any Pre-Event Indebtedness incurred by the Corporation.

"Holder" means the holder or owner of Parity Debt.

"Incurrence Test" means the test for the incurrence for Parity Obligations established by Section 704 of the Master Indenture.

"Indebtedness" means all obligations incurred or assumed by any Person:

(i) for payments of principal and interest with respect to borrowed money, including any obligation to repay a Credit Provider for moneys drawn to pay and retire Indebtedness; and

(ii) for payments under leases which are required to be capitalized in accordance with generally accepted accounting principles and under installment sale or conditional sale contracts; and

(iii) for payments under installment sale or conditional sale contracts.

provided, however, that Indebtedness shall include only Parity Obligations and Subordinated Indebtedness and that any obligation constituting Indebtedness to pay a Credit Provider for moneys drawn to purchase, but not pay and retire, indebtedness shall constitute Indebtedness only to the extent such payments are in excess of any scheduled payments of principal and interest required to be made to such Credit Provider as an Owner or Holder of such Indebtedness.

"indebtedness" means all indebtedness for any of the following:

(i) for payments of principal and interest with respect to borrowed money;

(ii) for payments on leases which are required to be capitalized in accordance with generally accepted accounting principles; and

(iii) for payments on installment sale or conditional sale contracts.

"Interest Account" means the account in the Bond Fund created and so designated by Section 501 of the Master Indenture.

"Interest Payment Date" means, with respect to the Series 2016A Bonds, each July 1 and January 1, the first interest payment date being July 1, 2016.

"Investment Obligations" means any investment authorized under Section 215.47, Florida Statutes, as amended from time to time, or any successor statute.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the Corporation that secures any indebtedness incurred by the Corporation.

"Losses" means direct incurred losses under Covered Policies, which shall include losses for additional living expenses not to exceed 40 percent of the insured value of a residential structure or its contents and shall exclude loss adjustment expenses. "Losses" does not include losses for fair rental value, loss of rent or rental income use, or business interruption losses.

"Master Indenture" means the Master Trust Indenture, including any amendments or supplements hereto, such as the Seventh Supplemental Indenture, pursuant to which the Series 2016A Bonds will be issued.

"Master Trust Indenture" means Master Trust Indenture, dated as of June 1, 2006, by and between the Corporation and the Master Trustee.

"Master Trustee" means Regions Bank (successor to Wells Fargo Bank, N.A.), Jacksonville, Florida and its successors in the trusts created under the Master Indenture.

"Maximum Debt Service Requirement" means at the date of calculation the greatest Debt Service Requirement for the current or any succeeding Fiscal Year.

"Moody's" means Moody's Investors Service, Inc., and its legal successors, provided that references to "Moody's" are effective only so long as Moody's is a Rating Agency.

"Net Receipts" for any particular period means the excess of Gross Receipts after the payment of Current Expenses of the Corporation for such period.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Corporation or an Authorized Officer of the State Board of Administration, as the case may be.

Each Officer's Certificate presented pursuant to the Master Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of), and shall incorporate by reference and use in all appropriate instances all terms defined in, the Master Indenture. Each Officer's Certificate shall state that (i) the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance and (ii) it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

"Opinion of Counsel" means an opinion in writing signed by (i) an attorney or firm of attorneys, selected by the Corporation and not unacceptable to the Master Trustee, or (ii) an attorney employed by the State or any agency thereof whose duties include responsibility for legal matters of the Corporation.

"Other Pledged Money" means any money derived from any fees, premiums, assessments or other levies paid or payable to the FHCF or the Corporation, including the income derived from the investment thereof, pursuant to any law enacted, after the date of delivery of this Pledge Agreement, by the Legislature of the State, to the extent that such money is permitted or required by law to be pledged and used for the payment of the principal of and redemption premium, if any, and interest on Parity Obligations.

"Outstanding", when used with reference to Bonds, means, as of a particular date, all Bonds theretofore authenticated and delivered under the Master Indenture, except:

- (a) Bonds theretofore cancelled by any Bond Registrar or delivered to any Bond Registrar or the Master Trustee for cancellation;

(b) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered under the Master Indenture; and

(c) Bonds paid or deemed to have been paid in accordance with the defeasance or like provisions of the Supplemental Indenture delivered in connection with the issuance of such Bonds;

provided, however, that in determining whether the Owners of the requisite principal amount of outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned by or under the control of the Corporation or the FHCF or any other obligor upon the Bonds shall be disregarded and deemed not to be outstanding, except that the term "obligor upon the Bonds" shall not include any Credit Provider unless otherwise provided in a Supplemental Indenture, and except that, in determining whether the Master Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Master Trustee knows to be so owned or controlled shall be so disregarded. Bonds so owned or controlled which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Master Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Corporation, the FHCF or any other obligor upon the Bonds except a Credit Provider.

The Corporation may provide in a Parity Resolution permitted by the Master Indenture as to when any Parity Obligations that are Variable Rate Indebtedness shall be deemed no longer to be Outstanding hereunder in a manner not inconsistent with the above definition.

The Corporation may provide in a Parity Debt Resolution permitted hereby as to when any Parity Debt shall be deemed no longer to be outstanding hereunder in a manner not inconsistent with the above definition.

When used with reference to Indebtedness other than Parity Obligations, "Outstanding" means, as of a particular date, all Indebtedness deemed to be outstanding under the documents pursuant to which it was incurred.

"Owner" means a Person in whose name a Bond is registered in the registration books provided for in Section 205 of the Master Indenture.

"Parity Common Reserve Account" means the account in the Bond Fund created and so designated by Section 501 of the Master Indenture.

"Parity Common Reserve Account Requirement" means, with respect to all Parity Obligations secured by the Parity Common Reserve Account, the least of the following: (i) the sum of ten percent (10%) of the stated principal amount of each Series of Bonds secured by the Parity Common Reserve Account (adjusted as provided in the Code), (ii)

the Maximum Annual Debt Service Requirement on all such Outstanding Parity Obligations, and (iii) one hundred twenty-five percent (125%) of the average annual Debt Service Requirements on all such Parity Obligations. The Parity Common Reserve Account Requirement may be satisfied with cash, Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing, as the Corporation may determine from time to time.

"Parity Debt" means all Parity Obligations incurred or assumed by the Corporation and not evidenced by Bonds which (a) is designated as Parity Debt in the documents pursuant to which it was incurred, (b) is incurred in compliance with the provisions of Section 704 of the Master Indenture, or is a reimbursement obligation for a Credit Facility supporting Parity Obligations incurred in compliance with the provisions of Section 704 of the Master Indenture, and (c) may be accelerated only in compliance with the procedures set forth in Section 803 of the Master Indenture.

"Parity Debt Resolution" means the resolution and any other documents, instruments or agreements adopted or executed by the Corporation providing for the incurrence of Parity Debt.

"Parity Obligations" means Bonds and Parity Debt.

"Parity Resolution" means a Supplemental Indenture or a Parity Debt Resolution, or both, as the case may be, authorizing the issuance of a Series of Bonds or the incurrence of Parity Debt.

"Parity Tax-Exempt Obligations" means Tax-Exempt Bonds and Tax-Exempt Parity Debt.

"Participating Insurer" means an insurer writing Covered Policies in the State which is required to enter into reimbursement contracts with the FHCF.

"Person" includes an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, trust, state trust fund, unincorporated organization, and a government or an agency or a political subdivision thereof, as well as natural persons.

"Pledge Agreement" means the Pledge and Security Agreement, dated as of June 1, 2006, by and among the Corporation, the State Board of Administration and the Master Trustee, including any amendments or supplements thereto.

"Pledged Collateral" for any particular period means the excess of Reimbursement Premiums and Reimbursement Premium Earnings over the payment of Current Expenses of the FHCF, Emergency Assessments, Emergency Assessment Earnings, the net proceeds of, and investment income on such proceeds of, Parity Obligations, net

payments to or for the account of the Corporation derived from Derivative Agreements and Other Pledged Money. There shall be included within the ambit of "Pledged Collateral": (i) all certificates and instruments, if any, from time to time representing or evidencing any of the Pledged Collateral, (ii) all interest, dividends, cash, instruments or other Property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Collateral and (iii) all proceeds of any or all of the Pledged Collateral. There shall be excluded from the ambit of "Pledged Collateral" the Corpus of the FHCF and Corpus Earnings, the net proceeds of Parity Obligations disbursed by the FHCF for losses, or advances for losses, from Covered Events, and Reimbursement Premiums and Reimbursement Premium Earnings released pursuant to Section 3(f) of the Pledge Agreement and Section 503(e)(ii)(Y) of the Master Indenture and Emergency Assessments and Emergency Assessment Earnings released pursuant to Section 503(e)(ii)(Z) of the Master Indenture from the pledge and security interest granted by the Pledge Agreement. In the case of the net proceeds of Parity Obligations, the pledge and security interest granted by the Pledge Agreement shall be effective only pending their disbursement by the FHCF for losses, or advances for losses, from Covered Events and shall be in favor of the Owners or Holders only of the Series of Parity Obligations (or Parity Obligations that refunded the Parity Obligations) from which such proceeds were derived.

"Post-Event" when used in connection with Bonds, other Parity Obligations or the proceeds thereof refers to the issuance of Parity Obligations upon the occurrence of a Covered Event to pay reimbursement at levels promised in reimbursement contracts for which moneys credited to the Corpus of the FHCF are insufficient, as authorized by the provisions, other than the last sentence, of Section 215.555(6)(a)1 of the Act.

"Pre-Event" when used in connection with Bonds, other Parity Obligations or the proceeds thereof refers to the issuance of Parity Obligations "in the absence of" a Covered Event, as authorized by the last sentence of Section 215.555(6)(a)1 of the Act.

"Premium and Assessment Revenue Available For Debt Service" means the pro forma amount, indicated in an Officer's Certificate of the State Board of Administration delivered to the Master Trustee, that is certified by such Officer to be the excess, over the Current Expenses of the FHCF and the Current Expenses of the Corporation, of the sum of (a) the amount of Revenues from Reimbursement Premiums and Reimbursement Premium Earnings received by the FHCF in any 12 consecutive months of the last 18 calendar months preceding the date of such Certificate, taking into consideration and adjusted for (1) any changes in the Act or other applicable law or regulation (described in such Officer's Certificate) that would prospectively affect the amount of such Reimbursement Premiums to be received in the current or future Fiscal Years, and (2) any actuarially indicated adjustments to the Reimbursement Premiums that have been determined for, or are reasonably expected to take effect subsequent to the applicable 12-month period and in, the current or following Fiscal Year, as shall be set forth in such

Officer's Certificate, and (b) the amount of Revenues from Emergency Assessments, such amount being the product obtained by multiplying (1) the maximum assessment percentage permitted by the Act on the date of such Certificate by (2) the most recently available 12-month Emergency Assessment Base, all as demonstrated in such Officer's Certificate.

"Principal" means (a) with respect to any Capital Appreciation Bond, the Accreted Amount thereof (the difference between the stated amount to be paid at maturity and the Accreted Amount being deemed unearned interest), except as used in connection with the authorization and issuance of Bonds and with the order of priority of payments of Bonds after an Event of Default, in which case "principal" means the initial public offering price of a Capital Appreciation Bond and the difference between the Accreted Amount and the initial public offering price shall be deemed to be interest and (b) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity or in satisfaction of a Sinking Fund Requirement, if applicable.

"Principal Account" means the account in the Bond Fund created and so designated by Section 501 of the Master Indenture.

"Principal Payment Date" means, with respect to the Series 2016A Bonds, July 1.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Qualified Escrow Funds" means amounts deposited in a segregated escrow fund or other similar fund or account established in connection with Indebtedness, which amounts in such fund or account are required by the documents establishing such fund or account to be applied to the payment obligations with respect to principal of or interest on the Indebtedness.

"Rating Agencies" means each of Fitch, Moody's, S&P and any other nationally recognized statistical rating organization that has, at the request of the State Board of Administration, a rating in effect for the Bonds.

"Redemption Account" means the account in the Bond Fund created and so designated by Section 501 of the Master Indenture.

"Redemption Price" means, with respect to any Indebtedness or portion thereof, the principal amount of such Indebtedness or portion called for redemption plus the applicable premium, if any, payable upon redemption thereof.

"Regular Record Date" means, with respect to the Series 2016A Bonds, the June 15 and December 15 next preceding each Interest Payment Date.

"Reimbursement Premiums" means the money paid or payable to the FHCF from reimbursement premiums levied from time to time under the Act. There shall be included within the ambit of "Reimbursement Premiums" any interest, penalty or surcharge paid or payable on late payments of such reimbursement premiums.

"Reimbursement Premiums Account" means the account in the Revenue Fund created and so designated by Section 501 of the Master Indenture.

"Reimbursement Premium Earnings" means the income derived from the investment of Reimbursement Premiums.

"Reserve Alternative Instrument" means an irrevocable insurance policy or surety bond or an irrevocable letter of credit, guaranty or other facility deposited in the Parity Common Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Parity Common Reserve Account Requirement or a Special Reserve Account Requirement.

"Revenue Available For Debt Service" means, for any period of time, the excess of Revenues, including the investment income from the investment of the proceeds of any Pre-Event Parity Obligations (but not any other Parity Obligations), over the sum of the Current Expenses of the FHCF and the Current Expenses of the Corporation.

"Revenue Fund" means the Florida Hurricane Catastrophe Fund Finance Corporation Revenue Fund created and so designated by Section 501 of the Master Indenture.

"Revenues" means revenues of the FHCF and the Corporation, as determined in accordance with generally accepted accounting principles, including, without limitation, Reimbursement Premiums, Reimbursement Premium Earnings, Emergency Assessments, Emergency Assessment Earnings and the income derived from the investment of the proceeds of any Pre-Event Parity Obligations (but not any other Indebtedness); provided, however, that (i) no determination thereof shall take into account any gain or loss resulting from the extinguishment of Indebtedness and (ii) no determination thereof shall take into account the value of any Derivative Agreement or any payments made by the Derivative Agreement Counterparty in accordance with the terms of such Derivative Agreement; provided further, however, that Revenues shall not include (I) the income from the investment of Qualified Escrow Funds or of proceeds of Pre-Event Indebtedness to the extent such income is applied to the payment of interest on Indebtedness which is excluded from the determination of the Debt Service Requirement and (II) the proceeds of any Indebtedness.

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, and its legal successors, provided that references to S&P are effective only so long as S&P is a Rating Agency.

"Securities Depository" means The Depository Trust Company, New York, New York, or any other recognized securities depository selected by the Corporation, which maintains a book-entry system in respect of a Series of Bonds, and shall include any substitute for or successor to the securities depository initially acting as Securities Depository.

"Securities Depository Nominee" means, as to any Securities Depository, such Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the registration books maintained by the Bond Registrar the Bond certificates to be delivered to and immobilized at such Securities Depository during the continuation of participation with such Securities Depository in its book-entry system.

"Serial Bonds" means the Series 2016A Bonds that are stated to mature on July 1 of each of the years 2019 and 2021.

"Series," whenever used herein with respect to Bonds, means all of the Bonds designated as being of the same series.

"Series 2016A Bonds" means the Hurricane Catastrophe Fund Finance Corporation Revenue Bonds, Series 2016A, issued pursuant to Section 208 of the Master Indenture and Section 208 of the Seventh Supplemental Indenture.

"Series 2016A Subaccount of the Interest Account" means the subaccount created and so designated by Section 401 of the Seventh Supplemental Indenture.

"Series 2016A Subaccount of the Principal Account" means the subaccount created and so designated by Section 401 of the Seventh Supplemental Indenture.

"Seventh Supplemental Indenture" means the Seventh Supplemental Trust Indenture by and between the Corporation and Regions Bank (successor to Wells Fargo Bank, N.A.), authorizing and securing the Series 2016A Bonds.

"Short-Term Indebtedness" means all Indebtedness incurred for borrowed money, other than the current portion of Indebtedness and other than Short-Term Indebtedness excluded from this definition as provided in the definition of Indebtedness, for any of the following:

- (i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment sale or conditional sale contracts having an original term of one year or less.

"Sinking Fund Account" means the account in the Bond Fund created and so designated by the provisions of Section 501 of the Master Indenture.

"Sinking Fund Requirement" means, with respect to any Series of Bonds, the Sinking Fund Requirement provided in the Supplemental Indenture authorizing the issuance of such Series.

"Special Record Date" means a date fixed by the Master Trustee for the payment of Defaulted Interest pursuant to Section 203 of the Seventh Supplemental Indenture.

"Special Reserve Account" means a special debt service reserve account created by a Parity Resolution as a debt service reserve account only for the particular Parity Obligations authorized by such Parity Resolution.

"Special Reserve Account Requirement" means the amount to be deposited or maintained in a Special Reserve Account pursuant to the Parity Resolution creating such Special Reserve Account. The Special Reserve Account Requirement may be satisfied with cash, Investment Obligations, a Reserve Alternative Instrument or any combination of the foregoing, as the Corporation may determine from time to time.

"State" means the State of Florida.

"State Board of Administration" means the State Board of Administration, acting as the governing and administrator of the FHCF, and its legal successors.

"State Covenant" means the State's covenant recited in Section 708 of the Master Indenture.

"Subordinated Indebtedness" means Indebtedness the terms of which shall provide that it shall be subordinate and junior in right of payment to the prior payment in full of Parity Obligations to the extent and in the manner set forth in Section 211 of the Master Indenture.

"Subordinated Indebtedness Resolution" means the resolution and any other documents, instruments or agreements adopted or executed by the Corporation providing for the incurrence of Subordinated Indebtedness. If the Subordinated Indebtedness shall have the benefit of a Credit Facility, the reimbursement obligation for such Credit

Facility shall provide for repayments on a subordinated basis and the term Subordinated Indebtedness Resolution shall include any reimbursement agreement or similar repayment agreement executed and delivered by the Corporation in connection with the provision of such Credit Facility for such Subordinated Indebtedness.

"Supplemental Indenture" means a resolution of the Governing Body of the Corporation authorizing any particular Series of Bonds, together with a Supplemental Indenture executed and delivered by the Corporation in connection with the issuance of such Series of Bonds, that is required to be executed and delivered by the terms of the Master Indenture prior to the issuance of such Series.

"Tax Certificate" means the Tax Certificate executed by the State Board of Administration and the Corporation in connection with the issuance of the Series 2016A Bonds.

"Tax-Exempt Bonds" means all Bonds so identified in the Supplemental Indenture authorizing the issuance of such Bonds.

"Tax-Exempt Parity Debt" means all Parity Debt so identified in the Parity Debt Resolution authorizing the incurrence of such Parity Debt.

"Tax-Exempt Parity Obligations" means collectively all Tax-Exempt Bonds and all Parity Debt.

"Term Bonds" means the Bonds of any Series, other than Serial Bonds, that are designated as such in the Supplemental Indenture authorizing the issuance of such Series.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate until maturity.

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APPENDIX C-2
MASTER TRUST INDENTURE

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1 **MASTER TRUST INDENTURE**

2 **by and between**

3 **FLORIDA HURRICANE CATASTROPHE FUND**
4 **FINANCE CORPORATION**

5 **and**

6 **WELLS FARGO BANK, N.A.,**
7 **as Master Trustee**

8 **Dated as of June 1, 2006**

| | Page |
|--|--|
| Table of Contents | |
| 1 | |
| 2 | |
| 3 | |
| 4 | |
| Article I. DEFINITIONS AND OTHER PROVISIONS CONCERNING INTERPRETATION | |
| 5 | Section 101. Definitions.....5 |
| 6 | Section 102. Interpretation.....19 |
| 7 | Section 103. Status of Parity Obligations20 |
| 8 | |
| Article II. INDEBTEDNESS | |
| 9 | Section 201. Limitation on Incurrence of Indebtedness20 |
| 10 | Section 202. Details of Bonds.....21 |
| 11 | Section 203. Execution and Form of Bonds22 |
| 12 | Section 204. Exchange of Bonds22 |
| 13 | Section 205. Negotiability and Registration of Transfer of Bonds.....22 |
| 14 | Section 206. Ownership of Bonds23 |
| 15 | Section 207. Authentication of Bonds23 |
| 16 | Section 208. Terms and Conditions for Incurrence of Indebtedness23 |
| 17 | Section 209. Temporary Bonds.....24 |
| 18 | Section 210. Mutilated, Destroyed, Lost or Stolen Bonds.....25 |
| 19 | Section 211. Subordinated Indebtedness25 |
| 20 | Section 212. Additional Restrictions26 |
| 21 | |
| Article III. REDEMPTION | |
| 22 | Section 301. Redemption Generally27 |
| 23 | |
| Article IV. COSTS OF ISSUANCE FUND | |
| 24 | Section 401. Costs of Issuance Fund27 |
| 25 | Section 402. Payments from Costs of Issuance Fund.....27 |
| 26 | Section 403. Requisitions from Costs of Issuance Fund.....27 |
| 27 | Section 404. Reliance upon Requisitions.....28 |
| 28 | Section 405. Disposition of Costs of Issuance Fund Balance.....28 |
| 29 | |
| Article V. APPLICATION OF GROSS RECEIPTS AND NET RECEIPTS; FUNDS AND ACCOUNTS | |
| 30 | |
| 31 | Section 501. Establishment of Funds and Accounts28 |
| 32 | Section 502. Gross Receipts Received by the Corporation or the Master Trustee.....30 |
| 33 | Section 503. Application of Money in Revenue Fund.....30 |
| 34 | Section 504. Use of Money for Debt Service Accounts and Reserve Accounts33 |
| 35 | Section 505. Application of Money in Interest Account and Capitalized Interest34 |
| 36 | Account34 |
| 37 | Section 506. Application of Money in Principal Account.....35 |
| 38 | Section 507. Application of Money in Sinking Fund Account.....35 |

| | | | |
|----|---|--|----|
| 1 | Section 508. | Deposit and Application of Money in Parity Common Reserve | |
| 2 | | Account and Any Special Reserve Account; Replenishment of | |
| 3 | | Deficiencies..... | 36 |
| 4 | Section 509. | Application of Money in Redemption Account..... | 38 |
| 5 | Section 510. | Escheat..... | 40 |
| 6 | Section 511. | Cancellation of Bonds..... | 40 |
| 7 | Section 512. | Disposition of Fund Balances..... | 40 |
| 8 | Section 513. | Use of Available Funds..... | 40 |
| 9 | Article VI. DEPOSITARIES OF MONEY, SECURITY FOR DEPOSITS, | | |
| 10 | INVESTMENT OF FUNDS AND COVENANT AS TO ARBITRAGE | | |
| 11 | Section 601. | Security for Deposits..... | 42 |
| 12 | Section 602. | Investment of Money..... | 42 |
| 13 | Section 603. | Valuation..... | 44 |
| 14 | Section 604. | Covenant as to Arbitrage..... | 45 |
| 15 | Article VII. COVENANTS OF THE CORPORATION AND THE STATE | | |
| 16 | Section 701. | Security; Restrictions on Encumbering Net Receipts; Payment of | |
| 17 | | Principal and Interest..... | 45 |
| 18 | Section 702. | Covenants as to Existence, Etc..... | 46 |
| 19 | Section 703. | Limitations on Creation of Liens..... | 47 |
| 20 | Section 704. | Incurrence Test..... | 47 |
| 21 | Section 705. | Fiscal Year End Certificate..... | 49 |
| 22 | Section 706. | Filing of Audited Financial Statements, Certificate of No Default, | |
| 23 | | Other Information..... | 49 |
| 24 | Section 707. | Annual Budget..... | 50 |
| 25 | Section 708. | State Covenant..... | 50 |
| 26 | Article VIII. DEFAULTS AND REMEDIES | | |
| 27 | Section 801. | Extension of Interest Payment..... | 50 |
| 28 | Section 802. | Events of Default..... | 51 |
| 29 | Section 803. | Acceleration of Maturities..... | 51 |
| 30 | Section 804. | Remedies..... | 52 |
| 31 | Section 805. | Pro Rata Application of Funds..... | 53 |
| 32 | Section 806. | Effect of Discontinuance of Proceedings..... | 55 |
| 33 | Section 807. | Control of Proceedings..... | 55 |
| 34 | Section 808. | Restrictions Upon Action..... | 55 |
| 35 | Section 809. | Enforcement of Rights of Action..... | 56 |
| 36 | Section 810. | No Remedy Exclusive..... | 56 |
| 37 | Section 811. | Delay Not a Waiver..... | 56 |
| 38 | Section 812. | Notice of Default..... | 56 |
| 39 | Section 813. | Right to Enforce Payment of Parity Obligations Unimpaired..... | 56 |
| 40 | Section 814. | Remedies Subject to Provisions of Law..... | 57 |
| 41 | Article IX. THE MASTER TRUSTEE AND THE BOND REGISTRAR | | |
| 42 | Section 901. | Acceptance of Trusts..... | 57 |

| | | | |
|----|--|--|----|
| 1 | Section 902. | Indemnification of Master Trustee as Condition for Remedial | |
| 2 | | Action..... | 58 |
| 3 | Section 903. | Limitations on Obligations and Responsibilities of Master Trustee..... | 58 |
| 4 | Section 904. | Master Trustee Not Liable for Failure of Corporation to Act..... | 59 |
| 5 | Section 905. | Compensation and Indemnification of Master Trustee and Bond | |
| 6 | | Registrar..... | 59 |
| 7 | Section 906. | Monthly Statements from Master Trustee..... | 59 |
| 8 | Section 907. | Master Trustee May Rely on Certificates..... | 60 |
| 9 | Section 908. | Notice of Default..... | 60 |
| 10 | Section 909. | Master Trustee Not Responsible for Recitals..... | 60 |
| 11 | Section 910. | Master Trustee Protected in Relying on Certain Documents..... | 60 |
| 12 | Section 911. | Master Trustee May Pay Taxes and Assessments..... | 61 |
| 13 | Section 912. | Resignation and Removal of Master Trustee and Bond | |
| 14 | | Registrar Subject to Appointment of Successor..... | 61 |
| 15 | Section 913. | Resignation of Master Trustee..... | 61 |
| 16 | Section 914. | Removal of Master Trustee..... | 61 |
| 17 | Section 915. | Appointment of Successor Master Trustee..... | 62 |
| 18 | Section 916. | Vesting of Duties in Successor Master Trustee..... | 63 |
| 19 | Section 917. | Removal and Resignation of Bond Registrar..... | 63 |
| 20 | Article X. EXECUTION OF INSTRUMENTS BY OWNERS AND HOLDERS, PROOF | | |
| 21 | OF OWNERSHIP OF BONDS OR PARITY DEBT, AND DETERMINATION OF | | |
| 22 | CONCURRENCE OF OWNERS AND HOLDERS | | |
| 23 | Section 1001. | Execution of Instruments..... | 64 |
| 24 | Section 1002. | Preservation of Information; Communications..... | 64 |
| 25 | Section 1003. | Credit Provider as Owner or Holder..... | 65 |
| 26 | Article XI. SUPPLEMENTS AND AMENDMENTS | | |
| 27 | Section 1101. | Supplemental Indentures Without Consent..... | 65 |
| 28 | Section 1102. | Supplemental Indentures With Consent..... | 67 |
| 29 | Section 1103. | Supplemental Indentures Part of Master Indenture..... | 68 |
| 30 | Section 1104. | Not a Supplemental Indenture..... | 68 |
| 31 | Section 1105. | Responsibilities of the Master Trustee..... | 68 |
| 32 | Article XII. DEFEASANCE | | |
| 33 | Section 1201. | Release of Master Indenture..... | 69 |
| 34 | Article XIII. MISCELLANEOUS PROVISIONS | | |
| 35 | Section 1301. | Successorship of Corporation..... | 70 |
| 36 | Section 1302. | Successorship of Depositary and Bond Registrar..... | 70 |
| 37 | Section 1303. | Manner of Giving Notice..... | 70 |
| 38 | Section 1304. | Substitute Mailing..... | 71 |
| 39 | Section 1305. | Parties, Bond Registrar, Owners and Holders Alone Have Rights | |
| 40 | | Under Master Indenture..... | 71 |
| 41 | Section 1306. | Effect of Partial Invalidity..... | 71 |
| 42 | Section 1307. | Effect of Covenants; Governing Law..... | 72 |

| | | |
|---|---|----|
| 1 | Section 1308. No Recourse Against Members, Officers or Employees of | |
| 2 | Corporation or State Board of Administration..... | 72 |
| 3 | Section 1309. Dealing in Parity Obligations..... | 72 |
| 4 | Section 1310. Headings | 72 |
| 5 | Section 1311. Further Authority | 72 |
| 6 | Section 1312. Payments Due on Non-Business Days..... | 73 |
| 7 | Section 1313. Multiple Counterparts | 73 |
| 8 | | |

1 THIS MASTER TRUST INDENTURE (this "Master Indenture"), made and entered into
2 as of the first day of June 1, 2006, by and between Florida Hurricane Catastrophe Fund Finance
3 Corporation, a public benefits corporation, which is an instrumentality of the State of Florida (the
4 "Corporation"), and Wells Fargo Bank, N.A., Jacksonville, Florida, a national banking
5 association duly incorporated under the laws of the United States of America, and being duly
6 qualified to accept and administer the trusts created hereby (the "Master Trustee"),

7 WITNESSETH:

8 WHEREAS, Section 215.555, Florida Statutes, as amended (the "Act"), creates the
9 Florida Hurricane Catastrophe Fund, a trust fund established for bond covenants, Master
10 Indentures or resolutions within the meaning of Section 19(f)(3), Article III of the Constitution
11 of the State of Florida (the "FHCF"); and

12 WHEREAS, the Act provides that the FHCF will be administered by the State Board of
13 Administration of Florida (in its capacity as the governing body and administrator of the FHCF,
14 the State Board of Administration) and that the FHCF will reimburse certain insurers for a
15 portion of their catastrophic hurricane losses, subject to the limitations on such reimbursements
16 set forth in the Act, in order to create additional insurance capacity sufficient to ameliorate the
17 current dangers to the economy of the State and to the public health, safety and welfare of its
18 citizens posed by a lack of an orderly private market for property insurance; and

19 WHEREAS, the Act creates the Corporation as a public benefits corporation, which is an
20 instrumentality of the State of Florida, to provide a mechanism for the cost-effective and
21 efficient issuance of bonds necessary to enable the FHCF to carry out the purposes of the Act;
22 and

23 WHEREAS, the purpose of such bonds is to fund reimbursements through the FHCF to
24 pay for the costs of construction, reconstruction, repair, restoration and other costs associated
25 with damage to properties of policyholders of covered policies due to the occurrence of a
26 hurricane; and

27 WHEREAS, the Act provides for the payment by certain insurers of reimbursement
28 premiums, and for the remittance of emergency assessments from certain policyholders, in the
29 amounts and under the circumstances set forth in the Act and authorizes the pledge of all or any
30 portion of the revenues derived from such reimbursement premiums and emergency assessments,
31 together with the interest earnings thereon, to the payment of the principal of and redemption
32 premium, if any, and interest on bonds issued by the Corporation for the benefit of the FHCF;
33 and

34 WHEREAS, the Act provides that revenue bonds may not be issued under the Act until
35 validated under Florida Statutes, Chapter 75, and that the validation of at least the first issue of
36 obligations incurred under the Act shall be appealed to the Florida Supreme Court; and

37 WHEREAS, the Circuit Court of the Second Judicial Circuit of Florida (the "Circuit
38 Court") validated on November 12, 1996 bonds in the aggregate principal amount of not
39 exceeding \$10 billion, a pledge agreement ("1996 pledge agreement"), a master trust Master
40 Indenture ("1996 master trust Master Indenture"), and related resolutions adopted by the State

1 Board of Administration for the FHCF and by the Board of Directors of the Corporation ("1996
2 resolutions"); and

3 WHEREAS, Florida Supreme Court affirmed on September 18, 1997 the order of the
4 Circuit Court and concluded that "the Florida Hurricane Finance Corporation acted within its
5 authority and complied with all requirements of the law in the issuance of the Hurricane
6 Catastrophe Relief Revenue Bonds;" and

7 WHEREAS, the Corporation obtained from the Internal Revenue Service a private letter
8 ruling dated July 2, 1998 to the effect that the interest on bonds issued by the Corporation and
9 secured by emergency assessments and, to a limited extent, reimbursement premiums would be
10 exempt from federal income tax, and such ruling, limited in term to five years, was renewed on
11 June 13, 2003 through June 30, 2008; and

12 WHEREAS, the Florida Legislature has made several amendments to the Act since its
13 initial enactment in 1993, since validation in 1996 of the bonds, the 1996 master trust Master
14 Indenture, the 1996 pledge agreement and the 1996 resolutions and since receipt in 1998 of the
15 Internal Revenue Service private letter ruling, without vitiating the efficacy of any of the Circuit
16 Court validation, the Supreme Court affirmation of the Circuit Court validation or the private
17 letter ruling; and

18 WHEREAS, the Board of Directors of the Corporation has duly authorized the execution
19 and delivery of this Master Indenture with the Master Trustee, this Master Indenture being
20 intended to preserve the substance of the 1996 master trust indenture while reflecting the
21 provisions of the amendments to the Act since 1996 and the provisions of the Internal Revenue
22 Service private letter ruling and restricting the obligations that the Corporation may incur
23 hereunder to Parity Obligations (as hereinafter defined); and

24 WHEREAS, the State Board of Administration and the Board of Directors of the
25 Corporation have duly authorized the execution and delivery of a pledge and security agreement,
26 dated as of June 1, 2006 (the "Pledge Agreement"), by and among the State Board of
27 Administration, the Corporation and the Master Trustee, which agreement is intended to preserve
28 the substance of the 1996 pledge agreement and to conform to the provisions of the Act as
29 currently in effect, the private letter ruling and this Master Indenture, pursuant to which the State
30 Board of Administration has pledged and assigned to the Corporation certain revenues derived
31 from such reimbursement premiums and emergency assessments, together with the interest
32 earnings thereon, to the payment of the principal of and redemption premium, if any, and interest
33 on such bonds; and

34 WHEREAS, the Office of Insurance Regulation of the State of Florida and the Florida
35 Surplus Lines Service Office have each been notified that, simultaneously with the execution and
36 delivery of the Pledge Agreement and this Master Indenture, Bonds (hereinafter defined) are
37 being issued by the Corporation and that the FHCF has no agreements in effect with local
38 governments, and, therefore, until such date as the Corporation shall have no Bonds Outstanding
39 (hereinafter defined) and subject to the provisions of the Pledge Agreement, the FHCF shall have
40 no right, title or interest in or to such emergency assessments or the interest earnings thereon,
41 except as provided in the Pledge Agreement; and

1 WHEREAS, the Corporation desires to issue and incur its Parity Obligations pursuant to
2 the Act to provide funds to achieve the public purposes of the Act; and

3 WHEREAS, any Bonds issued and any Parity Debt (hereinafter defined) incurred under
4 this Master Indenture will be secured by a pledge of the Net Receipts (hereinafter defined) of the
5 Corporation; and

6 WHEREAS, pursuant to the Act, the Corporation is entering into this Master Indenture
7 for the purpose of authorizing the issuance of Bonds and the incurrence of Parity Debt and
8 securing the payment thereof by assigning its rights in and to the Net Receipts and certain of its
9 rights under the Pledge Agreement; and

10 WHEREAS, under the Constitution and laws of the State of Florida, including the Act,
11 the Corporation is authorized to enter into this Master Indenture, to issue the Bonds and incur
12 Parity Debt as hereinafter provided and to do or cause to be done all the acts and things herein
13 provided or required to be done as hereinafter covenanted; and

14 WHEREAS, all acts, conditions and things required by the Constitution and laws of the
15 State of Florida, including the Act, to happen, exist and be performed precedent to and in the
16 execution and delivery of this Master Indenture have happened, exist and have been performed
17 as so required to make this Master Indenture a valid and binding Master Indenture securing any
18 Bonds and any Parity Debt in accordance with its terms; and

19 WHEREAS, the Master Trustee agrees to accept and administer the trusts created hereby;

20 NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH that in
21 consideration of the premises, of the acceptance by the Master Trustee of the trusts hereby
22 created, and of the issuance of Bonds and the incurrence of any Parity Debt as provided herein,
23 in any Supplemental Indenture (hereinafter defined) and in any Parity Debt Resolution
24 (hereinafter defined), and also for and in consideration of the sum of One Dollar in hand paid to
25 the Master Trustee at or before the execution and delivery of this Master Indenture, and for other
26 good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged,
27 and for the purpose of fixing and declaring the terms and conditions upon which Bonds are to be
28 issued, authenticated, delivered, secured and accepted by all persons who shall from time to time
29 be or become Owners (hereinafter defined), and to secure the payment of all Bonds at any time
30 issued and outstanding under this Master Indenture and any Parity Debt, and the interest and the
31 redemption premium, if any, thereon according to their tenor, purport and effect, and to secure
32 the performance and observance of all the covenants, agreements and conditions, express or
33 implied, therein and herein contained, the Corporation has executed and delivered this Master
34 Indenture, and by this Master Indenture has given, granted, bargained, aliened, remised, released,
35 conveyed, transferred, assigned, confirmed, set over, and pledged, and does hereby give, grant,
36 bargain, alien, remise, release, convey, transfer, assign, confirm, set over, and pledge unto the
37 Master Trustee, and its successor or successors in trust:

38 1. All Net Receipts of the Corporation;

39 2. All right, title and interest of the Corporation in and to the Pledge Agreement
40 (except for those certain rights that are set forth in the next sentence of this clause), it being the

1 intent and purpose hereof that the assignment and transfer to the Master Trustee of the Pledged
2 Collateral (hereinafter defined) shall be effective and operative immediately and the Master
3 Trustee shall have the right to collect and receive from the FHCF the Pledged Collateral for
4 application in accordance with the provisions hereof at all times during the period from and after
5 the date of this Master Indenture until the indebtedness hereby secured shall have been fully paid
6 and discharged, all subject to the rights of the FHCF to the release of Reimbursement Premiums
7 and Reimbursement Premium Earnings and Emergency Assessments and Emergency
8 Assessment Earnings as provided in the Pledge Agreement and this Master Indenture. The
9 Corporation specifically reserves from this assignment the following rights: (a) to receive all
10 notices, opinions, certificates, copies of documents, instruments, reports and correspondence, and
11 evidence of certain actions by the State Board of Administration, acting on behalf of the FHCF,
12 required to be delivered to the Corporation under the Pledge Agreement; (b) to grant approvals
13 and consents and make determinations when required under the Pledge Agreement; (c) to be
14 indemnified pursuant to the Pledge Agreement; and (d) those exculpations from liability
15 conferred upon the members, officers and employees of the Corporation in the Pledge
16 Agreement; provided that the reservation of the aforementioned rights shall not prevent the
17 Master Trustee from enforcing the same on behalf of the Corporation, the Owners and the
18 Holders (hereinafter defined), and the Corporation is to remain liable to observe and perform all
19 the covenants, agreements and conditions, express or implied, therein and herein contained; and

20 3. All money and securities held by or on behalf of the Master Trustee in all of the
21 funds, accounts or subaccounts established pursuant to this Master Indenture, except those funds,
22 accounts and subaccounts that are expressly pledged in a Supplemental Indenture as security
23 only for the Series of Bonds authorized by such Supplemental Indenture or in a Parity Debt
24 Resolution as security only for the Parity Debt authorized by such Parity Debt Resolution, and,
25 in the case of Tax-Exempt Parity Obligations, except those funds, accounts and subaccounts that
26 are expressly set aside in a Supplemental Indenture or Parity Debt Resolution for the purpose of
27 making rebate, yield reduction or similar payments to the United States of America in order to
28 maintain the tax status of the Tax-Exempt Parity Obligations;

29 TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby
30 conveyed and assigned, or agreed or intended so to be, to the Master Trustee and its successor or
31 successors in trust and to their assigns forever; but

32 IN TRUST, NEVERTHELESS, upon the terms and trusts herein set forth, for the benefit,
33 security and protection of all and singular the present and future Owners of the Bonds issued or
34 to be issued under and secured by this Master Indenture and the Holders of any Parity Debt
35 secured by this Master Indenture, without preference, priority or distinction as to lien or
36 otherwise, except as may otherwise be provided herein, of any one Bond or Parity Debt over any
37 other Bond or Parity Debt by reason of priority in their issue, sale or otherwise, all as herein
38 provided;

39 PROVIDED, HOWEVER, that if the Corporation, its successors or assigns, shall well
40 and truly pay, or cause to be paid, or provide for the payment, pursuant to the provisions of this
41 Master Indenture, of the principal of all Parity Obligations and the interest and any redemption
42 premium due or to become due thereon, at the times and in the manner mentioned in the Parity
43 Obligations and this Master Indenture, according to the true intent and meaning hereof and

1 thereof, and shall cause the payments to be made into the Bond Fund (hereinafter defined) or
2 otherwise as required under this Master Indenture, and shall pay or cause to be paid to the Master
3 Trustee all sums of money due or to become due to it in accordance with the terms and
4 provisions hereof and perform all of its other obligations hereunder, then, upon such
5 performance and payments, this Master Indenture and the rights hereby granted shall cease,
6 determine and become void, as provided in Article XII of this Master Indenture; otherwise this
7 Master Indenture to be and remain in full force and effect.

8 THIS MASTER INDENTURE FURTHER WITNESSETH and it is expressly declared
9 that all Bonds issued and secured hereunder and any Parity Debt secured hereunder are to be
10 issued, authenticated (if applicable), delivered and dealt with, the respective rights of all Owners
11 of the Bonds and Holders of Parity Debt are to be set forth, and all said property hereby given,
12 granted, bargained, aliened, remised, released, conveyed, transferred, assigned, confirmed, set-
13 over and pledged is to be dealt with and disposed of, under, upon and subject to the terms,
14 conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter
15 expressed, and the Corporation has agreed and covenanted, and does hereby agree and covenant,
16 with the Master Trustee and with the respective Owners and Holders, from time to time, of Parity
17 Obligations, or any part hereof, as follows:

18 Article I.

19
20 DEFINITIONS AND OTHER PROVISIONS
21 CONCERNING INTERPRETATION

22 Section 101. Definitions. For the purposes hereof, unless the context otherwise
23 indicates, the following words and phrases shall have the following meanings:

24 "Accreted Amount" means with respect to Capital Appreciation Bonds, the amount set
25 forth in the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bonds
26 as the amount representing the initial public offering price, plus the accumulated and
27 compounded interest on such Capital Appreciation Bonds.

28 "Act" means Section 215.555, Florida Statutes, as amended, or any successor statute.

29 "Audited Financial Statements" means the combined financial statements of the FHCF
30 and the Corporation for a 12-month period, or for such other period for which an audit has been
31 performed, that have been audited and reported upon by an Auditor in accordance with generally
32 accepted auditing standards.

33 "Auditor" means an independent certified public accountant or firm of independent
34 public accountants selected by the State Board of Administration.

35 "Authorized Officer of the Corporation" means each person who is authorized by
36 resolution of the Governing Body of the Corporation to perform the duties imposed on an
37 Authorized Officer of the Corporation by this Master Indenture and whose name is filed with the
38 Master Trustee for such purpose.

1 "Authorized Officer of the State Board of Administration" means each person who is
2 authorized by resolution of the Governing Body of the FHCF to perform the duties imposed on
3 an Authorized Officer of the State Board of Administration by this Master Indenture and whose
4 name is filed with the Master Trustee for such purpose.

5 "Balloon Indebtedness" means Indebtedness twenty-five percent (25%) or more of the
6 principal payments of which are due in a single Fiscal Year, which portion of the principal is not
7 required by the documents pursuant to which such Indebtedness is incurred to be amortized by
8 payment or redemption prior to such year.

9 "Bond" or "Bonds" means the bonds or notes issued under the provisions hereof and
10 secured on a parity with each other and any Parity Debt by this Master Indenture.

11 "Bond Fund" means the Florida Hurricane Catastrophe Fund Finance Corporation Bond
12 Fund created and so designated by Section 501(b) hereof.

13 "Bond Registrar" means, with respect to any Series of Bonds, the Bond Registrar at the
14 time serving as such under the Supplemental Indenture authorizing the issuance of such Series,
15 whether the original or a successor Bond Registrar.

16 "Business Day" means a day on which the Corporation, the Fund, the Master Trustee and
17 each Bond Registrar are open for the purpose of conducting their businesses.

18 "Capital Appreciation Bonds" means Bonds the interest on which is compounded at the
19 rates and on the dates set forth in the Supplemental Indenture authorizing the issuance of such
20 Bonds and is payable upon redemption or on the maturity date of such Bonds. Nothing in this
21 Master Indenture shall prohibit the Corporation from designating in such Supplemental Indenture
22 any such Bonds by a name other than Capital Appreciation Bonds.

23 "Capitalized Interest Account" means the account in the Bond Fund created and so
24 designated by Section 501 hereof.

25 "Code" means the Internal Revenue Code of 1986, as amended, and all regulations
26 promulgated thereunder.

27 "Consultant" means a firm or firms which are not, and no member, director, officer,
28 trustee or employee of which is, an officer, director, trustee or employee of the Corporation, the
29 FHCF, the State Board of Administration or the State, and which has a national reputation for
30 having the skill and experience necessary to render the particular report or recommendations
31 required by the provision hereof in which such requirement appears.

32 "Contract Year" means the term of the reimbursement contracts between the State Board
33 of Administration and insurers writing Covered Policies.

34 "Corporation" means the Florida Hurricane Catastrophe Fund Finance Corporation, a
35 public benefits corporation, which is an instrumentality of the State, and its legal successors.

1 "Corpus Earnings" means Corpus Earnings as defined in Section I of the Pledge
2 Agreement.

3 "Costs of Issuance" means those costs that are payable from Bond proceeds with respect
4 to the authorization, sale and issuance of Bonds, deposits to the funds, accounts and subaccounts
5 established by this Master Indenture and any Supplemental Indenture, underwriting fees,
6 auditors' or accountants' fees, printing costs, costs of reproducing documents, filing and
7 recording fees, fees and expenses of fiduciaries, legal fees and charges, professional consultants'
8 fees, costs of credit ratings, fees and charges for the execution, transportation and safekeeping of
9 Bonds, governmental charges, costs of entering into Derivative Agreements, obtaining
10 Investment Obligations and establishing or obtaining Credit Facilities, and other costs, charges
11 and fees in connection with the foregoing.

12 "Costs of Issuance Fund" means the Florida Hurricane Catastrophe Fund Finance
13 Corporation Costs of Issuance Fund created and so designated by Section 401 hereof.

14 "Covered Event" means Covered Event as defined in the Act.

15 "Credit Facility" means a line of credit, letter of credit, standby bond purchase
16 agreement, bond insurance policy or similar liquidity or credit facility established or obtained in
17 connection with the issuance of any Bonds, incurrence of any other Parity Debt or incurrence of
18 any Subordinated Indebtedness.

19 "Credit Provider" means the Person providing a Credit Facility, as designated in the
20 Supplemental Indenture authorizing the issuance of a Series of Bonds or in the Parity Debt
21 Resolution authorizing the incurrence of Parity Debt or in the Subordinated Indebtedness
22 Resolution authorizing the incurrence of Subordinated Indebtedness.

23 "Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date
24 on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or
25 redeemed from the proceeds of such Cross-over Refunding Indebtedness.

26 "Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over
27 Refunding Indebtedness.

28 "Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of
29 refunding other Indebtedness if the proceeds of such Cross-over Refunding Indebtedness are
30 irrevocably deposited in escrow to secure the payment on the applicable redemption date or
31 maturity date of the Cross-over Refunded Indebtedness, and the earnings on such escrow deposit
32 (i) are required to be applied to pay interest on such Cross-over Refunding Indebtedness until the
33 Cross-over Date and (ii) shall not be used directly or indirectly to pay interest on the Cross-over
34 Refunded Indebtedness.

35 "Current Expenses of the Corporation" means all expenses incurred by the Corporation in
36 the administration of the Corporation, including, without limiting the generality of the foregoing,
37 arbitrage rebate and penalties, all administrative expenses, salaries and other compensation,
38 personnel expenses properly chargeable to the Corporation, fees and expenses incurred for
39 professional consultants and fiduciaries, including the fees and expenses of the Master Trustee

1 and any Bond Registrar, and all Current Expenses of the Corporation so identified in this Master
2 Indenture, a Parity Resolution, a Subordinated Indebtedness Resolution or any other resolution
3 adopted by the Governing Body of the Corporation, but Current Expenses of the Corporation
4 shall not include (i) depreciation or amortization, (ii) any deposit to any fund, account and
5 subaccount established under this Master Indenture or any Supplemental Indenture or any
6 payment of principal, redemption premium, if any, and interest on any Bonds from any such
7 fund, account and subaccount or (iii) any debt service payment in respect of Parity Debt or
8 Subordinated Indebtedness.

9 "Current Interest Bonds" means Bonds the interest on which is payable on the Interest
10 Payment Dates provided therefor in the Supplemental Indenture authorizing the issuance of such
11 Bonds.

12 "Debt Service Coverage Ratio" means, for any period of time, the ratio determined by
13 dividing the Premium and Assessment Revenue Available for Debt Service by the Maximum
14 Debt Service Requirement.

15 "Debt Service Requirement" means, for any period of twelve (12) consecutive calendar
16 months for which such determination is made, the aggregate of the payments to be made in
17 respect of principal and interest (whether or not separately stated) on Outstanding Indebtedness
18 during such period, also taking into account:

19 (i) with respect to Balloon Indebtedness, the amount of principal which would be
20 payable in such period if such principal were amortized from the date of incurrence thereof over
21 a period of thirty (30) years on a level debt service basis, at an interest rate equal to the current
22 market rate for a fixed rate, 30-year obligation, set forth in an opinion, delivered to the Master
23 Trustee, of a banking institution or an investment banking institution, selected by the
24 Corporation and knowledgeable in municipal finance, as the interest rate at which the Person
25 that incurred such Indebtedness could reasonably expect to borrow the same by incurring
26 Indebtedness with the same term as assumed above; provided, however, that if the date of
27 calculation is within twelve (12) calendar months of the actual final maturity of such
28 Indebtedness, the full amount of principal payable at maturity shall be included in such
29 calculation;

30 (ii) with respect to Indebtedness which is Variable Rate Indebtedness, the interest on
31 such Indebtedness shall be calculated at the rate which is equal to the average of the actual
32 interest rates which were in effect (weighted according to the length of the period during which
33 each such interest rate was in effect) for the most recent twelve-month period immediately
34 preceding the date of calculation for which such information is available (or shorter period if
35 such information is not available for a twelve-month period), except that with respect to new
36 Variable Rate Indebtedness, the interest rate on such Indebtedness on the date of its incurrence
37 shall be calculated at the lesser of (a) the initial rate at which such Indebtedness is incurred and
38 (b) the rate certified by a banking institution or an investment banking institution, selected by
39 the Corporation and knowledgeable in municipal finance, as being the average rate such
40 Indebtedness would have borne for the most recent twelve-month period immediately preceding
41 the date of calculation if such Indebtedness had been outstanding for such period, and thereafter
42 shall be calculated as set forth above; provided, however, that if the Corporation enters into a

1 Derivative Agreement with respect to such Indebtedness, the interest on such Indebtedness shall
2 be calculated as set forth in clause (iv) below;

3 (iii) with respect to any Credit Facility, (a) to the extent that such Credit Facility has
4 not been used or drawn upon, the principal and interest relating to the reimbursement obligation
5 for such Credit Facility shall not be included in the Debt Service Requirement and (b) to the
6 extent that such Credit Facility shall have been drawn upon, the payment provisions of such
7 Credit Facility with respect to repayment of principal and interest thereon shall be included in
8 the Debt Service Requirement;

9 (iv) with respect to Derivative Indebtedness, the interest on such Indebtedness during
10 any Derivative Period thereunder shall be calculated by adding (a) the amount of interest
11 payable by the Corporation pursuant to its terms and (b) the amount payable by the Corporation
12 under the Derivative Agreement and subtracting (c) the amount payable by the Derivative
13 Agreement Counterparty at the rate specified in the Derivative Agreement, except that to the
14 extent that the Derivative Agreement Counterparty has defaulted on its payment obligations
15 under the Derivative Agreement, the amount of interest payable by the Corporation from the
16 date of default shall be the interest calculated as if such Derivative Agreement had not been
17 executed;

18 (v) subject to the provisions of clause (iv) above, to the extent that any Indebtedness
19 incurred pursuant to this Master Indenture requires that the Corporation pay the principal of or
20 interest on such Indebtedness in any currency or currencies other than United States dollars, in
21 calculating the amount of the Debt Service Requirement, the currency or currencies in which
22 the Corporation is required to pay shall be converted to United States dollars using a conversion
23 rate equal to the applicable conversion rate in effect on a date that is not more than thirty (30)
24 days prior to the date on which such Indebtedness is incurred;

25 (vi) in the case of Indebtedness a feature of which is an option on behalf of the
26 Owners or Holders to tender to the Corporation or the Master Trustee, or any agent of either, all
27 or a portion of such Indebtedness, the options of such Owners or Holders shall be ignored,
28 provided that such Indebtedness shall have the benefit of a Credit Facility and the institution or
29 a guarantor of its obligations shall have ratings from at least two of the Rating Agencies in not
30 less than one of the two highest short-term rating categories (without gradations such as plus or
31 minus); and

32 (vii) in the case of Indebtedness, having the benefit of a Credit Facility that provides
33 for a term loan facility that requires the payment of the Principal of such Indebtedness in one (1)
34 year or more, such Indebtedness shall be considered Balloon Indebtedness and shall be assumed
35 to have the maturity schedule provided clause (i)(a) of this definition;

36 provided, however, that interest shall be excluded from the determination of Debt Service
37 Requirement to the extent that provision for payment of the same is made from the proceeds of
38 the Indebtedness or otherwise provided so as to be available for deposit into the Capitalized
39 Interest Account or similar account not later than the date of delivery of and payment for such
40 Indebtedness or the reissuance date of any Pre-Event Parity Obligations reissued Post-Event as
41 Parity Obligations; and provided further that, notwithstanding the foregoing, the aggregate of the

1 payments to be made with respect to principal of and interest on Outstanding Indebtedness shall
2 not include principal and/or interest payable from Qualified Escrow Funds.

3 "Defeasance Obligations" means, unless modified by the terms of a Parity Resolution, (i)
4 noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a
5 proportionate interest in specified noncallable, nonprepayable Government Obligations, which
6 Government Obligations are held by a bank or trust company organized and existing under the
7 laws of the United States of America or any state or territory thereof in the capacity of custodian,
8 (iii) Defeased Municipal Obligations and (iv) evidences of ownership of a proportionate interest
9 in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by
10 a bank or trust company organized and existing under the laws of the United States of America
11 or any state or territory thereof in the capacity of custodian.

12 "Defeased Municipal Obligations" means, to the extent from time to time permitted by
13 law, obligations of state or local government municipal bond issuers rated in the highest rating
14 category by any two Rating Agencies and provision for the payment of the principal of and
15 redemption premium, if any, and interest on which shall have been made by irrevocable deposit
16 with a trustee or escrow agent of noncallable, nonprepayable Government Obligations, which
17 Government Obligations are held by a bank or trust company organized and existing under the
18 laws of the United States of America or any state or territory thereof in the capacity as custodian,
19 the maturing principal of and interest on which Government Obligations, when due and payable,
20 shall have been verified by an independent certified public accountant or firm of independent
21 certified public accountants to be sufficient to pay the principal of and redemption premium, if
22 any, and interest on such obligations of state or local government municipal bond issuers.

23 "Depository" means one or more banks or trust companies or other institutions, including,
24 the Master Trustee, duly authorized by law to engage in the banking business and designated by
25 the Corporation as a depository of moneys under this Master Indenture.

26 "Derivative Agreement" means (i) any contract known as or referred to or which
27 performs the function of an interest rate swap agreement, currency swap agreement, forward
28 payment conversion agreement or futures contract; (ii) any contract providing for payments
29 based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock
30 or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv)
31 any type of contract called, or designed to perform the function of, interest rate floors or caps,
32 options, puts or calls or to hedge or minimize any type of financial risk, including, without
33 limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or
34 arrangement that the Corporation determines is to be used, or is intended to be used, to manage
35 or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to
36 another, to maximize or increase investment return, to minimize investment return risk or to
37 protect against any type of financial risk or uncertainty.

38 "Derivative Agreement Counterparty" means, with respect to a Derivative Agreement,
39 the Person that is identified in such agreement as the counterparty to, or contracting party with,
40 the Corporation.

1 "Derivative Agreements Account" means the account in the Revenue Fund created and so
2 designated by Section 501 hereof.

3 "Derivative Indebtedness" means Indebtedness or any portion thereof with respect to
4 which the Corporation shall have entered into a Derivative Agreement.

5 "Derivative Period" means the period during which a Derivative Agreement is in effect.

6 "Emergency Assessment Base" means the total of direct written premium reported for all
7 assessable lines of insurance under the Act.

8 "Emergency Assessments" means Emergency Assessments as defined in Section 1 of the
9 Pledge Agreement.

10 "Emergency Assessments Account" means the account in the Revenue Fund created and
11 so designated by Section 501 hereof.

12 "Emergency Assessment Earnings" means Emergency Assessment Earnings as defined in
13 Section 1 of the Pledge Agreement.

14 "Event of Default" means any one or more of those events set forth in Section 802
15 hereof.

16 "FHCF" means Florida Hurricane Catastrophe Fund, a trust fund established for bond
17 covenants, indentures or resolutions within the meaning of Section 19(f)(3), Article III of the
18 State Constitution, and its legal successors.

19 "Fiscal Year" means the fiscal year of the FHCF, which shall be the period beginning on
20 July 1 of each year and ending on June 30 of the following year, unless the Master Trustee is
21 notified in writing by an Authorized Officer of the State Board of Administration of a change in
22 such period, in which case the Fiscal Year shall be the period set forth in such notice. The
23 Corporation shall have the same Fiscal Year as the FHCF.

24 "Fitch" means Fitch Inc., and its legal successors, provided that references to "Fitch" are
25 effective only so long as Fitch is a Rating Agency.

26 "Governing Body" means, with respect to the Corporation, its board of directors or other
27 board of individuals or designees in which the powers of the Corporation are vested under the
28 Act. With respect to the FHCF, "Governing Body" means the State Board of Administration.

29 "Government Obligations" means direct obligations of, and obligations the principal of
30 and interest on which are unconditionally guaranteed by, the United States of America.

31 "Gross Receipts" means all revenues, income, receipts and money (other than proceeds of
32 borrowing) received in any period by or on behalf of the Corporation, including, without
33 limitation, (a) Emergency Assessments, (b) Emergency Assessment Earnings, (c)
34 Reimbursement Premiums, (d) Reimbursement Premium Earnings, (e) Other Pledged Money, (f)
35 proceeds derived from (i) securities and other investments and (ii) contract rights and other rights

1 and assets now or hereafter owned, held or possessed by the Corporation and (g) interest or
2 investment income on all investments, including investments of proceeds of any Pre-Event
3 Indebtedness incurred by the Corporation.

4 "Holder" means the holder or owner of Parity Debt.

5 "Incurrence Test" means the test for the incurrence for Parity Obligations established by
6 Section 704.

7 "Indebtedness" means all obligations incurred or assumed by any Person:

8 (i) for payments of principal and interest with respect to borrowed money, including
9 any obligation to repay a Credit Provider for moneys drawn to pay and retire Indebtedness; and

10 (ii) for payments under leases which are required to be capitalized in accordance with
11 generally accepted accounting principles and under installment sale or conditional sale
12 contracts; and

13 (iii) for payments under installment sale or conditional sale contracts.

14 provided, however, that Indebtedness shall include only Parity Obligations and Subordinated
15 Indebtedness and that any obligation constituting Indebtedness to pay a Credit Provider for
16 moneys drawn to purchase, but not pay and retire, indebtedness shall constitute Indebtedness
17 only to the extent such payments are in excess of any scheduled payments of principal and
18 interest required to be made to such Credit Provider as an Owner or Holder of such Indebtedness.

19 "indebtedness" means all indebtedness for any of the following:

20 (i) for payments of principal and interest with respect to borrowed money;

21 (ii) for payments on leases which are required to be capitalized in accordance with
22 generally accepted accounting principles; and

23 (iii) for payments on installment sale or conditional sale contracts.

24 "Interest Account" means the account in the Bond Fund created and so designated by
25 Section 501 hereof.

26 "Interest Payment Date" means, with respect to any Series of Bonds, each of the interest
27 payment dates provided for in the Supplemental Indenture authorizing the issuance of such
28 Series.

29 "Investment Obligations" means any investment authorized under Section 215.47,
30 Florida Statutes, as amended from time to time, or any successor statute.

31 "Lien" means any mortgage, deed of trust or pledge of, security interest in or
32 encumbrance on any Property of the Corporation that secures any indebtedness incurred by the
33 Corporation.

1 "Master Indenture" means the Master Trust Indenture as supplemented.

2 "Master Trust Indenture" means this Master Trust Indenture, dated as of June 1, 2006, as
3 amended.

4 "Master Trustee" means Wells Fargo Bank, N.A., Jacksonville, Florida, and its
5 successors in the trusts created under this Master Indenture.

6 "Maximum Debt Service Requirement" means at the date of calculation the greatest Debt
7 Service Requirement for the current or any succeeding Fiscal Year.

8 "Moody's" means Moody's Investors Service, Inc., and its legal successors, provided that
9 references to "Moody's" are effective only so long as Moody's is a Rating Agency.

10 "Net Receipts" for any particular period means the excess of Gross Receipts after the
11 payment of Current Expenses of the Corporation for such period.

12 "Officer's Certificate" means a certificate signed by an Authorized Officer of the
13 Corporation or an Authorized Officer of the State Board of Administration, as the case may be.

14 Each Officer's Certificate presented pursuant to this Master Indenture shall state that it is
15 being delivered pursuant to (and shall identify the section or subsection of), and shall incorporate
16 by reference and use in all appropriate instances all terms defined in, this Master Indenture. Each
17 Officer's Certificate shall state that (i) the terms thereof are in compliance with the requirements
18 of the section or subsection pursuant to which such Officer's Certificate is delivered or shall state
19 in reasonable detail the nature of any non-compliance and the steps being taken to remedy such
20 non-compliance and (ii) it is being delivered together with any opinions, schedules, statements or
21 other documents required in connection therewith. Each Officer's Certificate may state that the
22 certification is made to the best knowledge of such officer.

23 "Opinion of Counsel" means an opinion in writing signed by (i) an attorney or firm of
24 attorneys, selected by the Corporation and not unacceptable to the Master Trustee, or (ii) an
25 attorney employed by the State or any agency thereof whose duties include responsibility for
26 legal matters of the Corporation. Such opinion may rely on Officer's Certificates and other
27 Opinions of Counsel and may contain customary exceptions and qualifications.

28 "Other Pledged Money" means Other Pledged Money as defined in Section 1 of the
29 Pledge Agreement.

30 "Outstanding", when used with reference to Bonds, means, as of a particular date, all
31 Bonds theretofore authenticated and delivered under this Master Indenture, except:

32 (a) Bonds theretofore cancelled by any Bond Registrar or delivered to any
33 Bond Registrar or the Master Trustee for cancellation;

34 (b) Bonds in exchange for or in lieu of which other Bonds have been
35 authenticated and delivered under this Master Indenture; and

1 (c) Bonds paid or deemed to have been paid in accordance with the
2 defeasance or like provisions of the Supplemental Indenture delivered in connection with the
3 issuance of such Bonds;

4 provided, however, that in determining whether the Owners of the requisite principal amount of
5 outstanding Bonds have given any request, demand, authorization, direction, notice, consent or
6 waiver hereunder, Bonds owned by or under the control of the Corporation or the FHCF or any
7 other obligor upon the Bonds shall be disregarded and deemed not to be outstanding, except that
8 the term "obligor upon the Bonds" shall not include any Credit Provider unless otherwise
9 provided in a Supplemental Indenture, and except that, in determining whether the Master
10 Trustee shall be protected in relying upon any such request, demand, authorization, direction,
11 notice, consent or waiver, only Bonds which the Master Trustee knows to be so owned or
12 controlled shall be so disregarded. Bonds so owned or controlled which have been pledged in
13 good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the
14 Master Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is
15 not the Corporation, the FHCF or any other obligor upon the Bonds except a Credit Provider.

16 The Corporation may provide in a Parity Resolution as to when any Parity Obligations
17 that are Variable Rate Indebtedness shall be deemed no longer to be Outstanding hereunder in a
18 manner not inconsistent with the above definition.

19 The Corporation may provide in a Parity Debt Resolution as to when any Parity Debt
20 shall be deemed no longer to be outstanding hereunder in a manner not inconsistent with the
21 above definition.

22 When used with reference to Indebtedness other than Parity Obligations, "Outstanding"
23 means, as of a particular date, all Indebtedness deemed to be outstanding under the documents
24 pursuant to which it was incurred.

25 "Owner" means a Person in whose name a Bond is registered in the registration books
26 provided for in Section 205 hereof.

27 "Parity Common Reserve Account" means the account in the Bond Fund created and so
28 designated by Section 501 hereof.

29 "Parity Common Reserve Account Requirement" means, with respect to all Parity
30 Obligations secured by the Parity Common Reserve Account, the least of the following: (i) the
31 sum of ten percent (10%) of the stated principal amount of each Series of Bonds secured by the
32 Parity Common Reserve Account (adjusted as provided in the Code), (ii) the Maximum Annual
33 Debt Service Requirement on all such Outstanding Parity Obligations, and (iii) one hundred
34 twenty-five percent (125%) of the average annual Debt Service Requirements on all such Parity
35 Obligations. The Parity Common Reserve Account Requirement may be satisfied with cash,
36 Investment Obligations or Reserve Alternative Instruments, or any combination of the foregoing,
37 as the Corporation may determine from time to time.

38 "Parity Debt" means all Parity Obligations incurred or assumed by the Corporation and
39 not evidenced by Bonds which (a) is designated as Parity Debt in the documents pursuant to
40 which it was incurred, (b) is incurred in compliance with the provisions of Section 704 hereof or

1 is a reimbursement obligation for a Credit Facility supporting Parity Obligations incurred in
2 compliance with the provisions of Section 704 hereof, and (c) may be accelerated only in
3 compliance with the procedures set forth in Section 803 hereof.

4 "Parity Debt Resolution" means the resolution and any other documents, instruments or
5 agreements adopted or executed by the Corporation providing for the incurrence of Parity Debt.

6 "Parity Obligations" means Bonds and Parity Debt.

7 "Parity Resolution" means a Supplemental Indenture or a Parity Debt Resolution, or both,
8 as the case may be, authorizing the issuance of a Series of Bonds or the incurrence of Parity
9 Debt.

10 "Parity Tax-Exempt Obligations" means Tax-Exempt Bonds and Tax-Exempt Parity
11 Debt.

12 "Person" includes an individual, association, unincorporated organization, corporation,
13 limited liability company, partnership, joint venture, trust, state trust fund, unincorporated
14 organization, and a government or an agency or a political subdivision thereof, as well as natural
15 persons.

16 "Pledge Agreement" means the Pledge and Security Agreement, dated as of June 1, 2006,
17 by and among the Corporation, the State Board of Administration and the Master Trustee,
18 including any amendments or supplements thereto.

19 "Pledged Collateral" means Pledged Collateral as defined in Section 1 of the Pledge
20 Agreement.

21 "Predecessor Bonds" of any particular Bond means every previous Bond evidencing all
22 or a portion of the same debt as that evidenced by such particular Bond; and, for purposes of this
23 definition, any Bond authenticated and delivered under Section 210 hereof in lieu of a lost,
24 destroyed or stolen Bond shall be deemed to evidence the same debt as the lost, destroyed or
25 stolen Bond.

26 "Post-Event" when used in connection with Bonds, other Parity Obligations or the
27 proceeds thereof refers to the issuance of Parity Obligations following the occurrence of a
28 Covered Event (i) to pay reimbursement at levels promised in reimbursement contracts for which
29 moneys credited to the Corpus of the Fund are insufficient, as authorized by the provisions (other
30 than the last sentence) of Section 215.555(6)(a)1 of the Act or (ii) to refund other Post-Event
31 Indebtedness or to refund Pre-Event Indebtedness issued or incurred prior to such Covered
32 Event.

33 "Pre-Event" when used in connection with Bonds, other Parity Obligations or the
34 proceeds thereof refers to the issuance of Parity Obligations "in the absence of" a Covered Event,
35 as authorized by the last sentence of Section 215.555(6)(a)1 of the Act.

36 "Pre-Event Bonds Investment Account" means the account in the Revenue Fund created
37 and so designated by Section 501 hereof.

1 "Premium and Assessment Revenue Available For Debt Service" means the pro forma
2 amount, indicated in an Officer's Certificate of the State Board of Administration delivered to
3 the Master Trustee, that is certified by such Officer to be the excess, over the Current Expenses
4 of the FHCF and the Current Expenses of the Corporation, of the sum of (a) the amount of
5 Revenues from Reimbursement Premiums and Reimbursement Premium Earnings received by
6 the FHCF in any 12 consecutive months of the last 18 calendar months preceding the date of
7 such Certificate, taking into consideration and adjusted for (1) any changes in the Act or other
8 applicable law or regulation (described in such Officer's Certificate) that would prospectively
9 affect the amount of such Reimbursement Premiums to be received in the current or future Fiscal
10 Years, and (2) any actuarially indicated adjustments to the Reimbursement Premiums that have
11 been determined for, or are reasonably expected to take effect subsequent to the applicable 12-
12 month period and in, the current or following Fiscal Year, as shall be set forth in such Officer's
13 Certificate, and (b) the amount of Revenues from Emergency Assessments, such amount being
14 the product obtained by multiplying (1) the maximum assessment percentage permitted by the
15 Act on the date of such Certificate by (2) the most recently available 12-month Emergency
16 Assessment Base, all as demonstrated in such Officer's Certificate.

17 "Principal" means (a) with respect to any Capital Appreciation Bond, the Accreted
18 Amount thereof (the difference between the stated amount to be paid at maturity and the
19 Accreted Amount being deemed unearned interest), except as used in connection with the
20 authorization and issuance of Bonds and with the order of priority of payments of Bonds after an
21 Event of Default, in which case "principal" means the initial public offering price of a Capital
22 Appreciation Bond and the difference between the Accreted Amount and the initial public
23 offering price shall be deemed to be interest and (b) with respect to any Current Interest Bond,
24 the principal amount of such Bond payable at maturity or in satisfaction of a Sinking Fund
25 Requirement, if applicable.

26 "Principal Account" means the account in the Bond Fund created and so designated by
27 Section 501 hereof.

28 "Property" means any and all rights, titles and interests in and to any and all property
29 whether real or personal, tangible or intangible and wherever situated.

30 "Qualified Escrow Funds" means amounts deposited in a segregated escrow fund or
31 other similar fund or account established in connection with Indebtedness, which amounts in
32 such fund or account are required by the documents establishing such fund or account to be
33 applied to the payment obligations with respect to principal of or interest on the the
34 Indebtedness.

35 "Rating Agencies" means each of Fitch, Moody's, S&P and any other nationally
36 recognized statistical rating organization that has, at the request of the State Board of
37 Administration, a rating in effect for the Bonds.

38 "Redemption Account" means the account in the Bond Fund created and so designated
39 by Section 501 hereof.

1 "Redemption Price" means, with respect to any Indebtedness or portion thereof, the
2 principal amount of such Indebtedness or portion called for redemption plus the applicable
3 premium, if any, payable upon redemption thereof.

4 "Regular Record Date" means, with respect to any Series of Bonds, the regular record
5 date, if any, provided for in the Supplemental Indenture authorizing the issuance of such Series.

6 "Reimbursement Premiums" means Reimbursement Premiums as defined in Section 1 of
7 the Pledge Agreement.

8 "Reimbursement Premiums Account" means the account in the Revenue Fund created
9 and so designated by Section 501 hereof.

10 "Reimbursement Premium Earnings" means Reimbursement Premium Earnings as
11 defined in Section 1 of the Pledge Agreement.

12 "Reserve Alternative Instrument" means an irrevocable insurance policy or surety bond
13 or an irrevocable letter of credit, guaranty or other facility deposited in the Parity Common
14 Reserve Account or a Special Reserve Account in lieu of or in partial substitution for the deposit
15 of cash and Investment Obligations in satisfaction of the Parity Common Reserve Account
16 Requirement or a Special Reserve Account Requirement.

17 "Revenue Available For Debt Service" means, for any period of time, the excess of
18 Revenues, including the investment income from the investment of the proceeds of any Pre-
19 Event Parity Obligations (but not any other Parity Obligations), over the sum of the Current
20 Expenses of the FHCF and the Current Expenses of the Corporation.

21 "Revenue Fund" means the Florida Hurricane Catastrophe Fund Finance Corporation
22 Revenue Fund created and so designated by Section 501(a) hereof.

23 "Revenues" means revenues of the FHCF and the Corporation, as determined in
24 accordance with generally accepted accounting principles, including, without limitation,
25 Reimbursement Premiums, Reimbursement Premium Earnings, Emergency Assessments,
26 Emergency Assessment Earnings and the income derived from the investment of the proceeds of
27 any Pre-Event Parity Obligations (but not any other Indebtedness); provided, however, that (i) no
28 determination thereof shall take into account any gain or loss resulting from the extinguishment
29 of Indebtedness and (ii) no determination thereof shall take into account the value of any
30 Derivative Agreement or any payments made by the Derivative Agreement Counterparty in
31 accordance with the terms of such Derivative Agreement; provided further, however, that
32 Revenues shall not include (I) the income from the investment of Qualified Escrow Funds or of
33 proceeds of Pre-Event Indebtedness to the extent such income is applied to the payment of
34 interest on Indebtedness which is excluded from the determination of the Debt Service
35 Requirement and (II) the proceeds of any Indebtedness.

36 "S&P" means Standard & Poor's Rating Services, and its legal successors, provided that
37 references to S&P are effective only so long as S&P is a Rating Agency.

1 "Securities Depository" means The Depository Trust Company, New York, New York,
2 or any other recognized securities depository selected by the Corporation, which maintains a
3 book-entry system in respect of a Series of Bonds, and shall include any substitute for or
4 successor to the securities depository initially acting as Securities Depository.

5 "Securities Depository Nominee" means, as to any Securities Depository, such Securities
6 Depository or the nominee of such Securities Depository in whose name there shall be registered
7 on the registration books maintained by the Bond Registrar the Bond certificates to be delivered
8 to and immobilized at such Securities Depository during the continuation of participation with
9 such Securities Depository in its book-entry system.

10 "Serial Bonds" means the Bonds of any Series that are stated to mature in annual or
11 semiannual installments.

12 "Series," whenever used herein with respect to Bonds, means all of the Bonds designated
13 as being of the same series.

14 "Short-Term Indebtedness" means all Indebtedness incurred for borrowed money, other
15 than the current portion of Indebtedness and other than Short-Term Indebtedness excluded from
16 this definition as provided in the definition of Indebtedness, for any of the following:

17 (i) money borrowed for an original term, or renewable at the option of the borrower
18 for a period from the date originally incurred, of one year or less;

19 (ii) leases which are capitalized in accordance with generally accepted accounting
20 principles having an original term, or renewable at the option of the lessee for a period from the
21 date originally incurred, of one year or less; and

22 (iii) installment sale or conditional sale contracts having an original term of one year
23 or less.

24 "Sinking Fund Account" means the account in the Bond Fund created and so designated
25 by the provisions of Section 501 hereof.

26 "Sinking Fund Requirement" means, with respect to any Series of Bonds, the Sinking
27 Fund Requirement provided in the Supplemental Indenture authorizing the issuance of such
28 Series.

29 "Special Reserve Account" means a special debt service reserve account created by a
30 Parity Resolution as a debt service reserve account only for the particular Parity Obligations
31 authorized by such Parity Resolution.

32 "Special Reserve Account Requirement" means the amount to be deposited or maintained
33 in a Special Reserve Account pursuant to the Parity Resolution creating such Special Reserve
34 Account. The Special Reserve Account Requirement may be satisfied with cash, Investment
35 Obligations, a Reserve Alternative Instrument or any combination of the foregoing, as the
36 Corporation may determine from time to time.

1 "State" means the State of Florida.

2 "State Board of Administration" means the State Board of Administration, acting as the
3 governing and administrator of the FHCF, and its legal successors.

4 "State Covenant" means the State's covenant recited in Section 708 hereof.

5 "Subordinated Indebtedness" means Indebtedness the terms of which shall provide that it
6 shall be subordinate and junior in right of payment to the prior payment in full of Parity
7 Obligations to the extent and in the manner set forth in Section 211 hereof.

8 "Subordinated Indebtedness Resolution" means the resolution and any other documents,
9 instruments or agreements adopted or executed by the Corporation providing for the incurrence
10 of Subordinated Indebtedness. If the Subordinated Indebtedness shall have the benefit of a
11 Credit Facility, the reimbursement obligation for such Credit Facility shall provide for
12 repayments on a subordinated basis and the term Subordinated Indebtedness Resolution shall
13 include any reimbursement agreement or similar repayment agreement executed and delivered
14 by the Corporation in connection with the provision of such Credit Facility for such
15 Subordinated Indebtedness.

16 "Supplemental Indenture" means a resolution of the Governing Body of the Corporation
17 authorizing any particular Series of Bonds, together with a Supplemental Indenture executed and
18 delivered by the Corporation in connection with the issuance of such Series of Bonds, that is
19 required to be executed and delivered by the terms of this Master Indenture prior to the issuance
20 of such Series.

21 "Tax-Exempt Bonds" means all Bonds so identified in the Supplemental Indenture
22 authorizing the issuance of such Bonds.

23 "Tax-Exempt Parity Debt" means all Parity Debt so identified in the Parity Debt
24 Resolution authorizing the incurrence of such Parity Debt.

25 "Tax-Exempt Parity Obligations" means collectively all Tax-Exempt Bonds and all
26 Parity Debt.

27 "Term Bonds" means the Bonds of any Series, other than Serial Bonds, that are
28 designated as such in the Supplemental Indenture authorizing the issuance of such Series.

29 "Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on
30 which is not established at the time of incurrence at a fixed or constant rate until maturity.

31 Section 102. Interpretation. (a) Any reference herein to any officer or member of the
32 Corporation or the State Board of Administration shall include those who succeed to their
33 functions, duties or responsibilities pursuant to or by operation of law or who are lawfully
34 performing their functions.

1 (b) Unless the context otherwise indicates, words importing the singular shall
2 include the plural and vice versa, and the use of the neuter, masculine, or feminine gender is for
3 convenience only and shall be deemed to mean and include all other genders.

4 (c) Unless the context otherwise indicates, the word "including" means
5 "including without limitation" and the word "or" is used in its inclusive sense.

6 (d) Where the character or amount of any asset, liability or item of income or
7 expense is required to be determined or any consolidation, combination or other accounting
8 computation is required to be made for the purposes hereof or of any agreement, document or
9 certificate executed and delivered in connection with or pursuant to this Master Indenture, the
10 same shall be done in accordance with generally accepted accounting principles.

11 (e) Headings of articles and sections herein and in the table of contents hereof
12 are solely for convenience of reference, do not constitute a part hereof and shall not affect the
13 meaning, construction or effect hereof.

14 (f) Provisions calling for the redemption of Indebtedness or the calling of
15 Indebtedness for redemption do not mean or include the payment of Indebtedness at its stated
16 maturity or maturities.

17 (g) Unless otherwise provided by a Supplemental Indenture, all times refer to
18 Eastern Time.

19 Section 103. Status of Parity Obligations. PARITY OBLIGATIONS ISSUED UNDER
20 THIS MASTER INDENTURE SHALL NOT CONSTITUTE A DEBT OF THE STATE OF
21 FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF NOR A PLEDGE OF THE
22 FAITH AND CREDIT OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION
23 THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY
24 PROVISION. THE CORPORATION DOES NOT HAVE THE POWER OR AUTHORITY TO
25 LEVY ANY TAX.

26 Article II.

27 INDEBTEDNESS

28
29 Section 201. Limitation on Incurrence of Indebtedness. (a) The Corporation may incur
30 Indebtedness by issuing Bonds or incurring Parity Debt hereunder or by creating Subordinated
31 Indebtedness under any other document. The principal amount of Parity Obligations evidencing
32 Indebtedness that may be created hereunder and the principal amount of Indebtedness created
33 under other documents are not limited, except as limited by the provisions hereof, including
34 Section 704, or the provisions of any Parity Resolution. Parity Obligations issued or incurred
35 hereunder or Indebtedness otherwise incurred by the Corporation shall constitute the special and
36 limited obligations of the Corporation payable from the Net Receipts of the Corporation.

37 (b) No Bonds may be issued nor Parity Debt incurred under this Master
38 Indenture except in accordance with the provisions of this Article. The principal of and the
39 interest on and the redemption premium, if any, on all Parity Obligations issued and incurred

1 under the provisions of this Master Indenture shall be payable solely from the moneys and assets
2 pledged by this Master Indenture and the respective Supplemental Indentures for their payment.
3 All covenants, agreements and provisions of this Master Indenture shall be for the benefit and
4 security of all present and future Owners and Holders without preference, priority or distinction
5 as to lien or otherwise, except as otherwise hereinafter provided or as provided in any Parity
6 Resolution, of any one Parity Obligation over any other Parity Obligation by reason of priority in
7 the issue, sale or negotiation thereof, or otherwise.

8 (c) Parity Obligations shall be issued or incurred in such forms as may from
9 time to time be created by Parity Resolutions permitted hereunder. Each Parity Obligation or
10 series of Parity Obligations shall be created by a different Parity Resolution and shall be
11 designated in such a manner as will differentiate such Parity Obligation from any other Parity
12 Obligation.

13 (d) The Corporation and the Master Trustee may from time to time enter into
14 a Supplemental Indenture or the Corporation may from time to time adopt a Parity Debt
15 Resolution in order to create Parity Obligations hereunder. Each such Parity Resolution shall,
16 with respect to a Parity Obligation evidencing Indebtedness created thereby, set forth the date
17 thereof, and the date or dates on which the principal of and redemption premium, if any, and
18 interest on such Parity Obligation shall be payable, and the form of such Parity Obligation and
19 such other terms and provisions as shall conform with the provisions hereof.

20 (e) With respect to Parity Obligations created hereunder, simultaneously with
21 or prior to the execution, authentication and delivery of such Parity Obligations evidencing such
22 Indebtedness pursuant to this Master Indenture:

23 (i) All requirements and conditions to the issuance of such Parity
24 Obligations, if any, set forth in the Parity Resolution or in this Master Indenture shall have been
25 complied with and satisfied, as provided in an Officer's Certificate, a certified copy of which
26 shall be delivered to the Master Trustee;

27 (ii) The Corporation shall have delivered to the Master Trustee an
28 Opinion of Counsel to the effect that (1) registration of such Parity Obligations under the
29 Securities Act of 1933, as amended, and qualification of this Master Indenture or the Parity
30 Resolution under the Trust Master Indenture Act of 1939, as amended, are not required, or, if
31 such registration or qualification is required, that all applicable registration and qualification
32 provisions of said acts have been complied with, and (2) the Master Indenture and the Parity
33 Obligations are valid, binding and enforceable obligations of the Corporation in accordance with
34 their terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent
35 conveyance and other laws affecting creditors' rights generally and usual equity principles.

36 Section 202. Details of Bonds. Bonds authorized hereunder may be issued in one or
37 more Series that may be delivered from time to time. The Corporation shall by Supplemental
38 Indenture authorize such Series and shall specify, to the extent appropriate, (1) the authorized
39 principal amount of such Series, (2) the purposes to be financed with the proceeds of such Series,
40 or the Bonds or other indebtedness to be refunded or refinanced with the proceeds thereof,
41 including costs of issuance; (3) the creation of a debt service reserve account for such Series, if

1 any; (4) the date and terms of maturity or maturities of the Bonds of such Series, or the dates of
2 payment of the Bonds on the demand of the Owner thereof; (5) the interest rate or rates of the
3 Bonds of such Series, which may include variable, adjustable, convertible or other rates, original
4 issue discount, Capital Appreciation Bonds, Current Interest Bonds, municipal multipliers or
5 other deferred interest arrangements and zero interest rate Bonds, provided that the interest cost
6 of such Series shall never exceed for such Series the maximum interest rate, if any, permitted by
7 law in effect at the time such Series is issued; (6) the Interest Payment Dates for such Series of
8 Bonds; (7) the denominations, numbering, lettering and series designation of such Series of
9 Bonds; (8) the Bond Registrar or paying agents and place or places of payment of such Bonds;
10 (9) the Redemption Prices for such Series of Bonds and any terms of redemption not inconsistent
11 with the provisions of this Master Indenture, which may include redemption at the election of the
12 Owner thereof to the extent permitted by law; (10) the amount and date of each mandatory
13 redemption requirement, if any, for such Series of Bonds; (11) the use to be made of the
14 proceeds of such Series of Bonds, including deposits required to be made into the appropriate
15 account of the Costs of Issuance Fund, the Capitalized Interest Account, the Interest Account and
16 any debt service reserve account; and (12) any other terms or provisions applicable to the Series
17 of Bonds not inconsistent with the provisions of this Master Indenture or the Act. All of the
18 foregoing may be added by a Supplemental Indenture executed and delivered by the Corporation
19 and the Master Trustee at any time or from time to time prior to the issuance of such Series of
20 Bonds.

21 Section 203. Execution and Form of Bonds. The definitive Bonds are issuable as
22 permitted or required and shall be executed as provided by the respective Supplemental
23 Indenture providing for the issuance of Bonds of any Series. Bonds may be issued under a book-
24 entry system and held by a Securities Depository. All Bonds may have endorsed thereon such
25 legends or text as may be necessary or appropriate to conform to the applicable rules and
26 regulations of any governmental authority or any securities exchange on which the Bonds may
27 be listed or to any requirement of law with respect thereto.

28 Section 204. Exchange of Bonds. Bonds may, at the option of the Owner thereof, be
29 exchanged, as provided by the Supplemental Indenture pursuant to which such Bonds were
30 issued, for an equal aggregate principal amount of Bonds of the same Series and maturity, of any
31 authorized denomination or denominations, bearing interest at the same rate and in the same
32 form as the Bonds surrendered for exchange. The Corporation shall make provision for the
33 exchange of Bonds at the designated corporate trust office of the Bond Registrar.

34 Section 205. Negotiability and Registration of Transfer of Bonds. The Bond Registrar
35 shall keep books for the registration and the registration of transfer of the Series of Bonds as to
36 which it is Bond Registrar as provided in this Master Indenture. The registration books shall be
37 available at all reasonable times for inspection by the Corporation and any Owner of such Bonds
38 and may be copied by either of the foregoing and their agents or representatives.

39 The Bond Registrar shall evidence acceptance of the duties, responsibilities and
40 obligations of the Bond Registrar under this Master Indenture and the applicable Supplemental
41 Indenture by the execution of the certificate of authentication on the related Series of Bonds.

1 Section 206. Ownership of Bonds. The Corporation, the Master Trustee, the Bond
2 Registrar and any agent of the Corporation, the Master Trustee or the Bond Registrar, may treat
3 the person in whose name any Bond is registered, including any Securities Depository Nominee,
4 as the Owner of such Bond for the purpose of receiving payment of the principal of and
5 premium, if any, and interest on such Bond, and for all other purposes whatsoever, whether or
6 not such Bond be overdue, and, to the extent permitted by law, neither the Corporation, the
7 Master Trustee, the Bond Registrar nor any such agent shall be affected by notice to the contrary.

8 Section 207. Authentication of Bonds. Only such Bonds as have endorsed thereon a
9 certificate of authentication substantially in the form set forth in the Supplemental Indenture
10 pursuant to which such Bonds are issued, duly executed as provided in the Supplemental
11 Indenture, shall be entitled to any benefit or security under this Master Indenture. No Bond shall
12 be valid or become obligatory for any purpose unless and until such certificate of authentication
13 on the Bond has been duly executed and dated as provided in the Supplemental Indenture, and
14 such certificate upon any such Bond shall be conclusive evidence that such Bond has been duly
15 authenticated and delivered under this Master Indenture. The certificate of authentication on any
16 Bond shall be deemed to have been duly executed and dated if signed by an authorized officer of
17 the party authorized under the Supplemental Indenture but it shall not be necessary that the same
18 officer sign the certificate of authentication on all of the Bonds or any Series thereof that may be
19 issued hereunder at any one time.

20 Section 208. Terms and Conditions for Incurrence of Indebtedness. (a) The
21 Corporation covenants and agrees that it will not incur any Indebtedness if, after giving effect to
22 all other Indebtedness incurred by the Corporation, such Indebtedness could not be incurred
23 pursuant to this Section 208. Indebtedness may be incurred only in the manner and pursuant to
24 the terms set forth in the following subsections.

25 (b) Parity Obligations may be incurred if, prior to incurrence thereof, the
26 Corporation shall file or cause to be filed with the Master Trustee an Officer's Certificate (which
27 may rely upon certificates or other evidence prepared by the officials of the Fund) demonstrating
28 and stating that the Incurrence Test, if applicable by its terms, will be met with respect to such
29 separate issuance of Parity Obligations. The Corporation may incur Parity Obligations in one or
30 more separate issuances, which Parity Obligations may be issued in any form or combination of
31 forms permitted by this Master Indenture.

32 (c) Before any Bonds shall be issued or Parity Debt incurred, the Corporation
33 shall execute and deliver a Supplemental Indenture or adopt a Parity Resolution authorizing the
34 issuance of such Bonds or the incurrence of such Parity Debt, fixing the amount and the details
35 thereof as provided in Section 202 hereof and describing in brief and general terms the purpose
36 for issuing such Parity Obligations. Bonds may be issued and Parity Debt may be incurred for
37 any purpose permitted under the Act.

38 (d) The Supplemental Indenture may determine to use the Parity Common
39 Reserve Account or to establish a Special Reserve Account for such Series of Bonds and fix the
40 provisions with respect thereto or not to establish any debt service reserve account.

1 (e) The Bonds of each Series shall be designated "Florida Hurricane
2 Catastrophe Fund Finance Corporation Hurricane Catastrophe Revenue Bonds [Notes],
3 [Refunding] Series" (inserting the year such Bonds are issued and any other distinctive
4 letter or number), shall be stated to mature, subject to the right of prior redemption as therein set
5 forth, on the date or dates specified therein, in such year or years not later than thirty (30) years
6 from their date, shall bear interest at a rate or rates not exceeding the maximum rate then
7 permitted by law, shall be numbered and shall have such redemption provisions (subject to the
8 provisions of Article III of this Master Indenture), all as provided in the Supplemental Indenture.
9 Except as to any differences in the maturities thereof or in the rate or rates of interest or the
10 provisions for redemption or the provisions regarding the respective accounts and subaccounts
11 within the Interest Account, the Principal Account, the Sinking Fund Account and the
12 Redemption Account, and any provisions with respect to the Parity Common Reserve Account or
13 a Special Reserve Account, all such Bonds shall be on a parity with each other and any Parity
14 Debt and shall be entitled to the same benefit and security of this Master Indenture, including, in
15 particular, the pledge of Net Receipts.

16 (f) The proceeds (including accrued interest) of the Parity Obligations shall
17 be applied simultaneously with the delivery thereof the Bonds as provided in the Parity
18 Resolution for the particular Parity Obligations.

19 (g) In the case of Parity Obligations issued to refund Outstanding Parity
20 Obligations, the Corporation may direct the Master Trustee (i) to withdraw moneys and
21 Investment Obligations from the appropriate accounts in the Revenue Fund and from
22 subaccounts in the Principal Account, Interest Account and Parity Common Reserve Account or
23 Special Reserve Account to the extent that, following the issuance of such refunding Parity
24 Obligations and the defeasance of such refunded Parity Obligations, such moneys and
25 Investment Obligations would be in excess of the requirements of this Master Indenture and (ii)
26 to set aside such moneys and Investment Obligations so withdrawn, together with proceeds of
27 the refunding Parity Obligations and any other moneys provided by the Corporation, to effect the
28 defeasance of such refunded Parity Obligations in accordance with the provisions of the Parity
29 Resolution applicable to the refunded Parity Obligations.

30 (h) Subordinated Indebtedness may be incurred subject to the provisions of
31 Section 211 hereof.

32 Section 209. Temporary Bonds. Until the definitive Bonds of any Series are ready for
33 delivery, there may be executed, and upon direction of the Corporation, the Bond Registrar shall
34 deliver, in lieu of definitive Bonds and subject to the same limitations and conditions, except as
35 to identifying numbers, printed, engraved, lithographed or typewritten temporary Bonds in
36 denominations permitted by the applicable Supplemental Indenture for the definitive Bonds,
37 substantially of the tenor hereinabove set forth, with such appropriate omissions, insertions and
38 variations as may be required. The Corporation shall cause the definitive Bonds to be prepared
39 and to be executed and delivered to the Bond Registrar, and the Bond Registrar, upon
40 presentation to it of any temporary Bond, shall cancel the same or cause the same to be canceled
41 and shall authenticate and deliver, in exchange therefor, at the place designated by the Owner,
42 without expense to the Owner, a definitive Bond or Bonds of the same Series and in the same
43 aggregate principal amount, maturing on the same date and bearing interest at the same rate as

1 the temporary Bond surrendered. Until so exchanged, the temporary Bonds shall be entitled to
2 the same benefit of this Master Indenture, as the definitive Bonds to be issued and authenticated
3 hereunder, including the privilege of registration if so provided. Until definitive Bonds are ready
4 for exchange, interest on temporary Bonds shall be paid when due and notation of such payment
5 shall be endorsed thereon.

6 Section 210. Mutilated, Destroyed, Lost or Stolen Bonds. The Corporation shall cause
7 to be executed, and the Bond Registrar shall authenticate and deliver, a new Bond of like date,
8 number and tenor in exchange and substitution for and upon the cancellation of any mutilated
9 Bond, or in lieu of and in substitution for any destroyed, lost or stolen Bond, and the Owner shall
10 pay the reasonable expenses and charges of the Corporation in connection therewith. Prior to the
11 delivery of a substitute Bond, the Owner of any Bond which was destroyed, lost or stolen shall
12 file with the Bond Registrar evidence satisfactory to it of the destruction, loss or theft of such
13 Bond and of the Owner's ownership thereof and shall furnish to the Corporation and to the Bond
14 Registrar such security or indemnity as may be required by them to save each of them harmless
15 from all risks, however remote.

16 Every Bond issued pursuant to the provisions of this Section in exchange or substitution
17 for any Bond which is mutilated, destroyed, lost or stolen shall constitute an additional
18 contractual obligation of the Corporation, whether or not the destroyed, lost or stolen Bonds are
19 found at any time or are enforceable by anyone, and shall be entitled to all the benefits and
20 security hereof equally and proportionately with any and all other Bonds of the same Series duly
21 issued under this Master Indenture.

22 Section 211. Subordinated Indebtedness. (a) Subordinated Indebtedness may be
23 incurred by the Corporation from time to time for any purpose for which Parity Obligations may
24 be issued under Section 208 hereof. Except to the extent otherwise expressly provided in this
25 Master Indenture, Subordinated Indebtedness shall be issued in compliance, to the extent
26 applicable, with the provisions of Section 208 hereof setting forth certain terms and conditions
27 for the issuance of Bonds.

28 In addition, the following conditions must be met for the issuance of Subordinated
29 Indebtedness:

30 (1) The Corporation shall adopt a Subordinated Indebtedness Resolution
31 authorizing the incurrence of any such Subordinated Indebtedness and setting
32 forth the amount and details thereof.

33 (2) Any such Subordinated Indebtedness shall be incurred pursuant to the
34 provisions of the Act.

35 (b) In the event (1) any Subordinated Indebtedness is declared or otherwise becomes due
36 and payable before its stated maturity because of the occurrence of an event of default occurring
37 under the documents pursuant to which such Subordinated Indebtedness was incurred, and such
38 declaration has not been rescinded and annulled, or (2) any Event of Default under this Master
39 Indenture shall occur and be continuing with respect to Parity Obligations and (i) written notice
40 of such default shall have been given to the Corporation and (ii) judicial proceedings shall be

1 commenced in respect of such Event of Default within 180 days in the case of a default in
2 payment of principal of or interest on Parity Obligations and within 90 days in the case of any
3 other default after the giving of such notice, then the Owners and Holders shall be entitled to
4 receive payment in full of all principal, premium and interest on all Parity Obligations before the
5 holders of the Subordinated Indebtedness are entitled to receive any payment on account of
6 principal or interest upon such Subordinated Indebtedness, and to that end the Owners and
7 Holders shall be entitled to receive for application in payment thereof any payment or
8 distribution of any kind or character, whether in cash or property or securities, which may be
9 payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after
10 giving effect to any concurrent payment or distribution in respect of such Parity Obligations.

11 Nothing contained in the definition "Subordinated Indebtedness" or elsewhere in this
12 Master Indenture, or in any Subordinated Indebtedness, shall (1) affect the obligation of the
13 Corporation to make, or prevent the Corporation from making, at any time except during the
14 continuance of any Event of Default under this Master Indenture, payments of principal of or
15 premium, if any, or interest on the Subordinated Indebtedness or of amounts to be available as a
16 sinking fund for such Subordinated Indebtedness, or (2) prevent the application by the Master
17 Trustee or any paying agent of any moneys held by the Master Trustee or such paying agent in
18 trust for the benefit of the holders of the Subordinated Indebtedness as to which notice of
19 redemption shall have been mailed or published at least once prior to the happening of an Event
20 of Default under this Master Indenture, to the payment of or on account of the principal of and
21 premium, if any, and interest on such Subordinated Indebtedness, or (3) prevent the application
22 by the Master Trustee or any paying agent of any moneys deposited, prior to the happening of
23 any Event of Default under this Master Indenture, with the Master Trustee or such paying agent
24 in trust for the purpose of paying a specified installment or installments of interest on the
25 Subordinated Indebtedness, to the payment of such installments of interest on such Subordinated
26 Indebtedness.

27 The Corporation's obligation to pay any and all amounts to the Derivative Agreement
28 Counterparty with respect to Derivative Indebtedness, other than its regularly scheduled payment
29 liability, shall constitute Subordinated Indebtedness.

30 Section 212. Additional Restrictions. A Parity Resolution or a Subordinated
31 Indebtedness Resolution may establish restrictions, in addition to those established in this Master
32 Indenture, including additional restrictions as to the application of Net Receipts after the
33 payments required by Section 504(a), (b) and (c) hereof and additional restrictions on the
34 incurrence of Indebtedness in addition to those set forth in Section 704 hereof.

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2 Article III.

3 REDEMPTION

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5 Section 301. Redemption Generally. The Bonds of any Series issued under this Master
6 Indenture may be made subject to redemption, at such times and prices, as may be provided by
7 the Supplemental Indenture authorizing the issuance of such Bonds.

8 Article IV.

9 COSTS OF ISSUANCE FUND

10
11 Section 401. Costs of Issuance Fund. A special fund is hereby established with the
12 Master Trustee and designated the "Florida Hurricane Catastrophe Fund Finance Corporation
13 Costs of Issuance Fund". The proceeds of any Series of Bonds to be used for Costs of Issuance
14 shall be deposited upon the delivery of such Series of Bonds in a separate account to be
15 established by the Supplemental Indenture providing for the issuance of such Series of Bonds.

16 The money in the Costs of Issuance Fund shall be held by the Master Trustee in trust and,
17 pending application to the payment of Costs of Issuance, or transfer as provided herein or in any
18 Supplemental Indenture, shall, to the extent permitted by law, be subject to a lien and charge in
19 favor of the Owners of the Series of Bonds, and shall be held for the security of such Owners.

20 Section 402. Payments from Costs of Issuance Fund. All Costs of Issuance incurred in
21 connection with a Series of Bonds shall be paid from the relevant account in the Costs of
22 Issuance Fund.

23 Section 403. Requisitions from Costs of Issuance Fund. Payments from the Costs of
24 Issuance Fund shall be made in accordance with the provisions of this Section. Before any
25 payment shall be made, there shall be filed with the Master Trustee a requisition, signed by an
26 Authorized Officer of the Corporation, stating or identifying:

27 (a) the number of such requisition,

28 (b) the respective amounts to be paid,

29 (c) the name of the Person to whom such payment is due,

30 (d) that the obligation in the stated amount has been incurred by the Person to
31 whom such payment is due, is presently due and payable, and is a proper charge against the
32 Costs of Issuance Fund that has not been paid, and

33 (e) that no notice of any lien, right to lien or attachment upon, or claim
34 affecting the right of any such Person to receive payment of, the amount stated in such
35 requisition has been filed or attached or, if any of the foregoing has been filed or attached, that
36 the same either has been or will be satisfied or discharged or that provisions have been made

1 (which shall be specified) to protect adequately the Master Trustee and the Owners from
2 incurring any loss as a result of the same.

3 Any requisition filed with the Master Trustee may be accompanied by a certificate of an
4 Authorized Officer of the State Board of Administration, together with such documents or
5 writings as such Authorized Officer shall deem necessary or appropriate, certifying or verifying
6 the accuracy of any of the matters or items contained in such requisition.

7 Upon receipt of each requisition, the Master Trustee shall pay the obligations set forth in
8 such requisition out of money in the applicable account in the Costs of Issuance Fund, and each
9 such obligation shall be paid by check signed by one or more officers or employees of the Master
10 Trustee designated for such purpose by the Master Trustee. If for any reason the Corporation
11 should decide prior to the payment of any item in a requisition not to pay such item, it shall give
12 written notice of such decision to the Master Trustee and thereupon the Master Trustee shall not
13 make such payment.

14 Section 404. Reliance upon Requisitions. All requisitions and certifications received by
15 the Master Trustee as conditions of payment from the Costs of Issuance Fund may be
16 conclusively relied upon by the Master Trustee. Such requisitions and certifications shall be
17 retained by the Master Trustee for a period of time not less than that required by the law of the
18 State for the retention of public records and shall be subject at all reasonable times to
19 examination by the Corporation, the State Board of Administration and the Owners of Bonds
20 then Outstanding.

21 Section 405. Disposition of Costs of Issuance Fund Balance. When all Costs of
22 Issuance related to a Series of Bonds have been paid, which fact shall be evidenced to the Master
23 Trustee by an Officer's Certificate delivered to the Master Trustee by an Authorized Officer of
24 the Corporation, the Master Trustee shall transfer any money then remaining in the relevant
25 account in the Costs of Issuance Fund as directed in writing by an Authorized Officer of the
26 Corporation, and the Corporation may apply the same, subject to Section 604 hereof, for any
27 purpose permitted under the Act which will not cause the interest on any Series of Tax-Exempt
28 Bonds to become includable in the gross income of the Owners thereof for federal income tax
29 purposes.

30 Article V.

31 APPLICATION OF GROSS RECEIPTS AND NET RECEIPTS;
32 FUNDS AND ACCOUNTS
33

34 Section 501. Establishment of Funds and Accounts. In addition to the Costs of
35 Issuance Fund, there are hereby established the following funds and accounts:

36 (a) Florida Hurricane Catastrophe Fund Finance Corporation Revenue Fund,
37 in which there are established four special accounts to be known as the Emergency Assessments
38 Account, the Reimbursement Premiums Account, the Pre-Event Bonds Investment Income
39 Account and the Derivative Agreements Account; and

1 (b) Florida Hurricane Catastrophe Fund Finance Corporation Bond Fund, in
2 which there are established six special accounts to be known as the Capitalized Interest Account,
3 the Interest Account, the Principal Account, the Sinking Fund Account, the Redemption Account
4 and the Parity Common Reserve Account.

5 A Parity Resolution may provide for the creation of a Special Reserve Account for the
6 Parity Obligations authorized by such Parity Resolution and for the deposit of amounts to and the
7 withdrawal of amounts from such Special Reserve Account. A Special Reserve Account may be
8 established with and maintained by the Master Trustee in the Bond Fund or by a Depository in
9 which case the Account shall be deemed to be part of the Bond Fund, as the Corporation may
10 determine. A Parity Resolution may also provide for the creation of such other accounts and
11 subaccounts as the Corporation may determine for the Parity Obligations authorized by such
12 Parity Resolution.

13 The Revenue Fund and the Bond Fund and the accounts and subaccounts therein shall be
14 established with and held by the Master Trustee.

15 The money in the Bond Fund and all of the accounts and subaccounts therein established
16 pursuant to this Article V shall be held in trust and applied as hereinafter provided and, pending
17 such application, the money in the Bond Fund and the accounts and subaccounts therein shall be
18 subject to a pledge, charge and lien in favor of the Owners of the respective Series of Bonds
19 issued and Outstanding under this Master Indenture and for the further security of such Owners,
20 except as otherwise provided herein or in any Supplemental Indenture.

21 Each Supplemental Indenture shall provide, to the extent applicable, for the creation of a
22 separate subaccount within the Capitalized Interest Account, the Interest Account, the Principal
23 Account, the Redemption Account and the Sinking Fund Account with respect to each Series of
24 Bonds, which subaccounts shall bear the designation of such Series of Bonds. A Supplemental
25 Indenture may provide that the Bonds authorized thereby may be additionally secured by the
26 Parity Common Reserve Account or a Special Reserve Account or it may provide that there shall
27 not be any debt service reserve account established in respect of such Series of Bonds. If a
28 Series of Bonds shall be additionally secured by a Special Reserve Account or shall not be
29 additionally secured by any debt service reserve account, such Series of Bonds shall have no
30 claim on the Parity Common Reserve Account.

31 Each Parity Debt Resolution may provide for the creation of such funds and accounts as
32 the Corporation may determine, including an account for the payment of interest as mentioned in
33 Section 504(a) hereof, an account or accounts for the payment of principal, whether at maturity
34 or pursuant to an amortization requirement, as mentioned in Section 504(b) hereof or a debt
35 service reserve account, which may be the Parity Common Reserve Account or a Special
36 Reserve Account, as mentioned in Section 504(c) hereof.

37 Each Parity Resolution shall be filed with the Master Trustee on or prior to the date of
38 issuance of any Parity Obligations and shall contain or be accompanied by a schedule of
39 payments with respect to such Parity Obligations.

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Section 502. Gross Receipts Received by the Corporation or the Master Trustee.

Except as hereinafter provided, all Gross Receipts and all proceeds of any Derivative Agreement received by the Corporation or the Master Trustee for the account of the Corporation shall be deposited when received in the Revenue Fund as follows:

- (a) Emergency Assessments and Emergency Assessment Earnings shall be deposited to the credit of the Emergency Assessments Account;
- (b) Reimbursement Premiums and Reimbursement Premium Earnings shall be deposited to the credit of the Reimbursement Premiums Account;
- (c) investment income from the investment of proceeds of Pre-Event Bonds shall be deposited to the credit of the Pre-Event Bonds Investment Income Account; and
- (d) proceeds of any Derivative Agreement shall be deposited to the credit of the Derivative Agreements Account.

No money deposited in any of the Emergency Assessments Account, the Reimbursement Premiums Account, the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund shall be commingled with, and instead shall be segregated from, money deposited to the credit of any other such Account or any other account or subaccount established in the Revenue Fund.

A Parity Resolution may provide for the creation of such other accounts or subaccounts in the Revenue Fund as the Corporation may determine for the deposit of any other Gross Receipts received by the Corporation or the Master Trustee for the account of the Corporation, including, without limitation, any Other Pledged Money, and may also establish restrictions, in addition to those established in this Master Indenture, as to the deposit of such Gross Receipts to such accounts or subaccounts and the application of amounts deposited therein.

Section 503. Application of Money in Revenue Fund. (a) Except as hereinafter provided, moneys in the Revenue Fund shall be withdrawn by the Master Trustee at the times and in the amounts provided herein or in Parity Resolutions but only in the manner and order specified in this Master Indenture.

(b) The Master Trustee shall withdraw immediately from the Reimbursement Premiums Account, and, to the extent the amount is insufficient for the purpose, from the Pre-Event Bonds Investment Account, and transfer to the Corporation, or, if so directed in writing by an Authorized Officer of the Corporation, to a Depository for the account of the Corporation, the balance of the amount included in the Corporation's annual budget (which may be revised from time to time), delivered to the Master Trustee pursuant to Section 707 hereof, for the payment of Current Expenses of the Corporation in the current Fiscal Year and not previously so transferred. Current Expenses of the Corporation shall be a first charge against the Revenue Fund and shall be paid by the Corporation from the amount so transferred from the Revenue Fund; provided, however, that nothing in this Master Indenture shall prevent the Corporation from paying any

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Current Expenses of the Corporation from moneys to the credit of the Emergency Assessments Account or any other funds legally available to the Corporation for such purpose to the extent that moneys to the credit of the Reimbursement Premiums Account and the Pre-Event Bonds Investment Account are insufficient for the purpose. The Current Expenses of the Corporation shall be paid by the Corporation as the same become due and payable in conformity with the applicable budgetary and payment procedures of the Corporation.

(c) (i) At such time or times as are specifically provided for in this Master Indenture, in any Parity Resolution or in any Derivative Agreement, the Master Trustee shall withdraw from the Revenue Fund the amounts necessary to make the deposits or payments required by Section 504(a), (b) and (c) hereof.

(ii) So long as any Post-Event Bonds or Post-Event Parity Debt is Outstanding, the Master Trustee shall withdraw from the Emergency Assessments Account the amounts necessary to make the deposits or payments required by Section 504(a), (b) or (c) hereof with respect to such Post-Event Bonds or Post-Event Parity Debt, and, if and to the extent that the amounts on deposit to the credit of the Emergency Assessments Account are insufficient to make such deposits or payments, the Master Trustee shall withdraw from the Reimbursement Premiums Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund, in the order of priority provided for in the Supplemental Indenture or Parity Debt Resolution authorizing the issuance or incurrence of such Post-Event Bonds or Post-Event Parity Debt, as the case may be, the amounts necessary to satisfy such deposits or payments.

(iii) So long as any Bonds (other than Post-Event Bonds) or Parity Debt (other than Post-Event Parity Debt), including Pre-Event Bonds, is Outstanding, the Master Trustee shall withdraw, immediately following any withdrawal required by subsection (b), from the Reimbursement Premiums Account and, subsequent to such withdrawal, from the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund (other than the Emergency Assessments Account) in the order of priority provided for in the Supplemental Indenture or Parity Debt Resolution authorizing the issuance or incurrence of such Bonds or Parity Debt, as the case may be, the amounts necessary to make the deposits or payments required by Section 504(a), (b) or (c) hereof with respect to such Bonds or Parity Debt, and, if and to the extent that the amounts on deposit to the credit of the Reimbursement Premiums Account, the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund are insufficient to make such deposits or payments, the Master Trustee shall withdraw from the Emergency Assessments Account the amounts necessary to satisfy such deposits or payments; provided, however, in the case of Pre-Event Bonds, the Master Trustee shall draw first from the Reimbursement Premiums Account and then from the Pre-Event Bonds Investment Income Account, prior to making any withdrawal from any of such other Accounts or any other account or subaccount.

(d)(i) If at any time the amounts on deposit to the credit of the accounts and subaccounts established in the Revenue Fund are insufficient to make the deposits or payments required by Section 504(a), (b) or (c) hereof with respect to Post-Event Bonds and Post-Event Parity Debt then Outstanding, the Master Trustee (1) shall give prompt written notice of such

1 deficiency to the State Board of Administration and the Corporation and (2) shall, in accordance
2 with Sections 502(b) and 503(c)(i) hereof, deposit any Reimbursement Premiums and
3 Reimbursement Premium Earnings thereafter received from the FHCF in the Reimbursement
4 Premiums Account for application in accordance Section 504(a), (b) and (c) hereof.

5 (ii) If, after the date on which the Master Trustee receives any Reimbursement
6 Premiums and Reimbursement Premium Earnings pursuant to clause (i) and prior to the dates on
7 which the deposits or payments are required to be made pursuant to Section 504(a), (b) or (c)
8 hereof, the Master Trustee receives any Emergency Assessments and Emergency Assessment
9 Earnings, the Master Trustee shall (X) deposit such Emergency Assessments and Emergency
10 Assessment Earnings to the credit of the Emergency Assessments Account for application in
11 accordance with Section 504(a), (b) and (c) hereof, (Y) release from the Reimbursement
12 Premiums Account and transfer to the FHCF an amount equal to the amount of Emergency
13 Assessments and Emergency Assessment Earnings so received and deposited by the Master
14 Trustee in the Emergency Assessments Account and (Z) if the amounts then on deposit to the
15 credit of the accounts and subaccounts established in the Revenue Fund are sufficient to make all
16 the deposits or payments required by Section 504(a), (b) and (c) hereof, transfer to the FHCF
17 from any Emergency Assessments and Emergency Assessment Earnings the amount in excess of
18 such requirements of Section 504(a), (b) and (c) hereof, as certified in an Officer's Certificate
19 delivered to the Master Trustee by the State Board of Administration.

20 (e) Except during the continuation of an Event of Default, immediately
21 following the date on which the amounts on deposit to the credit of the accounts and subaccounts
22 in the Revenue Fund are sufficient for the Master Trustee to make (i) the transfer to the
23 Corporation or a Depository for the account of the Corporation of the amount required for the
24 payment of the Current Expenses of the Corporation in the then current Fiscal Year in
25 accordance with the provisions of Section 503(b) hereof and (ii) the deposits or payments of the
26 amounts required by Section 504(a), (b) and (c) hereof in the then current Fiscal Year with
27 respect to the Parity Obligations then Outstanding, (Y) any Reimbursement Premiums and
28 Reimbursement Premium Earnings held by the Master Trustee in the Revenue Fund on such date
29 in such Fiscal Year in excess of such requirements for such Fiscal Year shall be delivered to the
30 FHCF and be used for any purpose permitted by the Act, and (Z) any Emergency Assessments,
31 Emergency Assessment Earnings and Other Pledged Money held by the Master Trustee in the
32 Revenue Fund on such date in such Fiscal Year in excess of such requirements for the remainder
33 of such Fiscal Year and for the next succeeding Fiscal Year shall, except as otherwise provided
34 for by subsection (d)(ii) hereof, be transferred by the Master Trustee to the Bond Fund for
35 application in accordance with the provisions of Section 504(a) and (b) hereof, unless an
36 Authorized Officer of the State Board of Administration delivers to the Master Trustee an
37 Officer's Certificate certifying that the amount of Emergency Assessments and Emergency
38 Assessment Earnings on deposit with the Master Trustee in the appropriate accounts and
39 subaccounts in the Bond Fund (excluding the Parity Common Reserve Account and any Special
40 Reserve Account) for Post-Event Parity Obligations is sufficient to pay the debt service thereon
41 for the remainder of such Fiscal Year and for the next succeeding Fiscal Year and that there are
42 no deficiencies in the amounts required to be on deposit in the Parity Common Reserve Account,
43 any Special Reserve Account or any account or subaccount in the Bond Fund established for Pre-
44 Event Parity Obligations, in which event such Emergency Assessments and Emergency

1 Assessment Earnings will be transferred by the Master Trustee as directed in such Officer's
2 Certificate.

3 Any funds transferred from any account or subaccount in the Revenue Fund in
4 accordance with this paragraph (e), other than transfers made to any account or subaccount of the
5 Bond Fund, shall no longer be subject to the pledge of, security interest in and lien upon the Net
6 Receipts created by this Master Indenture.

7 Section 504. Use of Money for Debt Service Accounts and Reserve Accounts. The
8 amounts withdrawn from the Revenue Fund in accordance with Section 503(c) hereof shall be
9 applied by the Master Trustee in the following manner and order:

10 (a) (i) At such time or times as provided in the Parity Resolutions, the Master
11 Trustee shall (A) deposit the amounts required by the Supplemental Indentures to be deposited in
12 the appropriate subaccounts in the Interest Account and (B) deliver the amounts required by the
13 Parity Debt Resolutions to be deposited with or paid to the appropriate Persons designated in
14 such Parity Debt Resolutions for the payment of interest on the related Parity Debt in accordance
15 with such Parity Debt Resolutions, and (ii) if a Derivative Agreement provides for any payments
16 thereunder by the Corporation relating to interest on Parity Obligations constituting Derivative
17 Indebtedness, then, at such time or times as provided in the Derivative Agreement, the Master
18 Trustee shall deliver, to or for the account of the Derivative Agreement Counterparty or other
19 appropriate Person designated in the Derivative Agreement, the amount required by such
20 Derivative Agreement (but not any termination payment) to be paid thereunder by the
21 Corporation, provided that if there shall not be sufficient Net Receipts to satisfy all such deposits
22 and payments, such deposits and payments shall be made to each such subaccount in the Interest
23 Account and to each appropriate Person designated in such Parity Debt Resolutions or Derivative
24 Agreement ratably according to the amount so required to be deposited or paid.

25 (b) At such time or times as provided in the Parity Resolutions, the Master
26 Trustee shall (i) deposit the amounts required by the Supplemental Indentures to be deposited in
27 the appropriate subaccounts in the Principal Account and the Sinking Fund Account and (ii)
28 deliver the amounts required by the Parity Debt Resolutions to be deposited with or paid to the
29 appropriate Persons designated in such Parity Debt Resolutions for the payment of the principal
30 of Parity Debt, whether at maturity or pursuant to an amortization requirement, in accordance
31 with such Parity Debt Resolutions, provided that if there shall not be sufficient Net Receipts to
32 satisfy all such deposits and payments, such deposits and payments shall be made to each such
33 subaccount in the Principal Account and the Sinking Fund Account and to each appropriate
34 Person designated in such Parity Resolutions ratably according to the amount so required to be
35 deposited or paid.

36 (c) At such time or times as provided in the Parity Resolutions, if the amount
37 in the Parity Common Reserve Account is less than the Parity Common Reserve Account
38 Requirement or the amount in any Special Reserve Account is less than the applicable Special
39 Reserve Account Requirement, the Master Trustee shall (i) deposit the amounts required by this
40 Master Indenture to make up such deficiency in the Parity Common Reserve Account and (ii)
41 deposit, or deliver to the appropriate Depository for deposit, the amounts required by any
42 Supplemental Indenture or Parity Debt Resolution to make up any deficiency in any Special

1 Reserve Account, provided that if there shall not be sufficient Net Receipts to satisfy all such
2 deposits, such deposits shall be made among the Parity Common Reserve Account and each
3 Special Reserve Account ratably according to the amounts so required to be deposited.

4 (d) To the extent that investment earnings are credited to the Interest Account,
5 the Principal Account, the Sinking Fund Account or any subaccount therein in accordance with
6 Section 602 hereof or amounts are credited thereto as a result of the application of the proceeds
7 of a Series of Bonds or a transfer of investment earnings on any other fund or account held by
8 the Master Trustee, or otherwise, future deposits to such accounts or subaccounts shall be
9 reduced by the respective amounts so credited.

10 (e) The Corporation may provide in a Subordinated Indebtedness Resolution
11 for the deposit or payment of Net Receipts for the purpose of paying the interest on or principal
12 of Subordinated Indebtedness or in a Derivative Agreement for the making of payments or
13 repayments thereunder, including any termination payment, on a subordinated basis, but only
14 after the making of the deposits or payments required by paragraphs (a), (b) and (c) of this
15 Section 504. Each Subordinated Indebtedness Resolution shall be filed with the Master Trustee
16 on or prior to the date of incurrence of any Subordinated Indebtedness and shall contain or be
17 accompanied by a schedule of payments with respect to such Subordinated Indebtedness,
18 including any scheduled payments (to the extent determinable) under a Derivative Agreement.

19 (f) The Corporation may provide in a Parity Resolution or a Subordinated
20 Indebtedness Resolution for a disposition of Net Receipts for the purpose of paying amounts
21 owing to a Credit Provider, but only after the making of the deposits or payments required by
22 paragraphs (a), (b) and (c) of this Section 504.

23 (g) The calculation of the amounts to be deposited or required to be deposited
24 pursuant to this Section 504 shall be the responsibility of the Master Trustee, which shall deliver
25 copies of such calculations to the Corporation and the State Board of Administration not less
26 than three (3) Business Days prior to any withdrawal from the Revenue Fund pursuant to Section
27 503(c) hereof.

28 Section 505. Application of Money in Interest Account and Capitalized Interest
29 Account. Unless otherwise provided by a Supplemental Indenture, not later than 10:00 A.M. on
30 each Interest Payment Date, date for the payment of Defaulted Interest or date upon which Bonds
31 are to be redeemed, or on such other date as may be specified in the applicable Supplemental
32 Indenture, the Master Trustee shall withdraw from the applicable subaccount in the Interest
33 Account and wire transfer to the Bond Registrar, in Federal Reserve or other immediately
34 available funds, the amounts required for paying interest on the respective Bonds on such date.
35 The Bond Registrar shall remit or otherwise set aside the amount due and payable to the Owners
36 as provided in the Supplemental Indentures.

37 Unless otherwise provided by a Supplemental Indenture, on the date of issuance of any
38 Series of Parity Obligations, an Authorized Officer of the Corporation shall deliver to the Master
39 Trustee a schedule of transfers to be made from the applicable subaccount of the Capitalized
40 Interest Account to the applicable subaccount of the Interest Account. The Master Trustee shall
41 make such transfers as required by the schedule of such Authorized Officer of the Corporation.

1 Unless otherwise provided by a Supplemental Indenture, if the amounts transferred from
2 the accounts and subaccounts in the Revenue Fund are insufficient to satisfy the amounts
3 required to be deposited in the Interest Account as provided in Section 504 hereof, or if the
4 balance in the Interest Account on the Business Day next preceding an Interest Payment Date is
5 insufficient to pay the interest coming due on the Bonds on such Interest Payment Date, the
6 Master Trustee shall, not later than such Interest Payment Date, transfer an amount sufficient to
7 cure the same, drawing upon funds in the Parity Common Reserve Account, if any, securing such
8 Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

9 Section 506. Application of Money in Principal Account. Unless otherwise provided
10 by a Supplemental Indenture, not later than 10:00 A.M. on each principal payment date, the
11 Master Trustee shall withdraw from the applicable subaccount in the Principal Account and wire
12 transfer to the Bond Registrar, in Federal Reserve or other immediately available funds, the
13 amount necessary to pay the principal of the related Serial Bonds at their respective maturities.
14 The Bond Registrar shall remit or otherwise set aside the amount due and payable to the Owners
15 as provided in the Supplemental Indentures.

16 Unless otherwise provided by a Supplemental Indenture, if on any date there is money in
17 the Principal Account and no Serial Bonds are then Outstanding or if on any principal payment
18 date money remains therein after the payment of the principal of Serial Bonds then due, the
19 Master Trustee shall withdraw such money therefrom and shall apply the same in the following
20 order: (a) deposit into the Sinking Fund Account the amount then required to be deposited
21 thereto pursuant to Section 504 hereof, (b) deposit, if and to the extent determined by an
22 Authorized Officer of the Corporation, into the Parity Common Reserve Account or in one or
23 more Special Reserve Accounts such amounts as may be determined by an Authorized Officer of
24 the Corporation in order to make the amounts on deposit therein equal to the Parity Common
25 Reserve Account Requirement or the Special Reserve Account Requirement, as the case may be,
26 and (c) transfer to the FHCF all remaining amounts for any use permitted or authorized by the
27 Act.

28 Unless otherwise provided by a Supplemental Indenture, if the amounts transferred from
29 the accounts and subaccounts in the Revenue Fund are insufficient to satisfy the amounts
30 required to be deposited in the Principal Account as provided in Section 504 hereof, or if the
31 balance in the Principal Account on the Business Day next preceding a principal payment date is
32 insufficient to pay the principal coming due on the Serial Bonds on such principal payment date,
33 the Master Trustee shall, not later than such principal payment date, transfer an amount sufficient
34 to cure the same, drawing upon funds in the Parity Common Reserve Account, if any, securing
35 such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

36 Section 507. Application of Money in Sinking Fund Account. Unless otherwise
37 provided by a Supplemental Indenture, not later than 10:00 A.M. on each mandatory sinking
38 fund redemption date, the Master Trustee shall withdraw from the applicable subaccount in the
39 Sinking Fund Account and wire transfer to the Bond Registrar, in Federal Reserve or other
40 immediately available funds, the amount necessary to pay the principal of the related Term
41 Bonds on their respective mandatory sinking fund redemption dates. The Bond Registrar shall
42 remit or otherwise set aside the amount due and payable to the Owners as provided in the
43 Supplemental Indentures.

1 Money held for the credit of the subaccounts in the Sinking Fund Account shall be
2 applied to the retirement, purchase, redemption or payment of Term Bonds in the manner
3 provided in the applicable Supplemental Indentures. If the amounts transferred from the
4 accounts and subaccounts in the Revenue Fund are insufficient to satisfy the amounts required to
5 be deposited in the Sinking Fund Account as provided in Section 504 hereof, or if the balance in
6 the Sinking Fund Account on the Business Day next preceding a sinking fund payment date is
7 insufficient to retire the Term Bonds on such date as required by a Supplemental Indenture, the
8 Master Trustee shall, not later than such sinking fund payment date, transfer an amount sufficient
9 to cure the same, drawing upon funds in the Parity Common Reserve Account, if any, securing
10 such Series of Bonds, or in the Special Reserve Account, if any, securing such Series of Bonds.

11 Section 508. Deposit and Application of Money in Parity Common Reserve Account
12 and Any Special Reserve Account; Replenishment of Deficiencies. (a) If a Parity Resolution
13 provides that the Parity Obligations issued thereunder are to be additionally secured by the Parity
14 Common Reserve Account, the Corporation shall deposit, from the proceeds of such Parity
15 Obligations or from any other available sources, concurrently with the delivery of and payment
16 for such Parity Obligations, to the Parity Common Reserve Account such amount as is required
17 to make the balance to the credit of such Account equal to the Parity Common Reserve Account
18 Requirement; provided, however, that in the case of Post-Event Parity Obligations, the initial
19 deposit required to the Parity Common Reserve Account to make the total amount to the credit of
20 such Account equal to the Parity Common Reserve Account Requirement may be funded from
21 Emergency Assessments and other Revenues (but not Reimbursement Premiums or
22 Reimbursement Premium Earnings) ratably over not more than thirty-six (36) months from the
23 date of delivery of such Parity Obligations. If a Parity Resolution provides that the Parity
24 Obligations issued thereunder are to be secured by a Special Reserve Account, the Corporation
25 shall fund, from the proceeds of such Parity Obligations or from any other available sources, at
26 the time or times and in the manner specified in the applicable Parity Resolution, such Special
27 Reserve Account in an amount equal to the Special Reserve Account Requirement for such
28 Parity Obligations.

29 (b) Unless the applicable Parity Resolution shall otherwise provide or modify
30 the following, the Corporation may deposit with the Master Trustee a Reserve Alternative
31 Instrument in satisfaction of all or any portion of the Parity Common Reserve Account
32 Requirement or may substitute a Reserve Alternative Instrument for all or any portion of the
33 cash or another Reserve Alternative Instrument credited to the Parity Common Reserve Account,
34 provided that the following minimum provisions have been fulfilled:

35 (i) The Reserve Alternative Instrument shall be payable (upon the giving of notice as
36 required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest
37 Account, the Principal Account and the Sinking Fund Account, or in an account for the payment
38 of interest as mentioned in Section 504(a) hereof, or in an account or accounts for the payment of
39 principal as mentioned in Section 504(b) hereof, in order to provide for the timely payment of
40 the principal (whether at maturity or pursuant to a Sinking Fund Requirement or an amortization
41 requirement therefor) of and interest on the Parity Obligations secured thereby.

42 (ii) The provider of a Reserve Alternative Instrument shall be (a) an insurance
43 company or other financial institution that has been assigned, for obligations insured by the

1 provider of the Reserve Alternative Instrument, a rating by at least two Rating Agencies in one
2 of the two highest rating categories (without regard to gradations by numerical modifier or
3 otherwise) or (b) a commercial bank, insurance company or other financial institution the
4 obligations payable or guaranteed by which have been assigned a rating by at least two Rating
5 Agencies in one of the two highest rating categories (without regard to gradations by numerical
6 modifier or otherwise).

7 (iii) If the Reserve Alternative Instrument is an unconditional irrevocable letter of credit
8 issued to the Master Trustee, the letter of credit shall be payable in one or more draws upon
9 presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds
10 insufficient funds to make a required payment of principal or interest on the Parity Obligations
11 having the benefit of the Parity Common Reserve Account. The draws shall be payable within
12 two days of presentation of the sight draft. The letter of credit shall be for a term of not less than
13 three years. The issuer of the letter of credit shall be required to notify the Corporation and the
14 Master Trustee, not later than 30 months prior to the stated expiration date of the letter of credit,
15 as to whether such expiration date shall be extended, and if so, shall indicate the new expiration
16 date. The Master Trustee is directed to draw upon the letter of credit prior to its expiration or
17 termination unless an acceptable replacement is in place or the Parity Common Reserve Account
18 is fully funded to the Parity Common Reserve Account Requirement.

19 (iv) The Master Trustee shall ascertain the necessity for a claim or draw upon the
20 Reserve Alternative Instrument and shall provide notice to the issuer of the Reserve Alternative
21 Instrument in accordance with its terms not later than three days (or such longer period as may
22 be necessary depending on the permitted time period for honoring a draw under the Reserve
23 Alternative Instrument) prior to each Interest Payment Date.

24 (v) Cash on deposit in the Parity Common Reserve Account shall be used (or
25 Investment Obligations purchased with such cash shall be liquidated and the proceeds applied as
26 required) prior to any drawing on any Reserve Alternative Instrument. If and to the extent that
27 more than one Reserve Alternative Instrument is deposited in the Parity Common Reserve
28 Account, drawings thereunder and repayments of costs associated therewith shall be made on a
29 pro rata basis, calculated by reference to the maximum amounts available thereunder.

30 (b) The Master Trustee shall use amounts in the Parity Common Reserve
31 Account to make transfers, or use moneys provided under a Reserve Alternative Instrument to
32 make deposits, in the following order, in respect of all Parity Obligations additionally secured by
33 the Parity Common Reserve Account, to the appropriate subaccounts in the Interest Account, the
34 Principal Account and the Sinking Fund Account to remedy any deficiency therein as of any
35 Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date
36 as set forth in a Parity Resolution), or to pay the interest on or the principal of or amortization
37 requirements in respect of any Parity Debt when due, whenever and to the extent the money on
38 deposit for such purposes is insufficient.

39 (c) The Master Trustee shall use amounts in any Special Reserve Account
40 held by it to make transfers, or use moneys provided under a Reserve Alternative Instrument to
41 make deposits, in the following order, in respect of the particular Parity Obligations secured by
42 such Special Reserve Account, to the appropriate subaccounts in the Interest Account, the

1 Principal Account and the Sinking Fund Account to remedy any deficiency therein as of any
2 Interest Payment Date, principal payment date or sinking fund payment date (or any earlier date
3 as set forth in a Parity Resolution) or to pay the interest on or the principal of or amortization
4 requirement in respect thereof on Parity Debt when due, whenever and to the extent the money
5 on deposit for such purposes is insufficient.

6 (d) Any deficiency in the Parity Common Reserve Account resulting from the
7 withdrawal of moneys therein shall be made up by depositing to the credit of such Account the
8 amount of such deficiency within one year following the date on which such withdrawal is made,
9 such deposit to be made pursuant to Section 504(c) hereof. Any deficiency in the Parity
10 Common Reserve Account resulting from a draw on a Reserve Alternative Instrument shall be
11 made up as provided in such Reserve Alternative Instrument or documentation relating thereto,
12 but any such deficiency must be made up by not later than the final date when such deficiency
13 would have been required to be made up if there had been a withdrawal of moneys from the
14 Parity Common Reserve Account rather than a draw on a Reserve Alternative Instrument.
15 Deficiencies, whether resulting from withdrawals or draws, may be satisfied through the deposit
16 of additional cash, the delivery of an additional Reserve Alternative Instrument or an increase in
17 the amount available to be drawn under a Reserve Alternative Instrument. Unless otherwise
18 provided in a Reserve Alternative Instrument or the documentation relating thereto, cash or
19 Investment Obligations on deposit to the credit of the Parity Common Reserve Account shall be
20 used to satisfy deficiencies, as provided in paragraph (b) of this Section, prior to any draw on a
21 Reserve Alternative Instrument.

22 (e) Unless a Reserve Alternative Instrument shall be in effect, if on any date
23 of valuation pursuant to Section 603 hereof, the amount on deposit in the Parity Common
24 Reserve Account is less than ninety percent (90%) of the Parity Common Reserve Account
25 Requirement, the Corporation shall deposit into the Parity Common Reserve Account within one
26 year following such date the amount required as of such date to cause the amount then on deposit
27 in the Parity Common Reserve Account to be equal to the Parity Common Reserve Account
28 Requirement. Any such deficiency may be satisfied through the deposit of additional cash, the
29 delivery of an additional Reserve Alternative Instrument or an increase in the amount available
30 to be drawn under a Reserve Alternative Instrument.

31 (f) Any deficiency in a Special Reserve Account resulting from the
32 withdrawal of moneys therein or a draw on a Reserve Alternative Instrument or resulting from a
33 valuation of the Investment Obligations therein pursuant to Section 603 hereof shall be made up
34 as provided in the Parity Resolution establishing such Special Reserve Account.

35 Section 509. Application of Money in Redemption Account. The Master Trustee shall
36 apply money in the Redemption Account to the purchase or redemption of Bonds as follows:

37 (a) Subject to the provisions of paragraph (c) of this Section, and if instructed
38 to do so by an Authorized Officer of the Corporation, the Master Trustee shall endeavor to
39 purchase and cancel Bonds or portions thereof, whether or not such Bonds or portions thereof are
40 then subject to redemption, at the most advantageous price obtainable with reasonable diligence,
41 provided that the purchase price of each Bond, plus accrued interest to the date of purchase, shall
42 not exceed the Redemption Price that would be payable on the next redemption date to the

1 Owners of such Bonds under the provisions of the applicable Supplemental Indenture plus
2 accrued interest to the redemption date if such Bond or such portion thereof were called for
3 redemption on such redemption date from the money in the applicable subaccount of the
4 Redemption Account. The Master Trustee shall pay the interest accrued on such Bonds or
5 portions thereof to the date of settlement from the applicable subaccount of the Interest Account
6 and the purchase price from the applicable subaccount of the Redemption Account, but no such
7 purchase shall be made by the Master Trustee from money in the applicable subaccount of the
8 Redemption Account within the period of forty-five (45) days immediately preceding any date
9 on which such Bonds or portions thereof are to be redeemed except from moneys other than the
10 moneys set aside in the applicable subaccount of the Redemption Account for the redemption of
11 Bonds.

12 (b) Subject to the provisions of paragraph (c) of this Section, the Master
13 Trustee shall call for redemption on a date permitted by the applicable Supplemental Indenture
14 such amount of Bonds or portions thereof as, with the redemption premium, if any, will exhaust
15 the moneys then held in the applicable subaccount of the Redemption Account as nearly as may
16 be practicable; provided, however, that not less than One Hundred Thousand Dollars (\$100,000)
17 in principal amount of Bonds shall be called for redemption at any one time unless the Master
18 Trustee is so instructed by the Corporation in writing. The Master Trustee shall pay the accrued
19 interest on the Bonds or portions thereof to be redeemed to the date of redemption from the
20 applicable subaccount of the Interest Account and the Redemption Price of such Bonds or
21 portions thereof from the applicable subaccount of the Redemption Account. On or before the
22 redemption date, the Master Trustee shall withdraw from the Redemption Account and the
23 Interest Account and transfer to the Bond Registrar the respective amounts required to pay the
24 Redemption Price and accrued interest to the redemption date of the Bonds or portions thereof so
25 called for redemption.

26 (c) Money in the Redemption Account may be applied by the Master Trustee
27 in each Fiscal Year to the purchase or the redemption of Bonds of any one or more Series then
28 Outstanding in accordance with the latest Officer's Certificate of an Authorized Officer of the
29 Corporation filed with the Master Trustee (i) designating one or more Series of Bonds to be
30 purchased or redeemed, (ii) if more than one Series of Bonds is so designated, setting forth the
31 aggregate principal amount of Bonds of each Series to be purchased or redeemed, and (iii) unless
32 the Supplemental Indenture relating to the Bonds to be redeemed specifies the order of
33 redemption, designating the Bonds to be redeemed within each Series, and if such Bonds are
34 Term Bonds, the Fiscal Years in which future Sinking Fund Requirements are to be reduced as a
35 result of such redemption and the amount of such reduction in each such Fiscal Year. In the
36 event no such Certificate is filed and unless the Supplemental Indenture relating to the Bonds to
37 be redeemed specifies otherwise, (A) the Master Trustee shall apply such money to the purchase
38 of one or more Series of Bonds as it shall determine or to the redemption of Bonds bearing the
39 highest rate of interest, (B) if Bonds of more than one maturity bear the same interest rate, the
40 Master Trustee shall redeem such Bonds in the inverse order of maturities, and (C) if the Bonds
41 bearing the highest rate of interest are Term Bonds, the Master Trustee shall reduce Sinking
42 Fund Requirements for such Term Bonds in inverse order of the scheduled redemption of such
43 Term Bonds. All Bonds shall be redeemed as provided in the applicable Supplemental
44 Indenture.

1 Money held for the credit of the subaccounts in the Redemption Account shall be applied
2 to the purchase or redemption of Bonds in the manner provided in the applicable Supplemental
3 Indenture.

4 Section 510. Escheat. All money that the Master Trustee shall have withdrawn from
5 the Bond Fund or shall have received from any other source and set aside or delivered to the
6 Bond Registrar for the purpose of paying any of the Bonds hereby secured, either at maturity or
7 by purchase or call for redemption, shall be held in trust for the respective Owners.

8 Any money that is so set aside and that remains unclaimed by the Owners for a period of
9 30 months after the date on which such Bonds have become payable shall be treated as
10 abandoned property pursuant to the provisions of Section 717.1035, Florida Statutes, and the
11 Master Trustee or the Bond Registrar shall report and remit this property to the Unclaimed
12 Property Trust Fund established by and according to the requirements of Sections 717.117 to
13 717.124, inclusive, Florida Statutes, and thereafter the Owners shall look only to the Unclaimed
14 Property Trust Fund for payment and then only to the extent of the amounts so received, without
15 any interest thereon, and the Master Trustee, the Bond Registrar and the Corporation shall have
16 no responsibility with respect to such money.

17 Section 511. Cancellation of Bonds. Upon receipt of the same, the Bond Registrar shall
18 cancel all Bonds paid, redeemed or purchased by the Master Trustee or purchased by the
19 Corporation and delivered to the Bond Registrar, and all Bonds delivered to the Bond Registrar
20 in exchange for other Bonds or delivered to the Bond Registrar upon the transfer of any Bond if a
21 new Bond is delivered upon such transfer. The Bond Registrar shall certify to the Corporation
22 the details of all Bonds so canceled. All Bonds canceled under any of the provisions of this
23 Master Indenture either shall be delivered to the Corporation or destroyed by the Bond Registrar,
24 as the Corporation directs. Upon destruction of any Bonds, the Bond Registrar shall execute a
25 certificate in duplicate, describing the Bonds so destroyed; and one executed certificate shall be
26 filed with the Corporation and the other executed certificate shall be retained by the Bond
27 Registrar.

28 Section 512. Disposition of Fund Balances. After provision is made for the payment of
29 all Outstanding Parity Obligations, including the interest thereon and for the payment of all other
30 obligations, expenses and charges required to be paid under or in connection with this Master
31 Indenture and any Parity Resolution, and receipt by the Master Trustee of an Officer's Certificate
32 of an Authorized Officer of the Corporation to the effect that there are no other Master
33 Indentures, resolutions, bond orders or other agreements that impose a continuing lien on the
34 balances hereinafter mentioned, the Master Trustee shall pay all amounts in any fund, account or
35 subaccount then held by it under this Master Indenture to the FHCF. If the Corporation notifies
36 the Master Trustee that a continuing lien has been imposed on such balance by another indenture,
37 resolution, bond order or any other agreement, by court order or decree, or by law, the Master
38 Trustee shall, at the written direction of the Corporation, pay such balance to such person as is
39 entitled to receive the same by law or under the terms of such indenture, resolution, bond order,
40 agreement, or by court order or decree.

41 Section 513. Use of Available Funds. Nothing in this Master Indenture shall be
42 construed to prevent the Corporation from paying all or any part of the Current Expenses of the

1 Corporation from any money available to the Corporation for such purpose, or, subject to Section
2 604 hereof, from depositing in any fund or account created under, or subaccount created pursuant
3 to, the provisions of this Master Indenture or any fund or account created under or pursuant to a
4 Parity Debt Resolution or a Subordinated Indebtedness Resolution, any money available to the
5 Corporation for such deposit, except to the extent the Corporation is prohibited from making
6 such deposit by this Master Indenture, any Parity Resolution, any Subordinated Indebtedness
7 Resolution or otherwise.

1
2 Article VI.
3

4 DEPOSITARIES OF MONEY, SECURITY FOR DEPOSITS,
5 INVESTMENT OF FUNDS AND COVENANT AS TO ARBITRAGE

6 Section 601. Security for Deposits. Any and all money received by the Corporation
7 under the provisions of this Master Indenture shall be deposited as received with the Master
8 Trustee or one or more other Depositaries as provided in this Master Indenture and shall, in the
9 case of deposits with the Master Trustee, be trust funds under the terms hereof, and, shall not be
10 subject to any lien or attachment by any creditor of the Corporation.

11 All money deposited with and held by the Master Trustee or any Depository hereunder in
12 excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal
13 agency shall be continuously secured, for the benefit of the Corporation and the Owners, either
14 (a) by lodging with a bank or trust company chosen by the Master Trustee or Depository or, if
15 then permitted by law, by setting aside under control of the trust department of the bank or trust
16 company holding such deposit, as collateral security, Government Obligations or other
17 marketable securities eligible as security for the deposit of trust funds under regulations of the
18 Comptroller of the Currency of the United States or applicable State law or regulations, having a
19 market value (exclusive of accrued interest) not less than the amount of such deposit, or (b) if the
20 furnishing of security as provided in clause (a) above is not permitted by applicable law, then in
21 such other manner as may then be required or permitted by applicable State or federal laws and
22 regulations regarding the security for, or granting a preference in the case of, the deposit of trust
23 funds; provided, however, that it shall not be necessary for the Master Trustee or any Depository
24 to give security for the deposit of any money with it for the payment of the principal of or the
25 redemption premium, if any, or the interest on any Parity Obligations or Subordinated
26 Indebtedness, or for the Master Trustee or any Depository to give security for any money that
27 shall be represented by Investment Obligations purchased under the provisions of this Article as
28 an investment of such money.

29 All money deposited with the Master Trustee or any Depository shall be credited to the
30 particular fund, account or subaccount to which such money belongs.

31 Section 602. Investment of Money. Money held for the credit of all funds, accounts
32 and subaccounts established under this Master Indenture and held by the Master Trustee shall, in
33 accordance with the written directions of the Corporation, be continuously invested and
34 reinvested by the Master Trustee or the Depositaries, whichever is applicable, in Investment
35 Obligations to the extent practicable. Except as hereinafter provided in this Section with respect
36 to the disposition of investment income, the particular investments to be made and other related
37 matters in respect of investments shall, as to each Series of Bonds, be provided in the
38 Supplemental Indenture authorizing the issuance of such Series of Bonds.

39 Except as hereinafter provided in this Section with respect to the Parity Common Reserve
40 Account, Investment Obligations shall mature or be redeemable at the option of the holder

1 thereof not later than the respective dates when the money held for the credit of such funds,
2 accounts and subaccounts will be required for the purposes intended.

3 Investment Obligations in the Parity Common Reserve Account shall mature or be
4 redeemable at the option of the Master Trustee not later than the final maturity date of the Parity
5 Obligations to which such Parity Common Reserve Account is pledged.

6 Notwithstanding the foregoing, no Investment Obligations pertaining to any Series of
7 Bonds in any fund, account or subaccount held by the Master Trustee or any Depository shall
8 mature on a date beyond the latest maturity date of the Bonds of such Series Outstanding at the
9 time such Investment Obligations are deposited. For purposes of this Section, the maturity date
10 of any repurchase agreement shall be deemed to be the stated maturity date of such agreement
11 and not the maturity dates of the underlying Investment Obligations.

12 The Corporation shall cause the State Board of Administration either to enter into
13 agreements with the Master Trustee or any Depository for the investment of any money required
14 or permitted to be invested under this Master Indenture or to give the Master Trustee or any
15 Depository written directions respecting the investment of such money, subject, however, to the
16 provisions of this Article, and the Master Trustee or such Depository shall then invest such
17 money in accordance with such agreements or directions. The Master Trustee or any Depository
18 may request additional directions or authorization from the State Board of Administration or an
19 Authorized Officer of the State Board of Administration in writing with respect to the proposed
20 investment of money under the provisions of this Master Indenture. Upon receipt of such
21 directions, the Master Trustee or any Depository shall invest, subject to the provisions of this
22 Article, such money in accordance with such directions or authorization. The Master Trustee
23 shall have no liability for any losses on investments made in accordance with this Section.

24 Investment Obligations acquired with money in or credited to any fund, account or
25 subaccount established under this Master Indenture shall be deemed at all times to be part of
26 such fund, account or subaccount. Any loss realized upon the disposition or maturity of such
27 Investment Obligations shall be charged against such fund, account or subaccount unless
28 otherwise directed by a Supplemental Indenture. The interest accruing on any such Investment
29 Obligations and any profit realized upon the disposition or maturity of such Investment
30 Obligations shall be credited to such fund, account or subaccount.

31 Any such interest accruing and any such profit realized shall be transferred upon the
32 receipt thereof by the Depositaries or the Master Trustee, as the case may be, pursuant to the
33 provisions of this Master Indenture and any Supplemental Indenture.

34 The Master Trustee shall sell or reduce to cash a sufficient amount of such Investment
35 Obligations whenever it is necessary to do so to provide money to make any payment from any
36 fund, account or subaccount established under this Master Indenture. The Master Trustee shall
37 not be liable or responsible for any loss resulting from any such action.

38 Whenever a transfer of money between two or more of the funds, accounts or
39 subaccounts established under this Master Indenture is permitted or required, such transfer may
40 be made as a whole or in part by transfer of one or more Investment Obligations at a value

1 determined at the time of such transfer in accordance with this Article, provided that the
2 Investment Obligations transferred are those in which money of the receiving fund, account or
3 subaccount could be invested on the date of such transfer.

4 For purposes of making any investment hereunder, the Master Trustee or any Depository
5 may consolidate money held by it in any fund, account or subaccount with money in any other
6 fund, account or subaccount, except to the extent such consolidation is prohibited by this Master
7 Indenture, any Parity Resolution or any Subordinated Indebtedness Resolution. Transfers from
8 any fund, account or subaccount to the credit of any other fund, account or subaccount provided
9 for in this Master Indenture may be effectuated on the books and records of the Master Trustee,
10 the Corporation or any Depository without any actual transfer of funds or liquidation of
11 investments. Investment Obligations purchased with consolidated funds shall be allocated to
12 each fund, account or subaccount on a pro-rata basis in accordance with the initial amount so
13 invested from each such fund, account or subaccount.

14 Unless otherwise directed by the State Board of Administration or an Authorized Officer
15 of the State Board of Administration, Investment Obligations may be purchased by the Master
16 Trustee or any Depository through its own investment division or other bank facilities
17 established for such purpose.

18 Section 603. Valuation. For the purpose of determining the amount on deposit in any
19 fund, account or subaccount established under this Master Indenture, Investment Obligations in
20 which money in such fund, account or subaccount is invested shall be valued at cost.

21 All Investment Obligations in all of the funds, accounts and subaccounts established
22 under this Master Indenture shall be valued as of the Business Day immediately preceding each
23 Interest Payment Date. If a valuation is made by the Master Trustee, the Master Trustee shall
24 report the result of such valuation to the Corporation and the State Board of Administration as
25 soon as practicable following such valuation. In addition, Investment Obligations shall be
26 valued at any time requested by an Authorized Officer of the Corporation or an Authorized
27 Officer of the State Board of Administration on reasonable notice to the Master Trustee (which
28 period of notice may be waived or reduced by the Master Trustee at its sole discretion);
29 provided, however, that the Master Trustee shall not be required to value Investment Obligations
30 more than once in any calendar month.

31 Whenever, following a valuation described above, the value of the cash and Investment
32 Obligations in the Parity Common Reserve Account held by the Master Trustee, plus accrued
33 interest to the date of valuation, is less than ninety percent (90%) of the Parity Common Reserve
34 Account Requirement, the Master Trustee shall compute the amount by which the Parity
35 Common Reserve Account Requirement exceeds the balance in the Parity Common Reserve
36 Account, and shall immediately give the Corporation and the State Board of Administration
37 notice of such deficiency and the amount necessary to cure the same in accordance with Section
38 508 hereof. Whenever the value of the cash and Investment Obligations in the Parity Common
39 Reserve Account or a Special Reserve Account held by the Master Trustee, plus accrued interest
40 to the date of valuation, is greater than the Parity Common Reserve Account Requirement or the
41 Special Reserve Account Requirement, as the case may be, the Master Trustee shall compute the
42 amount by which the balance in the Parity Common Reserve Account or the Special Reserve

1 Account, as the case may be, exceeds the Parity Common Reserve Account Requirement or the
2 Special Reserve Account Requirement, as the case may be, and shall transfer the excess in
3 accordance with the provisions of the applicable Parity Resolution.

4 Section 604. Covenant as to Arbitrage. The Corporation covenants that so long as any
5 Tax-Exempt Parity Obligations remain Outstanding, the money on deposit in any fund, account
6 or subaccount maintained in connection with such Tax-Exempt Parity Obligations, regardless of
7 whether such money was derived from the proceeds of the sale of such Tax-Exempt Parity
8 Obligations or from any other sources, will not be used in a manner that would cause such Tax-
9 Exempt Parity Obligations to be "arbitrage bonds" within the meaning of Section 148 of the
10 Code and applicable regulations promulgated from time to time thereunder. The Corporation
11 further covenants and agrees to comply with the requirements of Section 148 of the Code and
12 applicable regulations promulgated from time to time thereunder with respect to any Tax-Exempt
13 Parity Obligations.

Article VII.

COVENANTS OF THE CORPORATION AND THE STATE

17 Section 701. Security; Restrictions on Encumbering Net Receipts; Payment of Principal
18 and Interest. (a) Any Bond issued under this Master Indenture shall be a special and limited
19 obligation of the Corporation payable solely from Net Receipts and money, Investment
20 Obligations and Reserve Alternative Instruments held in the funds, accounts and subaccounts
21 established under this Master Indenture and the income from such Investment Obligations and
22 the investment of such money.

23 As security for the payment of the Bonds and any Parity Debt and the interest thereon and
24 as authorized by the Act, the Corporation hereby (i) grants to the Master Trustee a pledge of,
25 security interest in and lien upon its Net Receipts and (ii) assigns to the Master Trustee all its
26 right, title and interest (including the right to enforce the same and the right to receive and collect
27 the Pledged Collateral) in and to the Pledge Agreement (except for those certain rights that are
28 set forth in the granting clauses of this Master Indenture).

29 In addition, as further security for the payment of each Series of Bonds and the interest
30 thereon, the Corporation hereby grants to the Master Trustee a pledge of, security interest in and
31 lien upon the money and Investment Obligations in any and all of the related accounts and
32 subaccounts of the Bond Fund and the accounts and subaccounts established under the
33 Supplemental Indenture authorizing the issuance of such Series.

34 The pledge, security interest and lien shall be effective and operate immediately, and the
35 Master Trustee shall have the right to collect and receive the Net Receipts in accordance with the
36 provisions hereof and the Pledged Collateral in accordance with the provisions of the Pledge
37 Agreement at all times during the period from and after the date of delivery of the Bonds issued
38 hereunder until the Bonds and all Parity Debt have been fully paid and discharged, including at
39 all times after the institution and during the pendency of any bankruptcy or similar proceedings.

1 The aforementioned pledge, security interest and lien shall not impair or restrict the
2 ability of the Corporation to invest in securities and other forms of investment, subject to the
3 provisions of this Master Indenture.

4 The Corporation covenants that it will prepare and file such financing statements or
5 amendments to or terminations of existing financing statements as shall, in the Opinion of
6 Counsel, be necessary to comply with applicable law or as required due to changes in the Net
7 Receipts. In addition, if financing statements are filed pursuant to the requirements of the
8 preceding sentence, the Corporation covenants that it will, at least thirty (30) days prior to the
9 expiration of any financing statement, prepare and file such continuation statements of existing
10 financing statements as shall, in the Opinion of Counsel, be necessary to continue the security
11 interest evidenced thereby and shall provide to the Master Trustee written notice of such filing.
12 If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to
13 the expiration date of any such financing statement, the Master Trustee shall prepare and file or
14 cause the Corporation to prepare and file such continuation statements in a timely manner.

15 (b) The Corporation covenants that it will not pledge or grant a security
16 interest in (except as provided in (a) above and as may be otherwise provided in this Master
17 Indenture) any of the Net Receipts.

18 (c) The Corporation covenants to pay or cause to be paid the principal of,
19 premium, if any, and interest on the Parity Obligations secured by this Master Indenture at the
20 places, on the dates and in the manner provided in this Master Indenture and in the Parity
21 Obligations according to the terms thereof whether at maturity, upon proceedings for
22 redemption, by acceleration or otherwise.

23 Section 702. Covenants as to Existence, Etc. The Corporation hereby covenants:

24 (a) Except as otherwise expressly provided herein, to preserve its corporate or
25 other legal existence and all its rights and licenses to the extent necessary or desirable in the
26 operation of its business and affairs and be qualified to do business in each jurisdiction where its
27 ownership of Property or the conduct of its business requires such qualification.

28 (b) To do all things reasonably necessary to conduct its affairs and carry on its
29 business and operations in such manner as to comply with any and all applicable laws of the
30 United States and the several states thereof and duly observe and conform to all valid orders,
31 regulations or requirements of any governmental authority relative to the conduct of its business
32 and the ownership of its Property; provided, however, that nothing herein contained shall require
33 it to comply with, observe and conform to any such law, order, regulation or requirement of any
34 governmental authority so long as the validity thereof or the applicability thereof to it shall be
35 contested in good faith.

36 (c) To pay promptly all lawful taxes, governmental charges and assessments
37 at any time levied or assessed upon or against it or its Property; provided, however, that it shall
38 have the right to contest in good faith any such taxes, charges or assessments or the collection of
39 any such sums and pending such contest may delay or defer payment thereof.

1 (d) To pay promptly or otherwise satisfy and discharge all of its indebtedness
2 and all demands and claims against it as and when the same become due and payable, other than
3 any thereof (exclusive of the Indebtedness created and Outstanding hereunder) whose validity,
4 amount or collectibility is being contested in good faith.

5 (e) At all times to comply with all terms, covenants and provisions of any
6 Liens at such time existing upon its Property or any part thereof or securing any of its
7 Indebtedness.

8 Section 703. Limitations on Creation of Liens. (a) The Corporation agrees that it will
9 not create or suffer to be created or permit the existence of any Lien upon the Net Receipts other
10 than Permitted Liens as defined in clause (b) below.

11 (b) Permitted Liens shall consist of the following:

12 (i) Liens arising by reason of deposits by the Corporation to secure public or
13 statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as
14 security for the payment of taxes or assessments or other similar charges;

15 (ii) Any Lien arising by reason of deposits with, or the giving of any form of security
16 to, any governmental agency or any body created or approved by law or governmental
17 regulation for any purpose at any time as required by law or governmental regulation as a
18 condition to the transaction of any business or the exercise of any privilege or license;

19 (iii) the Lien of this Master Indenture;

20 (iv) any Lien securing all Parity Obligations on a pari passu basis;

21 (v) any Lien on Net Receipts securing Subordinated Indebtedness; and

22 (vi) any Lien securing the obligations of the Corporation under a Derivative
23 Agreement which, if required by the provider of such Derivative Agreement, may be pari passu
24 with the Lien on the Net Receipts securing the Parity Obligations created under this Master
25 Indenture, so long as the notional amount of all Derivative Agreements secured by such pari
26 passu Liens does not at any time exceed the aggregate amount of Parity Obligations then
27 Outstanding and so long as the Corporation's obligation to make any termination payment
28 constitutes Subordinated Indebtedness.

29 Section 704. Incurrence Test. Subsequent to the effective date of this Master
30 Indenture and the Corporation's issuance of its \$1,350,025,000 Series 2006A Bonds in
31 accordance with its Supplement No. 1 dated as of June 1, 2006 and its issuance of up to
32 \$2,800,000,000 of Pre-Event Parity Bonds on or prior to August 1, 2006, all of which may be
33 issued without compliance with the Incurrence Test established by this Section,

34 (a) The Corporation may incur Parity Obligations at one time or from time to
35 time in any form or combination of forms permitted by this Master Indenture if, prior to the
36 incurrence of such Parity Obligations, the Corporation shall file or cause to be filed with the
37 Master Trustee an Officer's Certificate of the Corporation (which may rely upon certificates or

1 other documentation delivered by an Authorized Officer of the State Board of Administration)
2 certifying that (i) the Debt Service Coverage Ratio, taking into account the proposed additional
3 Parity Obligations, is not less than 1.25 and (ii) in the case of Post-Event Parity Obligations, the
4 product of the aggregate percentage rate of all Emergency Assessments (A) currently levied by
5 the Office of Insurance Regulation and (B) not currently levied by the Office of Insurance
6 Regulation but which the State Board of Administration has authorized and directed the Office of
7 Insurance Regulation to impose, in each case as of the date of such Certificate, multiplied by the
8 Emergency Assessment Base for the most recent 12-month period for which such information is
9 available, is not less than 100% of the Maximum Debt Service Requirement for all of the Post-
10 Event Parity Obligations, including the proposed additional Post-Event Parity Obligations, that
11 will be Outstanding immediately following the issuance of such proposed Post-Event Parity
12 Obligations.

13 (b) The Corporation may incur Parity Obligations for the purpose of refunding
14 or reissuing any Outstanding Indebtedness if, prior to the incurrence of such Parity Obligations,
15 (i) either (A) the Master Trustee receives an Officer's Certificate of the Corporation (which may
16 rely upon certificates or other documentation delivered by an Authorized Officer of the State
17 Board of Administration) stating that, taking into account the Parity Obligations proposed to be
18 incurred, the Parity Obligations to remain Outstanding after the refunding and the refunding of
19 the Outstanding Indebtedness proposed to be refunded, the Maximum Debt Service
20 Requirement will not be increased by more than five percent (5%), or (B) the Corporation files
21 or causes to be filed with the Master Trustee an Officer's Certificate of the Corporation (which
22 may rely upon certificates or other documentation delivered by an Authorized Officer of the
23 State Board of Administration) certifying that the Debt Service Coverage Ratio, taking into
24 account the Parity Obligations proposed to be incurred, the refunding of the Outstanding
25 Indebtedness proposed to be refunded and the Parity Obligations to remain Outstanding after the
26 refunding, is not less than 1.25, (ii) in the case of Post-Event Parity Obligations, the product of
27 the aggregate percentage rate of all Emergency Assessments (A) currently levied by the Office of
28 Insurance Regulation and (B) not currently levied by the Office of Insurance Regulation but
29 which the State Board of Administration has authorized and directed the Office of Insurance
30 Regulation to impose, in each case as of the date of such Certificate, multiplied by the
31 Emergency Assessment Base for the most recent 12-month period for which such information is
32 available, is not less than 100% of the Maximum Debt Service Requirement for all of the Post-
33 Event Parity Obligations, including the proposed additional Post-Event Parity Obligations, that
34 will be Outstanding immediately following the issuance of such proposed Post-Event Parity
35 Obligations, and (iii) the Master Trustee receives a report by a nationally-recognized verification
36 agent verifying the computations supporting the determinations in (i) and (ii) above.

37 (c) For purposes of demonstrating compliance with the Incurrence Test set
38 forth in subsection (a) or (b), the Corporation may (but is not required to) elect in the applicable
39 Supplemental Indenture to treat all Parity Obligations authorized in a Credit Facility (including,
40 for example and without limitation, a line of credit or a liquidity facility supporting a commercial
41 paper program), but not immediately issued or incurred under such Credit Facility, as subject to
42 such Incurrence Test as of a single date, notwithstanding that none, or less than all, of the
43 authorized principal amount of such Parity Obligations shall have been issued or incurred as of
44 such date.

1 (d) Short-Term Indebtedness may be incurred under this Master Indebtedness
2 as a Parity Obligation only in compliance with the Incurrence Test in subsection (a). In addition,
3 the Corporation may incur Short-Term Indebtedness as Subordinated Indebtedness under this
4 Master Indenture.

5 (e) Notwithstanding the foregoing provisions of this Section, nothing herein
6 contained shall preclude the Corporation from incurring any obligation under a Credit Facility.

7 (f) Notwithstanding the foregoing provisions of this Section, nothing herein
8 contained shall preclude the Corporation from entering into a Derivative Agreement either in
9 connection with Indebtedness or otherwise.

10 Section 705. Fiscal Year End Certificate. Not later than ninety (90) days after the end
11 of each Fiscal Year, commencing with the Fiscal Year ending on June 30, 2007, the Corporation
12 shall file with the Master Trustee an Officer's Certificate demonstrating and stating that the
13 Revenue Available for Debt Service for the prior Fiscal Year (set forth in such Certificate) was
14 not less than the greater of (i) one hundred twenty-five percent (125%) of the principal and
15 interest that became due and payable in such Fiscal Year on Parity Obligations and (ii) one
16 hundred percent (100%) of the principal and interest that became due and payable in such Fiscal
17 Year for Parity Obligations and Subordinated Indebtedness (both such calculations set forth in
18 such Certificate); provided, however, that if the Corporation is unable to deliver such an
19 Officer's Certificate, the Corporation covenants to take all actions permitted by law or under the
20 Pledge Agreement, including (A) petitioning the Legislature of the State for any amendment or
21 amendments to the Act deemed appropriate by the Governing Body of the Corporation, (B)
22 cooperating with the State Board of Administration in connection with any action to increase
23 collections of Pledged Collateral and (C) retaining a Consultant within thirty (30) days to make
24 recommendations to increase the Revenue Available for Debt Service in the following Fiscal
25 Year to the levels required or, if in the opinion of the Consultant the attainment of such levels is
26 impracticable, to the highest levels attainable. Any Consultant so retained shall be required to
27 submit such recommendations within sixty (60) days after being so retained. The Corporation
28 agrees that it will, to the extent permitted by law, follow, or cause to be followed, the
29 recommendations of any Consultant so retained. For purposes of the Officer's Certificate
30 described in this Section, there may be subtracted from the amount of the interest otherwise
31 includable in the amounts described in clauses (i) and (ii) above an amount equal to the sum of
32 the interest on Parity Obligations paid during such Fiscal Year from (Y) the Capitalized Interest
33 Account in the Bond Fund and (Z) without duplication, investment income on and proceeds of
34 Pre-Event Parity Obligations. The Officer's Certificate described in this Section 705 may be
35 provided jointly by an Authorized Officer of the Corporation and an Authorized Officer of the
36 State Board of Administration.

37 Section 706. Filing of Audited Financial Statements, Certificate of No Default, Other
38 Information. The Corporation covenants that it will:

39 (a) Within thirty (30) days after receipt of the audit report mentioned below
40 but in no event later than two hundred seventy (270) days after the end of each Fiscal Year, file
41 with the Master Trustee and with each Owner or Holder who may have so requested of the
42 Corporation in writing, a copy of the Audited Financial Statements as of the end of such Fiscal

1 Year accompanied by the opinion of an Auditor. Such Audited Financial Statements shall be
2 prepared in accordance with generally accepted accounting principles.

3 (b) Within thirty (30) days after receipt of the audit report mentioned above
4 but in no event later than two hundred seventy (270) days after the end of each fiscal reporting
5 period, file with the Master Trustee and with each Owner or Holder who may have so requested
6 or on whose behalf the Master Trustee may have so requested, an Officer's Certificate of an
7 Authorized Officer of the Corporation and a report of an Auditor stating, to the best knowledge
8 of the signers, whether the Corporation is in default in the performance of any covenant
9 contained in this Master Indenture and, if so, specifying each such default of which the signers
10 may have knowledge and whether each such default has been corrected. If any default has not
11 been remedied then such report of such independent certified public accountant or firm of
12 independent certified public accountants shall identify what, if any, corrective action will be
13 taken to cure such default.

14 (c) If an Event of Default shall have occurred and be continuing, file with the
15 Master Trustee such other financial statements and information concerning its operations and
16 financial affairs as the Master Trustee may from time to time reasonably request, excluding
17 specifically personnel records.

18 Section 707. Annual Budget. The Corporation covenants that on or before the first
19 (1st) day of each Fiscal Year the Governing Body will adopt a budget for such Fiscal Year. The
20 Corporation shall promptly file copies of such annual budget with the State Board of
21 Administration and the Master Trustee and with each Owner and Holder who may have so
22 requested of the Corporation in writing. To the extent possible, the Corporation shall prepare its
23 annual budget so that it will be possible to determine from such budget the Current Expenses of
24 the Corporation and the amounts to be deposited to the credit of the various funds, accounts and
25 subaccounts created by this Master Indenture.

26 Section 708. State Covenant. The Corporation incorporates herein the State's covenant
27 with the Owners of Outstanding Bonds that the State will not limit or alter the denial of authority
28 to file a petition in bankruptcy, or the rights vested in the FHCF or the Corporation to fulfill the
29 terms of any agreements made with the Owners, or in any way impair the rights and remedies of
30 such Owners so long as any such Bonds of the Corporation remain Outstanding unless adequate
31 provision has been made for the payment of such Bonds pursuant to the documents authorizing
32 the issuance of such Bonds.

33 Article VIII.

34 DEFAULTS AND REMEDIES

35
36 Section 801. Extension of Interest Payment. If the time for the payment of the interest
37 on any Parity Obligation is extended, whether or not such extension is by or with the consent of
38 the Corporation, such interest so extended shall not be entitled in case of default hereunder to the
39 benefit or security of this Master Indenture and in such case the Owner of the Bond or the Holder
40 of any Parity Debt for which the time for payment of interest was extended shall be entitled only
41 to the payment in full of the principal of all Parity Obligations then Outstanding and of interest

1 for which the time for payment shall not have been extended. The time for the payment of the
2 interest on any Parity Obligation shall not be extended in respect of any Parity Obligation
3 covered by a Credit Facility without the consent of the Credit Provider.

4 Section 802. Events of Default. Each of the following events is hereby declared an
5 Event of Default with respect to Parity Obligations:

6 (a) the Corporation shall fail to make any payment of the principal of and the
7 redemption premium, if any, on any of the Bonds or any Parity Debt when and as the same shall
8 be due and payable, either at maturity or by redemption or otherwise;

9 (b) the Corporation shall fail to make any payment of the interest on any of
10 the Bonds or any Parity Debt when and as the same shall be due and payable;

11 (c) an event of default shall have occurred under any Supplemental Indenture
12 or the Master Trustee shall have received written notice from any Holder of an event of default
13 under any Parity Debt Resolution;

14 (d) the Corporation shall fail duly to perform, observe or comply with any
15 covenant or agreement on its part under this Master Indenture for a period of thirty (30) days
16 after the date on which written notice of such failure, requiring the same to be remedied, shall
17 have been given to the Corporation by the Master Trustee; provided, however, that if such failure
18 be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall
19 not constitute an Event of Default if corrective action is instituted within such 30-day period and
20 diligently pursued until the Event of Default is corrected;

21 (e) the Corporation shall fail to make any required payment with respect to
22 any Subordinated Indebtedness or other indebtedness (other than any Bond, Parity Debt or
23 Subordinated Indebtedness), whether such indebtedness now exists or shall hereafter be created,
24 and any period of grace with respect thereto shall have expired, or an event of default as defined
25 in any mortgage, indenture or instrument under which there may be issued, or by which there
26 may be secured or evidenced, any indebtedness, whether such indebtedness now exists or shall
27 hereafter be created, shall occur, which event of default shall not have been waived by the holder
28 of such mortgage, indenture or instrument or a trustee acting on its behalf, and as a result of such
29 failure to pay or other event of default such indebtedness shall have been accelerated and such
30 acceleration, in the opinion of the Master Trustee, does or could materially adversely affect the
31 Owners of Bonds and the Holders of Parity Debt; or

32 (f) the State shall (i) amend, alter, repeal or fail to comply with the State
33 Covenant as in effect on the date hereof, or (ii) enact a moratorium or other similar law affecting
34 the Bonds.

35 Section 803. Acceleration of Maturities. Upon the happening and continuance for a
36 period of not less than one hundred eighty (180) days of any Event of Default described in
37 Section 802(a) or (b) hereof, then and in every case the Master Trustee may, and upon the
38 written request of the Owners or Holders of not less than a majority in aggregate principal
39 amount of the Parity Obligations then Outstanding shall, by a notice in writing to the
40 Corporation, declare the principal of all the Parity Obligations then Outstanding (if not then due

1 and payable) to be due and payable immediately, and upon such declaration the same shall
2 become and be immediately due and payable, anything contained in the Parity Obligations, this
3 Master Indenture or any Parity Resolution to the contrary notwithstanding; provided, however,
4 that if at any time after the principal of the Parity Obligations shall have been so declared to be
5 due and payable, and before the entry of final judgment or decree in any suit, action or
6 proceeding instituted on account of such default, or before the completion of the enforcement of
7 any other remedy under this Master Indenture, moneys shall have accumulated sufficient to pay
8 the principal of all matured Parity Obligations and all arrears of interest, if any, upon all the
9 Parity Obligations then Outstanding (except the principal of any Parity Obligations not then due
10 and payable by their terms and the interest accrued on such Parity Obligations since the last
11 interest payment date) and sufficient to satisfy the sinking fund requirement, if any, for any Term
12 Parity Obligations then Outstanding, for the then current Fiscal Year, and the charges,
13 compensation, expenses, disbursements, advances and liabilities of the Master Trustee and all
14 other amounts then payable by the Corporation hereunder shall have been paid or a sum
15 sufficient to pay the same shall have been deposited with the Master Trustee or any Bond
16 Registrar and every other default known to the Master Trustee in the observance or performance
17 of any covenant, condition, agreement or provision contained in the Bonds, any Parity Debt, this
18 Master Indenture or any Parity Resolution (other than a default in the payment of the principal of
19 such Parity Obligations then due and payable only because of a declaration under this Section)
20 shall have been remedied to the satisfaction of the Master Trustee, then and in every such case
21 the Master Trustee shall, by written notice to the Corporation, rescind and annul such declaration
22 and its consequences, but no such rescission or annulment shall extend to or affect any
23 subsequent Event of Default or impair any right consequent thereon.

24 Section 804. Remedies. (a) Upon the happening and continuance of any Event of
25 Default, then and in every such case the Master Trustee may proceed, and upon the written
26 request of the Owners or Holders of not less than a majority in aggregate principal amount of the
27 Parity Obligations then Outstanding shall proceed, subject to the provisions of Section 902
28 hereof, to protect and enforce its rights and the rights of the Owners or Holders of the Parity
29 Obligations under applicable laws and under this Master Indenture by such suits, actions or
30 special proceedings in equity or at law, or by proceedings in the office of any board or officer
31 having jurisdiction, either for the specific performance of any covenant or agreement contained
32 herein or in aid or execution of any power herein granted or for the enforcement of any proper
33 legal or equitable remedy, as the Master Trustee, being advised by counsel, chosen by the Master
34 Trustee, shall deem most effectual to protect and enforce such rights, including but not limited
35 to:

36 (i) Enforcement of the right of the Owners and Holders to collect and enforce the
37 payment of amounts due or becoming due under the Parity Obligations;

38 (ii) Suit upon all or any part of the Parity Obligations;

39 (iii) Civil action to require any Person holding moneys, documents or other property
40 pledged to secure payment of amounts due or to become due on the Parity Obligations to
41 account as if it were the trustee of an express trust for the Owners and Holders;

1 (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of
2 the rights of the Owners and Holders;

3 (v) Enforcement of any other right of the Owners and Holders conferred by law or
4 hereby; and

5 (vi) Enforcement of the provisions of the Pledge Agreement.

6 (b) Regardless of the happening of an Event of Default, the Master Trustee, if
7 requested in writing by the Owners or Holders of not less than a majority of the aggregate
8 principal amount of the Parity Obligations then Outstanding, shall, subject to Section 902 hereof,
9 institute and maintain such suits and proceedings as it may be advised shall be necessary or
10 expedient (i) to prevent any impairment of the security hereunder by any acts which may be
11 unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Owners and
12 Holders, provided that such request and the action to be taken by the Master Trustee are not in
13 conflict with any applicable law or the provisions hereof and, in the sole judgment of the Master
14 Trustee, are not unduly prejudicial to the interest of the Owners and Holders not making such
15 request.

16 Section 805. Pro Rata Application of Funds. Anything in this Master Indenture to the
17 contrary notwithstanding, if at any time the money deposited with the Master Trustee pursuant to
18 Section 502 hereof or pursuant to any remedial action is not sufficient to pay the interest on or
19 the principal of the Parity Obligations as the same become due and payable (either by their terms
20 or by acceleration of maturities under the provisions of Section 803 hereof), such money,
21 together with any money then available or thereafter becoming available for such purposes,
22 whether through the exercise of the remedies provided for in this Article or otherwise, shall, after
23 payment of the accrued and unpaid fees, costs and expenses of the Master Trustee, be applied as
24 follows:

25 (a) if the principal of all Parity Obligations shall not have become or shall not
26 have been declared due and payable, all such money shall be applied as follows:

27 first: to the payment to the persons entitled thereto of all installments of
28 interest on the Parity Obligations or regularly scheduled payments to a Derivative
29 Agreement Counterparty with respect to Derivative Indebtedness then due and
30 payable in the order in which such installments became due and payable and, if
31 the amount available shall not be sufficient to pay in full any particular
32 installment, then to the payment, ratably according to the amounts due on such
33 installment, to the persons entitled thereto, without any discrimination or
34 preference except as to any difference in the respective rates of interest specified
35 in such Parity Obligations;

36 second: to the payment to the persons entitled thereto of the unpaid
37 principal of any Parity Obligations that shall have become due and payable (other
38 than Parity Obligations deemed to have been paid pursuant to the provisions of
39 Section 1201 hereof), in the order of their due dates, with interest on the overdue
40 principal at a rate equal to the rate on such Parity Obligations, and, if the amount

1 available shall not be sufficient to pay in full the principal of Parity Obligations
2 due and payable on any particular date, then to the payment ratably according to
3 the amount of such principal due on such date, to the persons entitled thereto
4 without any discrimination or preference; and

5 third: to the payment of the interest on and the principal of Parity
6 Obligations, to the purchase and retirement of Parity Obligations, and to the
7 redemption of Parity Obligations, all in accordance with the provisions of this
8 Master Indenture and any Parity Resolution.

9 (b) If the principal of all Parity Obligations shall have become or shall have
10 been declared due and payable, all such money shall be applied to the payment of principal and
11 interest then due upon such Parity Obligations and regularly scheduled payments to a Derivative
12 Agreement Counterparty with respect to Derivative Indebtedness, without preference or priority
13 of principal over interest or of interest over principal, or of any installment of interest over any
14 other installment of interest, or of any Bond or Parity Debt over any other Bond or Parity Debt,
15 ratably, according to the amounts due respectively for principal and interest, to the persons
16 entitled thereto without any discrimination or privilege.

17 (c) If the principal of all Parity Obligations shall have been declared due and
18 payable and if such declaration shall thereafter have been rescinded and annulled under the
19 provisions of Section 803 hereof, then, subject to the provisions of paragraph (b) of this Section
20 in the event that the principal of all Parity Obligations shall later become due and payable or be
21 declared due and payable, the money then remaining on deposit with the Master Trustee and
22 thereafter accruing shall be applied in accordance with the provisions of paragraph (a) of this
23 Section.

24 Whenever money is to be applied by the Master Trustee pursuant to the provisions of this
25 Section: (a) such money shall be applied by the Master Trustee at such times and from time to
26 time as the Master Trustee in its sole discretion shall determine, having due regard for the
27 amount of money available for such application and the likelihood of additional money
28 becoming available for such application in the future, (b) setting aside such money as provided
29 herein in trust for the proper purpose shall constitute proper application by the Master Trustee,
30 and (c) the Master Trustee shall incur no liability whatsoever to the Corporation, to any Owner
31 or Holder or to any other Person for any delay in applying any such money so long as the Master
32 Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately
33 applies the same in accordance with such provisions of this Master Indenture as may be
34 applicable at the time of application by the Master Trustee. Whenever the Master Trustee
35 exercises such discretion in applying such money, it shall fix the date (which shall be an Interest
36 Payment Date unless the Master Trustee shall deem another date more suitable) upon which such
37 application is to be made and upon such date interest on the amounts of principal to be paid on
38 such date shall cease to accrue. The Master Trustee shall give such notice as it may deem
39 appropriate of the fixing of any such date and shall not be required to make payment to the
40 Owner of any Bond or the Holder of any Parity Debt until such Bond or Parity Debt is
41 surrendered to the Master Trustee for appropriate endorsement or for cancellation if fully paid.

1 Section 806. Effect of Discontinuance of Proceedings. If any proceeding taken by the
2 Master Trustee or Owners or Holders on account of any Event of Default is discontinued or
3 abandoned for any reason, then and in every such case, the Corporation, the Master Trustee and
4 the Owners and the Holders shall be restored to their former positions and rights hereunder, and
5 all rights, remedies, powers and duties of the Master Trustee shall continue as though no
6 proceedings had been taken.

7 Section 807. Control of Proceedings. Anything in this Master Indenture to the contrary
8 notwithstanding, the Owners or Holders of a majority in aggregate principal amount of Parity
9 Obligations at any time Outstanding shall have the right, subject to the provisions of Section 902
10 hereof, by an instrument or concurrent instruments in writing executed and delivered to the
11 Master Trustee, to direct the method and place of conducting all remedial proceedings to be
12 taken by the Master Trustee hereunder, provided that such direction shall be in accordance with
13 law and the provisions of this Master Indenture, and, in the sole judgment of the Master Trustee,
14 is not unduly prejudicial to the interest of any Owners or Holders not joining in such direction,
15 and provided further, that the Master Trustee shall have the right to decline to follow any such
16 direction if the Master Trustee in good faith shall determine that the proceeding so directed
17 would involve it in personal liability, and provided further that nothing in this Section shall
18 impair the right of the Master Trustee in its discretion to take any other action hereunder which it
19 may deem proper and which is not inconsistent with such direction by the Owners or Holders.

20 Section 808. Restrictions Upon Action. Except as provided in Section 813 hereof, no
21 Owner or Holder shall have any right to institute any suit, action or proceeding in equity or at
22 law on any Bond or Parity Debt or for the execution of any trust hereunder or for any other
23 remedy hereunder unless such Owner or Holder previously shall (a) has given to the Master
24 Trustee written notice of the Event of Default on account of which suit, action or proceeding is to
25 be instituted, (b) has requested the Master Trustee to take action after the right to exercise such
26 powers or right of action, as the case may be, shall have accrued, (c) has afforded the Master
27 Trustee a reasonable opportunity either to proceed to exercise the powers hereinabove granted or
28 to institute such action, suit or proceedings in its or their name, and (d) has offered to the Master
29 Trustee reasonable security and satisfactory indemnity against the costs, expenses and liabilities
30 to be incurred therein or thereby, and the Master Trustee shall have refused or neglected to
31 comply with such request within a reasonable time. Such notification, request and offer of
32 indemnity are hereby declared in every such case, at the option of the Master Trustee, to be
33 conditions precedent to the execution of the powers and trusts of this Master Indenture or to any
34 other remedy hereunder. Notwithstanding the foregoing provisions of this Section and without
35 complying therewith, the Owners or Holders of not less than a majority in aggregate principal
36 amount of Parity Obligations then Outstanding may institute any such suit, action or proceeding
37 in their own names for the benefit of all Owners or Holders. It is understood and intended that,
38 except as otherwise above provided, no one or more Owners or Holders shall have any right in
39 any manner whatsoever by his or their action to affect, disturb or prejudice the security of this
40 Master Indenture or to enforce any right hereunder except in the manner provided, that all
41 proceedings at law or in equity shall be instituted, had and maintained in the manner herein
42 provided and for the benefit of all Owners and Holders and that any individual rights of action or
43 other right given to one or more of such Owners or Holders by law are restricted by this Master
44 Indenture to the rights and remedies herein provided.

1 Section 809. Enforcement of Rights of Action. All rights of action (including the right
2 to file proof of claim) under this Master Indenture or under any Bonds and any Parity Debt may
3 be enforced by the Master Trustee without the possession of any Bonds and any Parity Debt or
4 the production thereof in any proceedings relating thereto, and any such suit or proceedings
5 instituted by the Master Trustee shall be brought in its name as Master Trustee, without the
6 necessity of joining as plaintiffs or defendants any Owners or Holders, and any recovery of
7 judgment shall be for the equal benefit of the Owners or Holders, subject to the provisions of
8 Section 801 hereof.

9 Section 810. No Remedy Exclusive. No remedy herein conferred upon or reserved to
10 the Master Trustee or to the Owners or Holders is intended to be exclusive of any other remedy
11 or remedies herein provided, and each and every such remedy shall be cumulative and shall be in
12 addition to every other remedy given hereunder or now or hereafter existing at law or in equity.

13 Section 811. Delay Not a Waiver. No delay or omission by the Master Trustee or of
14 any Owner or Holder in the exercise of any right or power accruing upon any default shall impair
15 any such right or power or shall be construed to be a waiver of any such default or any
16 acquiescence therein, and every power or remedy given by this Master Indenture to the Master
17 Trustee and to the Owners or Holders may be exercised from time to time and as often as may be
18 deemed expedient.

19 The Master Trustee may, and upon written request of the Owners or Holders of not less
20 than a majority in principal amount of the Parity Obligations then Outstanding shall, waive any
21 Event of Default which in its opinion has been remedied before the entry of final judgment or
22 decree in any suit, action or proceeding instituted by it under the provisions of this Master
23 Indenture or before the completion of the enforcement of any other remedies under this Master
24 Indenture; provided, however, that, except under the circumstances set forth in Section 803
25 hereof for the rescission and annulment of a declaration of acceleration, a default in the payment
26 of the principal of, premium, if any, or interest on any Bond or Parity Debt, when the same shall
27 become due and payable by the terms thereof or upon call for redemption, may not be waived
28 without the written consent of the Owners of all the Bonds or the Holders of all the Parity Debt
29 (with respect to which such payment default exists) at the time Outstanding; and provided
30 further, however, that no such waiver shall extend to or affect any other existing or subsequent
31 Event of Default or impair any rights or remedies consequent thereon.

32 Section 812. Notice of Default. The Master Trustee shall mail to (a) all Owners at their
33 addresses as they appear on the registration books and (b) to all Holders who shall have filed
34 their names with the Master Trustee for such purpose, written notice of the occurrence of any
35 Event of Default within ten (10) days after the Master Trustee has notice, pursuant to the
36 provisions of Section 908 hereof, that any such Event of Default shall have occurred. The
37 Master Trustee shall not be subject to any liability to any Owner or Holder by reason of its
38 failure to mail any such notice.

39 Section 813. Right to Enforce Payment of Parity Obligations Unimpaired. Nothing in
40 this Article shall affect or impair the right of any Owner or Holder to enforce the payment of the
41 principal of and interest on his Bonds or Parity Debt or the obligation of the Corporation to pay

1 the principal of and interest on each Bond and Parity Debt to the Owner or Holder thereof at the
2 time and place specified in said Bond or Parity Debt.

3 Section 814. Remedies Subject to Provisions of Law. All rights, remedies and powers
4 provided by this Article may be exercised only to the extent that the exercise thereof does not
5 violate any applicable provision of law, and all the provisions of this Article are intended to be
6 subject to all applicable mandatory provisions of law which may be controlling and to be limited to
7 the extent necessary so that they will not render this Master Indenture or the provisions hereof
8 invalid or unenforceable under the provisions of any applicable law.

9 Article IX.

10 THE MASTER TRUSTEE AND THE BOND REGISTRAR

11
12 Section 901. Acceptance of Trusts. The Master Trustee by execution hereof accepts
13 and agrees to fulfill the trusts imposed upon it by this Master Indenture, but only upon the terms
14 and conditions set forth in this Article and subject to the provisions of this Master Indenture, to
15 all of which the Corporation, the Master Trustee and the respective Owners of the Bonds and any
16 Holders of Parity Debt agree. Prior to the occurrence of any Event of Default and after the
17 curing of all such Events of Default that may have occurred, the Master Trustee shall perform
18 such duties and only such duties of the Master Trustee as are specifically set forth in this Master
19 Indenture. Upon the occurrence and during the continuation of any Event of Default, the Master
20 Trustee shall use the same degree of care and skill in their exercise as a prudent person would
21 exercise or use under the circumstances in the conduct of such person's own affairs.

22 No provision of this Master Indenture or any Parity Resolution shall be construed to
23 relieve the Master Trustee from liability for its own negligent action, its own negligent failure to
24 act, or its own willful misconduct, except that:

25 (a) prior to any such Event of Default hereunder, and after the curing of any Event of
26 Default that may have occurred:

27 (i) the duties and obligations of the Master Trustee shall be determined solely
28 by the express provisions of this Master Indenture, and the Master Trustee shall not be
29 liable except for the performance of such duties and obligations of the Master Trustee as
30 are specifically set forth in this Master Indenture, and no implied covenants or obligations
31 shall be read into this Master Indenture against the Master Trustee, and

32 (ii) in the absence of bad faith on its part, the Master Trustee may
33 conclusively rely, as to the accuracy of the statements and the correctness of the opinions
34 expressed therein, upon any certificate or opinion furnished to it conforming to the
35 requirements of this Master Indenture, but in the case of any such certificate or opinion
36 by which any provision hereof is specifically required to be furnished to the Master
37 Trustee, the Master Trustee shall be under a duty to examine the same to determine
38 whether or not it conforms to the requirements of this Master Indenture; and

39 (b) at all times, regardless of whether or not any such Event of Default shall exist:

1 (i) the Master Trustee shall not be liable for any error of judgment made in
2 good faith by a responsible officer or officers of the Master Trustee unless it shall be
3 proved that the Master Trustee was negligent in ascertaining the pertinent facts, and

4 (ii) the Master Trustee shall not be liable with respect to any action taken or
5 omitted to be taken by it in good faith in accordance with the direction of the Owners and
6 Holders of not less than twenty-five percent (25%) or a majority, as this Master Indenture
7 shall require, in aggregate principal amount of the Parity Obligations then Outstanding
8 relating to the time, method and place of conducting any proceeding for any remedy
9 available to the Master Trustee, or exercising any power conferred upon the Master
10 Trustee under this Master Indenture.

11 None of the provisions contained in this Master Indenture shall require the Master
12 Trustee to expend or risk its own funds or otherwise incur individual financial liability in the
13 performance of any of its duties or in the exercise of any of its rights or powers.

14 Section 902. Indemnification of Master Trustee as Condition for Remedial Action. The
15 Master Trustee shall be under no obligation to institute any suit or to take any remedial
16 proceeding (including, but not limited to, the acceleration of the maturity date of all Parity
17 Obligations under this Master Indenture) under this Master Indenture or the Pledge Agreement or
18 to enter any appearance or in any way defend in any suit in which it may be made defendant, or
19 to take any steps in the execution of any of the trusts hereby created or in the enforcement of any
20 rights and powers under this Master Indenture or the Pledge Agreement, until it shall be
21 indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees
22 and other reasonable disbursements, and against all liability. The Master Trustee nevertheless
23 may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be
24 done by it as such Master Trustee, without indemnity, and in such case the Corporation, at the
25 request of the Master Trustee, shall reimburse the Master Trustee as Current Expenses of the
26 Corporation for all costs, expenses, outlays and counsel fees and other reasonable disbursements
27 properly incurred in connection therewith. If the Corporation shall fail to make such
28 reimbursement, the Master Trustee may reimburse itself from any money in its possession under
29 the provisions of this Master Indenture and shall be entitled to a preference therefor over any
30 Parity Obligations Outstanding.

31 Section 903. Limitations on Obligations and Responsibilities of Master Trustee. The
32 Master Trustee shall be under no obligation to effect or maintain insurance or to renew any
33 policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the
34 Corporation, or to report, or make or file claims or proof of loss for, any loss or damage insured
35 against or that may occur, or to keep itself informed or advised as to the payment of any taxes or
36 assessments, or to require any such payment to be made. Except as to the acceptance of the
37 trusts under this Master Indenture, the Master Trustee shall have no responsibility in respect of
38 the validity or sufficiency of this Master Indenture, or in respect of the validity of Bonds or
39 Parity Debt or the due execution or issuance thereof. The Master Trustee shall be under no
40 obligation to see that any duties herein imposed upon the Corporation, the Bond Registrar, any
41 consultant, any Depository other than a Master Trustee Depository, or any party other than itself,
42 or any covenants herein contained on the part of any party other than itself to be performed, shall

1 be done or performed, and the Master Trustee shall be under no obligation for failure to see that
2 any such duties or covenants are so done or performed.

3 Section 904. Master Trustee Not Liable for Failure of Corporation to Act. The Master
4 Trustee shall not be liable or responsible because of the failure of the Corporation or of any of its
5 employees or agents to make any collections or deposits or to perform any act herein required of
6 the Corporation or because of the loss of any money arising through the insolvency or the act or
7 default or omission of any Depository other than the Master Trustee or a Depository in which
8 such money shall have been deposited by the Master Trustee under the provisions of this Master
9 Indenture. The Master Trustee shall not be responsible for the application of any of the proceeds
10 of Bonds or Parity Debt or any other money deposited with it and paid out, withdrawn or
11 transferred hereunder if such application, payment, withdrawal or transfer shall be made in
12 accordance with the provisions of this Master Indenture. The immunities and exemptions from
13 liability of the Master Trustee hereunder shall extend to its directors, officers, employees and
14 agents.

15 Section 905. Compensation and Indemnification of Master Trustee and Bond Registrar.
16 Subject to the provisions of any contract between the Corporation and the Master Trustee or any
17 Bond Registrar relating to the compensation of the Master Trustee or such Bond Registrar, the
18 Corporation shall pay to the Master Trustee and such Bond Registrar from Gross Receipts
19 reasonable compensation for all services performed by them hereunder and also all their
20 reasonable expenses, charges and other disbursements and those of their attorneys, agents and
21 employees incurred in and about the administration and the performance of their powers and
22 duties hereunder and, to the extent permitted by law, shall indemnify and save the Master
23 Trustee and the Bond Registrar harmless against any liabilities that they may incur in the proper
24 exercise and performance of their powers and duties hereunder. If the Corporation shall fail to
25 cause any payment required by this Section to be made, the Master Trustee or any Bond
26 Registrar may make such payment from any money in its possession under the provisions of this
27 Master Indenture and shall be entitled to a preference therefor over any Parity Obligations
28 Outstanding. The Corporation covenants that it shall promptly deposit or cause to be deposited
29 to the credit of the respective fund, account or subaccount the amount withdrawn therefrom by
30 the Master Trustee to make any such payment.

31 Section 906. Monthly Statements from Master Trustee. It shall be the duty of the
32 Master Trustee, on or before the 10th day of each month, to file with the Corporation a statement
33 setting forth in respect of the preceding calendar month:

34 (a) the amount withdrawn or transferred by it and the amount deposited with
35 it on account of each fund, account or subaccount held by it under the provisions of this Master
36 Indenture,

37 (b) the amount on deposit with it at the end of such month in each such fund,
38 account or subaccount,

39 (c) a brief description of all obligations held by it as an investment of money
40 in each such fund, account or subaccount,

1 (d) the amount applied to the payment, purchase or redemption of Bonds
2 under the provisions of Article V of this Master Indenture and a description of the Bonds or
3 portions thereof so paid, purchased or redeemed, and

4 (e) any other information that the Corporation may reasonably request.

5 All records and files pertaining to Bonds in the custody of the Master Trustee not
6 otherwise restricted or excluded from disclosure by the terms of this Master Indenture, including,
7 without limitation, Section 1002 hereof, shall be open at all reasonable times to the inspection of
8 the Corporation and its agents and representatives.

9 Section 907. Master Trustee May Rely on Certificates. If at any time it shall be
10 necessary or desirable for the Master Trustee to make any investigation respecting any fact
11 preparatory to taking or not taking any action or doing or not doing anything as such Master
12 Trustee, and in any case in which this Master Indenture provides for permitting or taking any
13 action, the Master Trustee may rely upon any certificate required or permitted to be filed with it
14 under the provisions of this Master Indenture, and any such certificate shall be evidence of such
15 fact or protect the Master Trustee in any action that it may or may not take or in respect of
16 anything it may or may not do, in good faith, by reason of the supposed existence of such fact.
17 Except as otherwise provided in this Master Indenture, any request, notice, certificate or other
18 instrument from the Corporation to the Master Trustee shall be deemed to have been signed by
19 the proper party or parties if signed by any Authorized Officer of the Corporation, and the
20 Master Trustee may accept and rely upon a certificate signed by any Authorized Officer of the
21 Corporation as to any action taken by the Corporation.

22 Section 908. Notice of Default. Except upon the happening of any Event of Default
23 specified in clauses (a), (b) and (c) of Section 802 hereof, the Master Trustee shall not be obliged
24 to take notice or be deemed to have notice of any Event of Default under this Master Indenture
25 unless specifically notified in writing of such Event of Default by the Corporation or the Owners
26 and Holders of not less than twenty-five percent (25%) in aggregate principal amount of Parity
27 Obligations then Outstanding.

28 Section 909. Master Trustee Not Responsible for Recitals. The recitals, statements and
29 representations contained herein and in the Bonds shall be taken and construed as made by and
30 on the part of the Corporation and not by the Master Trustee, and the Master Trustee assumes
31 and shall be under no responsibility for the correctness of the same.

32 Section 910. Master Trustee Protected in Relying on Certain Documents. The Master
33 Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or
34 not proceeding, in good faith, reasonably and in accordance with the terms of this Master
35 Indenture, upon any resolution, order, notice, request, consent, waiver, certificate, statement,
36 affidavit, requisition, bond or other paper or document that it shall in good faith reasonably
37 believe to be genuine and to have been adopted or signed by the proper board or person or to
38 have been prepared and furnished pursuant to any of the provisions of this Master Indenture, or
39 upon the written opinion of any attorney, consultant or accountant believed by the Master
40 Trustee to be qualified in relation to the subject matter, and the Master Trustee shall be under no
41 duty to make any investigation or inquiry as to any statements contained or matters referred to in

1 any such instrument. The Master Trustee shall not be under any obligation to see to the
2 recording or filing of this Master Indenture or otherwise to the giving to any person of notice of
3 the provisions hereof.

4 Section 911. Master Trustee May Pay Taxes and Assessments. In case the Corporation
5 shall fail to pay or cause to be paid any lawful tax, assessment or governmental charge or other
6 charge upon any part of the Corporation to the extent, if any, that the Corporation may be
7 deemed by the Master Trustee liable for same, the Master Trustee may pay from sources
8 provided under this Master Indenture such tax, assessment or governmental charge, without
9 prejudice, however, to any rights of the Master Trustee or the Owners or Holders arising in
10 consequence of such failure; and any amount at any time so paid under this Section shall be
11 repaid upon demand by the Master Trustee by the Corporation from Gross Receipts, but the
12 Master Trustee shall be under no obligation to make any such payment from sources provided in
13 this Master Indenture unless it shall have available or be provided with adequate funds for the
14 purpose of such payment.

15 Section 912. Resignation and Removal of Master Trustee and Bond Registrar Subject
16 to Appointment of Successor. No resignation or removal of the Master Trustee or any Bond
17 Registrar and no appointment of a successor Master Trustee or successor Bond Registrar
18 pursuant to this Article shall become effective until the acceptance of appointment by the
19 successor Master Trustee under Section 915 hereof or the successor Bond Registrar under
20 Section 917 hereof, as the case may be.

21 Section 913. Resignation of Master Trustee. Subject to the provisions of Section 912
22 hereof, the Master Trustee may resign and thereby become discharged from the trusts hereby
23 created, by notice in writing given to the Corporation, and mailed, postage prepaid, at the Master
24 Trustee's expense, to each Owner and Holder, not less than sixty (60) days before such
25 resignation is to take effect, but such resignation shall take effect immediately upon the
26 appointment of a new Master Trustee hereunder if such new Master Trustee shall be appointed
27 before the time limited by such notice and shall then accept the trusts hereof.

28 Section 914. Removal of Master Trustee. The Master Trustee may be removed at any
29 time by an instrument or concurrent instruments in writing, (i) executed by the Owners and
30 Holders of not less than a majority in aggregate principal amount of Parity Obligations then
31 Outstanding and filed with the Corporation, or (ii) so long as no Event of Default shall have
32 occurred and be continuing, a resolution adopted or an instrument executed by the Corporation,
33 not less than sixty (60) days before such removal is to take effect as stated in said resolution,
34 instrument or instruments. A photographic copy of any resolution, instrument or instruments
35 filed with the Corporation under the provisions of this paragraph, duly certified by the Secretary
36 of the Corporation as having been received by the Corporation, shall be delivered promptly by
37 the Corporation to the Master Trustee.

38 The Master Trustee may also be removed at any time for acting or proceeding in
39 violation of, or for failing to act or proceed in accordance with, any provisions of this Master
40 Indenture with respect to the duties and obligations of the Master Trustee by any court of
41 competent jurisdiction upon the application of the Corporation or the Owners and Holders of not

1 less than twenty-five percent (25%) in aggregate principal amount of Parity Obligations then
2 Outstanding.

3 Section 915. Appointment of Successor Master Trustee. If at any time hereafter the
4 Master Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting,
5 or the bank or trust company acting as Master Trustee shall be taken over by any governmental
6 official, agency, department or board, the position of Master Trustee shall thereupon become
7 vacant. If the position of Master Trustee shall become vacant for any reason, the Corporation
8 shall appoint a Master Trustee to fill such vacancy. A successor Master Trustee shall not be
9 required if the Master Trustee shall sell or assign substantially all of its corporate trust business
10 and the vendee or assignee shall continue in the corporate trust business, or if a transfer of the
11 corporate trust department of the Master Trustee is required by operation of law, provided that
12 such vendee, assignee or transferee (i) is a bank or trust company within or without the State
13 which is duly authorized to exercise corporate trust powers and subject to examination by federal
14 or State authority, (ii) has good standing, and (iii) has a combined capital, surplus and undivided
15 profits aggregating not less than One Hundred Million Dollars (\$100,000,000) (or whose
16 obligations hereunder are guaranteed by a bank, banking association or trust company duly
17 authorized to exercise corporate trust powers and subject to examination by federal or state
18 authority, of good standing, and having at the time of the appointment of such Master Trustee, a
19 combined capital, surplus and undivided profits of at least such amount). The Corporation shall
20 mail notice of any such appointment made by it, postage prepaid, to all Owners and Holders.

21 At any time within one year after any such vacancy shall have occurred, the Owners and
22 Holders of not less than twenty-five percent (25%) in principal amount of Parity Obligations then
23 Outstanding, by an instrument or concurrent instruments in writing, executed by such Owners
24 and Holders and filed with the Corporation, may nominate a successor Master Trustee, which the
25 Corporation shall appoint and which shall supersede any Master Trustee theretofore appointed by
26 the Corporation. Photographic copies, duly certified by the Secretary of the Corporation as
27 having been received by the Corporation, of each such instrument shall be delivered promptly by
28 the Secretary of the Corporation to the predecessor Master Trustee and to the Master Trustee so
29 appointed by the Owners and the Holders.

30 If no appointment of a successor Master Trustee shall be made pursuant to the foregoing
31 provisions of this Section, any Owner or Holder or any retiring Master Trustee may apply to any
32 court of competent jurisdiction to appoint a successor Master Trustee. Such court may
33 thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a
34 successor Master Trustee.

35 Any successor Master Trustee hereafter appointed (i) shall be a bank or trust company
36 within the State which is duly authorized to exercise corporate trust powers and subject to
37 examination by federal or State authority, (ii) shall be of good standing and (iii) shall have a
38 combined capital, surplus and undivided profits aggregating not less than One Hundred Million
39 Dollars (\$100,000,000) (or whose obligations hereunder are guaranteed by a bank, banking
40 association or trust company duly authorized to exercise corporate trust powers and subject to
41 examination by federal or state authority, of good standing, and having at the time of the
42 appointment of such Master Trustee, a combined capital, surplus and undivided profits of at least
43 such amount).

1 Section 916. Vesting of Duties in Successor Master Trustee. Every successor Master
2 Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and also
3 to the Corporation and the State Board of Administration, an instrument in writing accepting
4 such appointment under this Master Indenture and the Pledge Agreement, and thereupon such
5 successor Master Trustee, without any further act, shall become fully vested with all the rights,
6 immunities and powers, and subject to all the duties and obligations, of its predecessor; but such
7 predecessor shall nevertheless, on the written request of its successor or of the Corporation and
8 upon payment of the expenses, charges and other disbursements of such predecessor that are
9 payable pursuant to the provisions of Section 905 hereof, execute and deliver an instrument
10 transferring to such successor Master Trustee all the rights, immunities and powers of such
11 predecessor under this Master Indenture and the Pledge Agreement; and every predecessor
12 Master Trustee shall deliver all property and money held by it under this Master Indenture and
13 the Pledge Agreement to its successor. Should any instrument in writing from the Corporation or
14 the State Board of Administration be required by any successor Master Trustee for more fully
15 and certainly vesting in such Master Trustee the rights, immunities, powers and trusts vested or
16 intended to be vested by this Master Indenture and the Pledge Agreement in the predecessor
17 Master Trustee, any such instrument in writing shall and will, on request, be executed,
18 acknowledged and delivered by the Corporation or the State Board of Administration, as the case
19 may be.

20 Section 917. Removal and Resignation of Bond Registrar. A Bond Registrar may be
21 removed at anytime, with or without cause, by the Corporation, upon thirty (30) days' written
22 notice by the Corporation to such Bond Registrar. A copy of such written notice shall be
23 delivered promptly by the Corporation to the Master Trustee. Upon receipt of such notice the
24 Master Trustee shall cause notice of such removal to be mailed, postage prepaid, to the Owners
25 not less than sixty (60) days before such removal is to take effect.

26 A Bond Registrar may resign and thereby become discharged from the duties, obligations
27 and responsibilities of Bond Registrar under this Master Indenture, by written notice delivered to
28 the Corporation and the Master Trustee. Upon receipt of such notice the Master Trustee shall
29 cause notice of such resignation to be mailed, postage prepaid, at such Bond Registrar's expense,
30 to the Owners not less than sixty (60) days before such resignation is to take effect, but such
31 resignation shall take effect immediately upon the appointment of a new Bond Registrar
32 hereunder if such new Bond Registrar shall be appointed before the time limited by such notice
33 and shall then accept the duties, obligations and responsibilities of Bond Registrar under this
34 Master Indenture. If at any time thereafter a Bond Registrar shall resign, be removed, be
35 dissolved or otherwise become incapable of acting, or the entity acting as Bond Registrar shall be
36 taken over by any governmental official, agency, department or board, the position of Bond
37 Registrar shall thereupon become vacant. If the position of Bond Registrar shall become vacant
38 for any reason, the Corporation shall appoint a Bond Registrar to fill such vacancy. A successor
39 Bond Registrar shall not be required if a Bond Registrar shall sell or assign substantially all of its
40 business and the vendee or assignee shall be qualified in the sole judgment of the Corporation to
41 carry out the duties, obligations and responsibilities of Bond Registrar under this Master
42 Indenture. The Corporation shall promptly deliver written notice of any such appointment by it
43 to the Master Trustee and mail such notice, postage prepaid, to all Owners.

1 Article X.

2 EXECUTION OF INSTRUMENTS BY OWNERS AND HOLDERS,
3 PROOF OF OWNERSHIP OF BONDS OR PARITY DEBT, AND
4 DETERMINATION OF CONCURRENCE OF OWNERS AND HOLDERS
5

6 Section 1001. Execution of Instruments. Any request, direction, consent or other
7 instrument in writing required or permitted by this Master Indenture to be signed or executed by
8 any Owners or Holders may be in any number of concurrent instruments of similar tenor and
9 may be signed or executed by such Owners or Holders or their attorneys or legal representatives
10 or legal representative of his estate if the Owner or Holder is deceased. Proof of the execution of
11 any such instrument and of the ownership of Parity Obligations shall be sufficient for any
12 purpose of this Master Indenture and shall be conclusive in favor of the Master Trustee and the
13 Corporation with regard to any action taken by either under such instrument if made in the
14 following manner:

15 (a) The fact and date of the execution by any person of any such instrument
16 may be proved by the verification, by any officer in any jurisdiction who by the laws thereof has
17 power to take affidavits within such jurisdictions, to the effect that such instrument was
18 subscribed and sworn to before him or by an affidavit of a witness to such execution. Where
19 such execution is on behalf of a person other than an individual, such verification or affidavit
20 shall also constitute sufficient proof of the authority of the signer thereof.

21 (b) The ownership of Bonds shall be proved by the registration books kept
22 under the provisions of Section 205 hereof. The ownership or holding of Parity Debt shall be
23 proved as provided in the related Parity Debt Resolution.

24 Nothing contained in this Article shall be construed as limiting the Master Trustee to such
25 proof, it being intended that the Master Trustee may accept any other evidence of the matters
26 herein stated which it may deem sufficient. Any request or consent of any Owner or Holder shall
27 bind every future Owner or Holder of the same Bond or Parity Debt in respect of anything done
28 by the Master Trustee in pursuance of such request or consent.

29 Notwithstanding any of the foregoing provisions of this Section, the Master Trustee shall
30 not be required to recognize any person as an Owner or Holder or to take any action at an
31 Owner's or Holder's request unless such Bonds or Parity Debt shall be deposited with it.

32 Section 1002. Preservation of Information; Communications. (a) The Master Trustee
33 shall preserve, in as current a form as is reasonably practicable, the names and addresses of
34 Owners received by the Master Trustee from the Bond Registrar.

35 (b) If an Owner which is a Securities Depository Nominee or the Owners of
36 not less than ten percent (10%) in aggregate principal amount of Bonds then Outstanding which
37 are not Securities Depository Nominees (hereinafter collectively referred to as "applicants")
38 apply in writing to the Master Trustee and furnish reasonable proof that each such applicant has
39 owned a Bond for a period of at least six months preceding the date of such application, and such
40 application states that the applicants desire to communicate with other Owners with respect to

1 their rights under this Master Indenture or under the Bonds and such application is accompanied
2 by a copy of the form of communication which such applicants propose to transmit, then the
3 Master Trustee shall, within five (5) Business Days after receipt of such application, at its
4 election, either

5 (i) afford such applicants access to the information preserved at the time by
6 the Master Trustee in accordance with paragraph (a) of this Section, or

7 (ii) inform such applicants as to the approximate number of Owners whose
8 names and addresses appear in the information preserved at the time by the Master
9 Trustee in accordance with paragraph (a) of this Section, and as to the approximate cost
10 of mailing to such Owners the form of communication, if any, specified in such
11 application.

12 If the Master Trustee shall elect not to afford such applicants access to such information,
13 the Master Trustee shall, upon the written request of such applicants, mail to each Owner whose
14 name and address appears in the information preserved at the time by the Master Trustee in
15 accordance with paragraph (a) of this Section a copy of the form of communication which is
16 specified in such request, with reasonable promptness after a tender to the Master Trustee of the
17 material to be mailed and of payment, or provision for the payment, of the reasonable expenses
18 of mailing.

19 (c) Every Owner, by receiving and holding one or more Bonds, agrees with
20 the Corporation and the Master Trustee that neither the Corporation nor the Master Trustee shall
21 be held accountable by reason of the disclosure of any such information as to the names and
22 addresses of the Owners in accordance with paragraph (b) of this Section, regardless of the
23 source from which such information was derived, and that the Master Trustee shall not be held
24 accountable by reason of mailing any material pursuant to a request made under such paragraph.

25 Section 1003. Credit Provider as Owner or Holder. Notwithstanding any provision of
26 this Master Indenture to the contrary, a Parity Resolution may provide that a Credit Provider
27 providing credit enhancement or substitution for the payment of principal and interest with
28 respect to the Bonds of a Series or Parity Debt shall be deemed to be the Owner of such Bonds or
29 Holder of such Parity Debt, for all purposes of this Master Indenture, including, without
30 limitation, Article VIII and Article XI, and the Pledge Agreement, in the proportion that the
31 aggregate principal amount of Bonds of such Series or of such Parity Debt then Outstanding for
32 which such Credit Provider is providing credit enhancement or substitution bears to the
33 aggregate principal amount of all Parity Obligations then Outstanding, to the exclusion and in
34 lieu of the Owners of such Bonds or Holders of such Parity Debt.

35 Article XI.

36 SUPPLEMENTS AND AMENDMENTS
37

38 Section 1101. Supplemental Indentures Without Consent. The Corporation and the
39 Master Trustee may, from time to time and at any time, without the consent of or notice to any of
40 the Owners or Holders, execute and deliver Supplemental Indentures hereto (which

1 Supplemental Indentures shall thereafter form a part hereof) as shall be substantially consistent
2 with the terms and provisions of this Master Indenture:

3 (a) to cure any ambiguity or formal defect or omission herein, or any conflict
4 between the provisions hereof and of the Pledge Agreement or of any Parity Resolution delivered
5 to the Master Trustee at the same time as the Corporation delivers this Master Indenture, to
6 correct or supplement any provision herein that may be inconsistent with any other provision
7 herein, to make any other provisions with respect to matters or questions arising under this
8 Master Indenture, or to modify, alter, amend, add to or rescind, in any particular, any of the
9 terms or provisions contained in this Master Indenture, or

10 (b) to grant or to confer upon the Master Trustee, for the benefit of the
11 Owners or Holders, any additional rights, remedies, powers, authority or security that may
12 lawfully be granted to or conferred upon the Owners, the Holders or the Master Trustee, or

13 (c) to add to the provisions of this Master Indenture other conditions,
14 limitations and restrictions thereafter to be observed, or

15 (d) to add to the covenants and agreements of the Corporation in this Master
16 Indenture other covenants and agreements thereafter to be observed by the Corporation or to
17 surrender any right or power herein reserved to or conferred upon the Corporation, or

18 (e) to permit the qualification of this Master Indenture under any federal
19 statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith,
20 if the Corporation so determines, to add to this Master Indenture or any Supplemental Indenture
21 such other terms, conditions and provisions as may be permitted or required by such federal
22 statute or Blue Sky law, or

23 (f) to provide for the issuance of Bonds in bearer form, or

24 (g) to provide for the issuance of Bonds under a book-entry system, or

25 (h) to obtain a Credit Facility, Reserve Alternative Instrument, a Derivative
26 Agreement, or other credit enhancement; provided, however, that no Rating Agency shall reduce
27 or withdraw its rating on any of the Parity Obligations then Outstanding as a consequence of any
28 such provision of such Supplemental Indenture, or

29 (i) to make any amendment or modification to this Master Indenture
30 (including any modification to the Incurrence Test) resulting from the elimination of any
31 restriction on the use of Reimbursement Premiums under the Code to pay or to secure debt
32 service on Tax-Exempt Parity Obligations to the extent the elimination of such restriction is
33 permitted by any administrative pronouncement of the Internal Revenue Service (including a
34 private letter ruling) addressed to the Corporation, the FHCF, or any successor of either, or to the
35 extent such elimination of such use restriction is permitted (based upon an Opinion of Counsel)
36 by the Code, or

37 (j) to enable the Corporation to comply with its obligations, covenants and
38 agreements made in Section 604 or in any Parity Resolution for the purpose of maintaining the

1 tax status of interest on any Tax-Exempt Parity Obligations, provided that such change shall not
2 materially adversely affect the security for any Parity Obligations, or

3 (k) to make any other change that, in the opinion of the Master Trustee, which
4 may, but is not required to, rely upon one or more of affirmation of ratings by the Rating
5 Agencies, certificates of Consultants and Opinions of Counsel for such purpose, shall not
6 materially adversely affect the security for the Parity Obligations.

7 Section 1102. Supplemental Indentures With Consent. Subject to the terms and
8 provisions contained in this Section, and not otherwise, the Owners and Holders of not less than
9 a majority in aggregate principal amount of the Parity Obligations then Outstanding shall have
10 the right, from time to time, anything contained in this Master Indenture to the contrary
11 notwithstanding, to consent to and approve the execution and delivery of such Supplemental
12 Indentures as are deemed necessary or desirable by the Corporation for the purpose of
13 modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or
14 provisions contained in this Master Indenture or in any Supplemental Indenture hereto; provided,
15 however, that nothing herein contained shall permit, or be construed as permitting (a) an
16 extension of the maturity of the principal of or the interest on any Bond or Parity Debt without
17 the consent of the Owner of such Bond or the Holder of such Parity Debt, (b) a reduction in the
18 principal amount of any Bond or Parity Debt or the redemption premium or the rate of interest
19 thereon without the consent of the Owner of such Bond or the Holder of such Parity Debt, (c) the
20 creation of a security interest in or a pledge of Net Receipts other than the security interest and
21 pledge created by this Master Indenture without the consent of the Owners of all Bonds
22 Outstanding and the Holders of all Parity Debt Outstanding, (d) a preference or priority of any
23 Bond or Parity Debt over any other Bond or Parity Debt without the consent of the Owners of all
24 Bonds Outstanding and the Holders of all Parity Debt Outstanding or (e) a reduction in the
25 aggregate principal amount of the Parity Obligations required for consent to such Supplemental
26 Indenture without the consent of the Owners of all Bonds Outstanding and the Holders of all
27 Parity Debt Outstanding. Nothing herein contained, however, shall be construed as making
28 necessary the approval by Owners or Holders of the execution and delivery of any Supplemental
29 Indenture as authorized in Section 1101 hereof.

30 If at any time the Corporation and the Master Trustee determine that it is necessary or
31 desirable to execute and deliver any Supplemental Indenture for any of the purposes of this
32 Section, the Master Trustee shall cause notice of the proposed execution of the Supplemental
33 Indenture to be mailed, postage prepaid, to all Owners at their addresses as they appear on the
34 registration books and to all Holders in accordance with the related Parity Debt Resolution. Such
35 notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state
36 that copies thereof are on file at the designated corporate trust office of the Master Trustee for
37 inspection by all Owners and Holders. The Master Trustee shall not, however, be subject to any
38 liability to any Owner or Holder by reason of its failure to cause the notice required by this
39 Section to be mailed and any such failure shall not affect the validity of such Supplemental
40 Indenture when consented to and approved as provided in this Section.

41 Whenever, at any time within three years after the date of the mailing of such notice, the
42 Corporation delivers to the Master Trustee an instrument or instruments in writing purporting to
43 be executed by the Owners or Holders of not less than a majority in aggregate principal amount

1 of Parity Obligations then Outstanding, which instrument or instruments shall refer to the
2 proposed Supplemental Indenture described in such notice and shall specifically consent to and
3 approve the execution and delivery thereof in substantially the form of the copy thereof referred
4 to in such notice, thereupon, but not otherwise, the Corporation and the Master Trustee may
5 execute and deliver such Supplemental Indenture in substantially such form, without liability or
6 responsibility to any Owner or Holder whether or not such Owner or Holder shall have
7 consented thereto.

8 If the Owners or Holders of not less than a majority in aggregate principal amount of
9 Parity Obligations Outstanding at the time of the execution and delivery of such Supplemental
10 Indenture have consented to and approved the execution and delivery thereof as herein provided,
11 to the extent permitted by law, no Owner or Holder shall have any right to object to the
12 execution and delivery of such Supplemental Indenture, to object to any of the terms and
13 provisions contained therein or the operation thereof, to question the propriety of the execution
14 and delivery thereof, or to enjoin or restrain the Corporation and the Master Trustee from
15 executing and delivering the same or from taking any action pursuant to the provisions thereof.

16 Section 1103. Supplemental Indentures Part of Master Indenture. Any Supplemental
17 Indenture executed and delivered in accordance with the provisions of this Article shall
18 thereafter form a part of this Master Indenture, and this Master Indenture shall be and be deemed
19 to be modified and amended in accordance therewith. Thereafter the respective rights, duties and
20 obligations under the Master Indenture of the Corporation, the Master Trustee, any Bond
21 Registrar and all Owners of Bonds and Holders of Parity Debt then Outstanding shall thereafter
22 be determined, exercised and enforced in all respects under the provisions of this Master
23 Indenture as so modified and amended. If any Supplemental Indenture is executed and
24 delivered, Bonds issued thereafter and Parity Debt incurred thereafter may contain an express
25 reference to such Supplemental Indenture, if deemed necessary or desirable by the Corporation.

26 Section 1104. Not a Supplemental Indenture. For purpose of this Article, a
27 Supplemental Indenture or Parity Debt Resolution that relates only to a particular Series of
28 Bonds issued hereunder or Parity Debt incurred under a Parity Debt Resolution and that does not
29 purport to alter or amend the rights or security of any Owners of any Bonds of any other Series
30 issued hereunder or any Holder of any Parity Debt incurred under a Parity Debt Resolution shall
31 not be deemed or considered to be a Supplemental Indenture for purposes of this Article.

32 Section 1105. Responsibilities of the Master Trustee. The Master Trustee shall be
33 entitled to receive, and shall be fully protected in relying upon, an opinion of counsel, who may
34 be Bond Counsel for the Corporation, as conclusive evidence that any proposed supplemental
35 indenture does or does not comply with the provisions of this Master Trust Indenture, and that it
36 is or is not proper for it, under the provisions of this Article, to execute and deliver such
37 supplemental indenture.

1

2 Article XII.

3 DEFEASANCE

4
5 Section 1201. Release of Master Indenture. When:

6 (a) the Bonds and any Parity Debt shall have become due and payable in
7 accordance with their terms or otherwise as provided in this Master Indenture, and the whole
8 amount of the principal and the interest and premium, if any, so due and payable upon all Parity
9 Obligations shall be paid, or

10 (b) if the Bonds and any Parity Debt shall not have become due and payable
11 in accordance with their terms, the Master Trustee or the Bond Registrar shall hold sufficient
12 money or Defeasance Obligations, or a combination of money and Defeasance Obligations, the
13 principal of and the interest on which, when due and payable, will provide sufficient money to
14 pay the principal of and the interest and redemption premium, if any, on all Parity Obligations
15 then Outstanding to the maturity date or dates of such Parity Obligations or to the date or dates
16 specified for the redemption thereof, as verified by a nationally recognized independent certified
17 public accountant, and, if Bonds or any Parity Debt are to be called for redemption, irrevocable
18 instructions to call the Bonds or Parity Debt for redemption shall have been given by the
19 Corporation to the Master Trustee, and

20 (c) sufficient funds shall also have been provided or provision made for
21 paying all other obligations payable hereunder by the Corporation;

22 then and in that case the right, title and interest of the Master Trustee in the funds, accounts and
23 subaccounts mentioned in this Master Indenture shall thereupon cease, determine and become
24 void and, upon being furnished with an opinion, in form and substance satisfactory to the Master
25 Trustee, of counsel approved by the Master Trustee, to the effect that all conditions precedent to
26 the release of this Master Indenture have been satisfied, the Master Trustee shall release this
27 Master Indenture and shall execute such documents to evidence such release as may be required
28 by such counsel and shall turn over to the Corporation any surplus in, and all balances remaining
29 in, all funds, accounts and subaccounts other than money held for the redemption or payment of
30 Parity Obligations; otherwise, this Master Indenture shall be, continue and remain in full force
31 and effect; provided, however, that in the event Defeasance Obligations shall be deposited with
32 and held by the Master Trustee or the Bond Registrar as hereinabove provided, (i) in addition to
33 the requirements set forth in Article III of this Master Indenture, the Master Trustee, within thirty
34 (30) days after such Defeasance Obligations shall have been deposited with it, shall cause a
35 notice signed by the Master Trustee to be mailed, postage prepaid, to all Owners of Bonds and to
36 all Holders of Parity Debt, setting forth (a) the date or dates, if any, designated for the
37 redemption of the Parity Obligations, (b) a description of the Defeasance Obligations so held by
38 it, and (c) that this Master Indenture has been released in accordance with the provisions of this
39 Section, and (ii) (a) the Master Trustee shall nevertheless retain such rights, powers and
40 privileges under this Master Indenture as may be necessary and convenient in respect of the
41 Bonds and any Parity Debt for the payment of the principal, interest and any premium for which

1 such Defeasance Obligations have been deposited and (b) the Bond Registrar shall retain such
2 rights, powers and privileges under this Master Indenture as may be necessary and convenient
3 for the registration, transfer and exchange of Bonds; and provided, further, however, that failure
4 to mail such notice to any Owner or to the Owners, or to any such Holder or to such Holders, or
5 any defect in such notice so mailed, shall not affect the validity of the proceedings for the release
6 of this Master Indenture.

7 All money and Defeasance Obligations held by the Master Trustee (or any Bond
8 Registrar) pursuant to this Section shall be held in trust and applied to the payment, when due, of
9 the obligations payable therewith.

10 Article XIII.

11 MISCELLANEOUS PROVISIONS

12
13 Section 1301. Successorship of Corporation. In the event the Corporation for any reason
14 shall be dissolved or its legal existence shall otherwise be terminated, all of the covenants,
15 stipulations, obligations and agreements contained in this Master Indenture by or on behalf of or
16 for the benefit of the Corporation shall bind or inure to the benefit of the successor or successors
17 of the Corporation from time to time and any officer, board, commission, authority, agency or
18 instrumentality to whom or to which any power or duty affecting such covenants, stipulations,
19 obligations and agreements shall be transferred by or in accordance with law, and the term
20 "Corporation" as used in this Master Indenture shall include such successor or successors.

21 Section 1302. Successorship of Depository and Bond Registrar. Any bank or trust
22 company with or into which a Depository or Bond Registrar may be merged or consolidated, or
23 to which the assets and business of such Depository or Bond Registrar may be sold, shall be
24 deemed the successor of such Depository or Bond Registrar for the purposes of this Master
25 Indenture. If the position of any Depository shall become vacant for any reason or the position
26 of Bond Registrar shall become vacant for any reason not provided for by Section 917 hereof,
27 the Corporation shall appoint a bank or trust company to fill such vacancy within thirty (30) days
28 thereafter; provided, however, that if the Corporation shall fail to appoint such Depository or
29 Bond Registrar within such period, the Master Trustee shall make such appointment.

30 Section 1303. Manner of Giving Notice. All notices, demands and requests to be given
31 to or made hereunder by the Corporation or the Master Trustee shall be given or made in writing
32 and shall be deemed to be properly given or made if sent by United States certified or registered
33 mail, return receipt requested postage prepaid, addressed as follows:

34 (a) As to the Corporation--

35 Florida Hurricane Catastrophe Fund
36 Finance Corporation
37 c/o State Board of Administration of the
38 State of Florida
39 1801 Hermitage Boulevard
40 Tallahassee, Florida 32308
41 Attention: President

1 (b) As to the Master Trustee--

2 Wells Fargo Bank, N.A.
3 7077 Bonneval Road, Suite 400
4 Jacksonville, FL 32216
5 Attention: Corporate Trust Department

6 Any such notice, demand or request may also be transmitted to the appropriate above-
7 mentioned party by telephone or electronic transmission and shall be deemed to be properly
8 given or made at the time of such transmission if, and only if, such transmission of notice shall
9 be confirmed in writing and sent as specified above.

10 Any of such addresses may be changed at any time upon written notice of such change
11 sent by United States certified or registered mail, postage prepaid, to the other parties by the
12 party effecting the change.

13 All documents received by the Master Trustee under the provisions of this Master
14 Indenture, or photographic copies thereof, shall be retained in its possession until this Master
15 Indenture shall be released under the provisions of Section 1201 hereof, subject at all reasonable
16 times to the inspection of the Corporation, any Owner, any Holder and the agents and
17 representatives thereof.

18 Section 1304. Substitute Mailing. If, because of the temporary or permanent suspension
19 of postal service, the Corporation or the Master Trustee shall be unable to mail any notice
20 required to be given by the provisions of this Master Indenture, the Corporation or the Master
21 Trustee shall give notice in such other manner as in the judgment of the Corporation or the
22 Master Trustee shall most effectively approximate mailing, and the giving of notice in such
23 manner shall for all purposes of this Master Indenture be deemed to be in compliance with the
24 requirement for the mailing thereof.

25 Section 1305. Parties, Bond Registrar, Owners and Holders Alone Have Rights Under
26 Master Indenture. Except as herein otherwise expressly provided, nothing in this Master
27 Indenture, express or implied, is intended or shall be construed to confer upon any person, firm
28 or corporation, other than the Master Trustee, any Bond Registrar, the Corporation, the Owners
29 and the Holders any right, remedy or claim, legal or equitable, under or by reason of this Master
30 Indenture or any provision thereof, this Master Indenture and all its provisions all being intended
31 to be and being for the sole and exclusive benefit of the Master Trustee, the Corporation, any
32 Bond Registrar, the Owners and the Holders.

33 Section 1306. Effect of Partial Invalidity. In case any one or more of the provisions of
34 this Master Indenture or the Bonds or any Parity Debt shall for any reason be held to be illegal or
35 invalid, such illegality or invalidity shall not affect any other provisions of this Master Indenture
36 or the Bonds or any Parity Debt, but this Master Indenture and the Parity Obligations shall be
37 construed and enforced as if such illegal or invalid provisions had not been contained therein. In
38 case any covenant, stipulation, obligation or agreement contained in the Parity Obligations or
39 this Master Indenture shall for any reason be held to be in violation of law, then such covenant,

1 stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or
2 agreement of the Corporation to the full extent permitted by law.

3 Section 1307. Effect of Covenants; Governing Law. All covenants, stipulations,
4 obligations and agreements of the Corporation contained in this Master Indenture shall be
5 deemed to be covenants, stipulations, obligations and agreements of the Corporation to the full
6 extent permitted by the Constitution and laws of the State. This Master Indenture is executed
7 and delivered with the intent that the laws of the State shall govern this construction.

8 Section 1308. No Recourse Against Members, Officers or Employees of Corporation or
9 State Board of Administration. No recourse under, or upon, any statement, obligation, covenant
10 or agreement contained in this Master Indenture, or in any Bond or Parity Debt hereby secured,
11 or in any document or certification whatsoever, or under any judgment obtained against the
12 Corporation or the State Board of Administration, or by the enforcement of any assessment, or
13 by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under
14 any circumstances, shall be had against any member, officer or employee of the Corporation or
15 the State Board of Administration, either directly or through the Corporation of the FHCF for the
16 payment for or to, the Corporation or any receiver of it, or for, or to, any Owner or Holder or
17 otherwise, of any sum that may be due and unpaid upon any such Bond or Parity Debt. Any and
18 all personal liability of every nature, whether at common law or in equity or by statute or by
19 constitution or otherwise, of any such member, officer or employee to respond by reason of any
20 act or omission on his or her part or otherwise, for the payment for, or to, the Corporation or any
21 receiver of either of them, or for, or to, any Owner, Holder or otherwise, of any sum that may
22 remain due and unpaid upon the Bonds or any Parity Debt hereby secured or any of them, is
23 hereby expressly waived and released as an express condition of, and in consideration for, the
24 execution and delivery of this Master Indenture, the issuance of the Bonds and the incurrence of
25 any Parity Debt.

26 Section 1309. Dealing in Parity Obligations. The Master Trustee and any Bond
27 Registrar, and their directors, officers, employees or agents, and any officer, employee or agent
28 of the Corporation, may in good faith, buy, sell, own, hold and deal in any Parity Obligations and
29 may join in any action which any Owner or Holder may be entitled to take with like effect as if
30 such Master Trustee were not a Master Trustee and such bank or trust company were not a Bond
31 Registrar under this Master Indenture or as if such officer, employee or agent of the Corporation
32 did not serve in such capacity.

33 Section 1310. Headings. Any heading preceding the text of the several articles hereof,
34 any table of contents or marginal notes appended to copies hereof, shall be solely for
35 convenience of reference and shall not constitute a part of this Master Indenture, nor shall they
36 affect its meaning, construction or effect.

37 Section 1311. Further Authority. The officers, attorneys and other agents or employees
38 of the Corporation are hereby authorized to do all acts and things required of them by this Master
39 Indenture for the full, punctual and complete performance of all of the terms, covenants and
40 agreements contained in the Parity Obligations and this Master Indenture.

1 Section 1312. Payments Due on Non-Business Days. Except as otherwise provided in a
2 Parity Resolution, if the date for making any payment or the last day for performance of any act
3 or the exercising of any right as provided in this Master Indenture is not a Business Day, such
4 payment may be made or act performed or right exercised on the next Business Day with the
5 same force and effect as if done on the date provided in this Master Indenture.

6 Section 1313. Multiple Counterparts. This Master Indenture may be executed in
7 multiple counterparts, each of which shall be regarded for all purposes as an original, and such
8 counterparts shall constitute but one and the same instrument.

1 IN WITNESS WHEREOF, the Corporation has caused these presents to be signed in its
2 name and on its behalf and attested by its duly authorized officers and to evidence its acceptance
3 of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name
4 and on its behalf and attested by its duly authorized officers, all of as of the day and year first
5 above written.

6 FLORIDA HURRICANE CATASTROPHE FUND
7 FINANCE CORPORATION

8 By: [Signature]
9 President



11 Attest:

12 [Signature]
13 Secretary

14 WELLS FARGO BANK, N.A.,
15 as Master Trustee

16 By: _____
17 [Title]

18 (SEAL)

19 Attest:

20 _____
21 [Title]

1 IN WITNESS WHEREOF, the Corporation has caused these presents to be signed in its
2 name and on its behalf and attested by its duly authorized officers and to evidence its acceptance
3 of the trusts hereby created, the Master Trustee has caused these presents to be signed in its name
4 and on its behalf and attested by its duly authorized officers, all of as of the day and year first
5 above written.

6 FLORIDA HURRICANE CATASTROPHE FUND
7 FINANCE CORPORATION

8 By: _____
9

10 (SEAL)

11 Attest:

12 _____
13

14 WELLS FARGO BANK, N.A.,
15 as Master Trustee

16 By: [Signature]
17 Brian P. Clark, Vice President



18 (SEAL)

19 Attest:

20 [Signature]
21 Title:

APPENDIX C-3
FORM OF SEVENTH SUPPLEMENTAL INDENTURE

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SEVENTH SUPPLEMENTAL INDENTURE

by and between

STATE BOARD OF ADMINISTRATION FINANCE CORPORATION

and

REGIONS BANK
(successor to Wells Fargo Bank, N.A.),
as Master Trustee

Dated as of March 1, 2016

Authorizing and Securing
\$1,200,000,000
State Board of Administration Finance Corporation
Revenue Bonds, Series 2016A

TABLE OF CONTENTS

Page

ARTICLE I
DEFINITIONS

| | | |
|--------------|----------------------------------|---|
| SECTION 101. | MEANING OF WORDS AND TERMS | 3 |
| SECTION 102. | RULES OF CONSTRUCTION | 4 |

ARTICLE II
AUTHORIZATION, FORM, ISSUANCE, DELIVERY AND REGISTRATION
OF THE SERIES 2016A BONDS

| | | |
|--------------|---|----|
| SECTION 201. | LIMITATION ON ISSUANCE OF SERIES 2016A BONDS | 5 |
| SECTION 202. | FORM AND NUMBERING OF SERIES 2016A BONDS | 5 |
| SECTION 203. | DETAILS OF SERIES 2016A BONDS | 5 |
| SECTION 204. | EXECUTION AND FORM OF SERIES 2016A BONDS | 7 |
| SECTION 205. | EXCHANGE OF SERIES 2016A BONDS | 8 |
| SECTION 206. | NEGOTIABILITY AND REGISTRATION OF TRANSFER OF SERIES 2016A BONDS | 9 |
| SECTION 207. | OWNERSHIP OF SERIES 2016A BONDS | 9 |
| SECTION 208. | AUTHORIZATION OF SERIES 2016A BONDS | 10 |

ARTICLE III
REDEMPTION OF SERIES 2016A BONDS

| | | |
|--------------|---|----|
| SECTION 301. | MAKE-WHOLE REDEMPTION OF SERIES 2016A BONDS | 13 |
| SECTION 302. | NOTICE OF REDEMPTION | 13 |

ARTICLE IV
ESTABLISHMENT OF ACCOUNTS AND SUBACCOUNTS, APPLICATION
OF NET RECEIPTS AND INVESTMENT OF FUNDS

| | | |
|--------------|---|----|
| SECTION 401. | ESTABLISHMENT OF ACCOUNTS AND SUBACCOUNTS | 15 |
| SECTION 402. | APPLICATION OF NET RECEIPTS | 15 |
| SECTION 403. | INVESTMENT OF MONEY | 16 |
| SECTION 404. | PAYMENT OF PRINCIPAL AND INTEREST | 17 |
| SECTION 405. | STATE COVENANT | 18 |

ARTICLE V
THE MASTER TRUSTEE

| | | |
|--------------|--|----|
| SECTION 501. | ACCEPTANCE OF DUTIES BY MASTER TRUSTEE | 19 |
|--------------|--|----|

ARTICLE VI
AMENDMENT TO MASTER TRUST INDENTURE AND SUPPLEMENTAL
INDENTURES

| | | |
|--------------|---|----|
| SECTION 601. | AMENDMENT OF MASTER TRUST INDENTURE..... | 20 |
| SECTION 602. | AMENDMENT TO MASTER TRUST INDENTURE, AND SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF OWNERS..... | 20 |
| SECTION 603. | MODIFICATION OF SUPPLEMENT NO. 7 WITH CONSENT OF OWNERS | 21 |
| SECTION 604. | EXCLUSION OF SERIES 2016A BONDS..... | 22 |
| SECTION 605. | RESPONSIBILITIES OF MASTER TRUSTEE AND CORPORATION UNDER THIS ARTICLE..... | 23 |

ARTICLE VII
QUALIFIED ESCROW FUNDS

| | | |
|--------------|------------------------------|----|
| SECTION 701. | QUALIFIED ESCROW FUNDS | 24 |
|--------------|------------------------------|----|

ARTICLE VIII.
MISCELLANEOUS PROVISIONS

| | | |
|--------------|---|-----|
| SECTION 801. | MANNER OF GIVING NOTICE | 25 |
| SECTION 802. | SUBSTITUTE NOTICE..... | 25 |
| SECTION 803. | CORPORATION, MASTER TRUSTEE, BOND REGISTRAR AND OWNERS ALONE HAVE RIGHTS UNDER SUPPLEMENT NO. 7 | 26 |
| SECTION 804. | EFFECT OF PARTIAL INVALIDITY | 26 |
| SECTION 805. | EFFECT OF COVENANTS: GOVERNING LAW..... | 26 |
| SECTION 806. | HEADINGS | 26 |
| SECTION 807. | FURTHER AUTHORITY | 26 |
| SECTION 808. | PAYMENT DUE ON NON-BUSINESS DAYS | 26 |
| SECTION 809. | MULTIPLE COUNTERPARTS | 27 |
| Exhibit A | Form of Series 2016A Bonds..... | A-1 |

SEVENTH SUPPLEMENTAL INDENTURE

THIS SEVENTH SUPPLEMENTAL INDENTURE, dated as of March 1, 2016 ("Supplement No. 7"), by and between the State Board of Administration Finance Corporation, an instrumentality of the State of Florida (the "Corporation"), and Regions Bank (successor to Wells Fargo Bank, N.A.), a state banking corporation existing under the laws of the State of Alabama and having a corporate trust office in Jacksonville, Florida, which is authorized under such laws to exercise trust powers (the "Master Trustee"),

WITNESSETH:

WHEREAS, Section 215.555, Florida Statutes, as amended (the "Act") creates the Florida Hurricane Catastrophe Fund, a trust fund established for bond covenants, indentures or resolutions within the meaning of Section 19(f)(3), Article III of the Constitution of the State of Florida (the "FHCF"), and provides that the FHCF will be administered by the State Board of Administration of the State of Florida (in its capacity as the governing body and administrator of the FHCF, the "State Board of Administration"); and

WHEREAS, the Corporation has executed and delivered a Master Trust Indenture, dated as of June 1, 2006 (the "Master Trust Indenture" and as supplemented and amended, the "Master Indenture"), by and between the Corporation and the Master Trustee, which authorizes the Corporation to issue Parity Obligations (as defined in the Master Indenture) in accordance with the provisions thereof and hereof; and

WHEREAS, the Corporation issued on July 6, 2006, a series of Parity Obligations in the form of Bonds, in the aggregate principal amount of \$1,350,025,000 (the "Series 2006A Bonds") in accordance with the Master Indenture and a First Supplemental Indenture for the purpose of providing funds, together with other available funds, to (i) enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by Hurricanes Dennis, Katrina, Rita and Wilma pursuant to reimbursement contracts for the Contract Year ended May 31, 2006, subject to the limitations on such reimbursements set forth in the Act, (ii) pay capitalized interest on the Series 2006A Bonds, (iii) make a deposit to the credit of the Parity Common Reserve Account, and (iv) pay certain expenses incurred in connection with the issuance of the Series 2006A Bonds; and

WHEREAS, the Corporation issued on July 21, 2006, a series of Parity Obligations in the form of Bonds, designated for purposes of sale as notes, in the aggregate principal amount of \$2,800,000,000 (the "Series 2006B Notes") in accordance with the Master Indenture and a Second Supplemental Indenture for the purpose of providing funds, together with other available funds, to (i) maximize the ability of the

FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events (as defined in the Act) occurring in the Contract Year ended May 31, 2007 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act, (ii) pay capitalized interest on the Series 2006B Notes, and (iii) pay certain expenses incurred in connection with the issuance of the Series 2006B Notes; and

WHEREAS, the Corporation issued in October 2007, a series of Parity Obligations in the form of Bonds, designated for purposes of sale as notes, in the aggregate principal amount of \$3,500,000,000 (the "Series 2007A Notes"), in accordance with the Master Indenture and a Third Supplemental Indenture (the "Third Supplemental Indenture") for the purpose of providing funds, together with other available funds, to (i) maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ended May 31, 2008 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act, and (ii) pay certain expenses incurred in connection with the issuance of the Series 2007A Notes; and

WHEREAS, the Corporation issued on July 31, 2008, a series of Parity Obligations in the form of Bonds, in the aggregate principal amount of \$625,000,000 (the "Series 2008A Bonds"), in accordance with the Master Indenture and a Fourth Supplemental Indenture for the purpose of providing funds, together with other available funds, to (i) enable the FHCF to make additional reimbursement payments through the FHCF to participating insurers of reimbursable losses caused by Hurricanes Dennis, Katrina, Rita and Wilma pursuant to reimbursement contracts for the Contract Year ended May 31, 2006, subject to the limitations on such reimbursements set forth in the Act, and (ii) pay certain expenses incurred in connection with the issuance of the Series 2008A Bonds; and

WHEREAS, the Corporation issued on May 25, 2010, a series of Parity Obligations in the form of Bonds, in the aggregate principal amount of \$675,920,000 (the "Series 2010A Bonds"), in accordance with the Master Indenture and a Fifth Supplemental Indenture for the purpose of providing funds, together with other available funds, to (i) enable the FHCF to make additional reimbursement payments through the FHCF to participating insurers of reimbursable losses caused by Hurricanes Dennis, Katrina, Rita and Wilma pursuant to reimbursement contracts for the Contract Year ended May 31, 2006, subject to the limitations on such reimbursements set forth in the Act, (ii) pay capitalized interest on the Series 2010A Bonds, (iii) make a deposit to the credit of the Parity Common Reserve Account, and (iv) pay certain expenses incurred in connection with the issuance of the Series 2010A Bonds; and

WHEREAS, the Corporation issued on April 23, 2013, a series of Parity Obligations in the form of Bonds, in the aggregate principal amount of \$2,000,000,000 (the "Series 2013A Bonds"), in accordance with the Master Indenture and a Sixth Supplemental Indenture for the purpose of providing funds, together with other available funds, to (i) maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ended May 31, 2014 or any subsequent Contract year, subject to the limitations on such reimbursements set forth in the Act, and (ii) and pay certain expenses incurred in connection with the issuance of the Series 2013A Bonds; and

WHEREAS, the Corporation has now determined to issue a series of Parity Obligations in the form of Bonds, in the aggregate principal amount of \$1,200,000,000 (the "Series 2016A Bonds"), in accordance with the Master Indenture and this Supplement No. 7 for the purpose of providing funds, together with other available funds, to (i) maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ending May 31, 2016 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act, and (ii) pay certain expenses incurred in connection with the issuance of the Series 2016A Bonds; and

WHEREAS, the Series 2006A Bonds, the Series 2006B Notes, the Series 2007A Notes and the Series 2008A Bonds have been retired, the Series 2010A Bonds have been defeased, and the Series 2016A Bonds shall be issued on a parity basis with the Outstanding Series 2013A Bonds; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

SECTION 101. MEANING OF WORDS AND TERMS. Unless otherwise required by the context, words and terms used herein which are defined, or the definitions of which are incorporated by reference, in the Master Indenture or the form of the Series 2016A Bonds shall have the meanings assigned to them therein, and the following words and terms shall have the following meanings herein; provided that where the Master Indenture provides that a word or term defined in the Master Indenture may be modified by a Supplemental Indenture and such word or term is defined herein, the definition herein shall control:

"**Bond Counsel**" means a firm of lawyers, selected by the Corporation, nationally recognized for legal expertise in matters relating to municipal bonds.

"**Bond Registrar**" means the institution serving at the time as Master Trustee.

"**Closing**" means the delivery of and payment for the Series 2016A Bonds.

"**Closing Date**" means the date of the Closing.

"**Defaulted Interest**" means Defaulted Interest as defined in Section 203 hereof.

"**Interest Payment Date**" means each July 1 and January 1, the first interest payment date being July 1, 2016.

"**Principal Payment Date**" means July 1.

"**Regular Record Date**" means the June 15 and December 15 next preceding each Interest Payment Date.

"**Serial Bonds**" means the Series 2016A Bonds that are stated to mature on July 1, 2019 and July 1, 2021

"**Series 2016A Account of the Costs of Issuance Fund**" means the account created and designated by Section 401 hereof.

"**Series 2016A Bonds**" means the State Board of Administration Finance Corporation Revenue Bonds, Series 2016A, issued pursuant to Section 208 of the Master Indenture and Section 208 of this Supplement No. 7.

"**Series 2016A Subaccount of the Interest Account**" means the subaccount created and so designated by Section 401 hereof.

"**Series 2016A Subaccount of the Principal Account**" means the subaccount created and so designated by Section 401 hereof.

"**Special Record Date**" means a date fixed by the Master Trustee for the payment of Defaulted Interest pursuant to Section 203 hereof.

SECTION 102. RULES OF CONSTRUCTION. The Rule of Construction contained in the Master Indenture shall control the construction of this Supplement No. 7, mutatis mutandis, except as otherwise provided herein.

**ARTICLE II
AUTHORIZATION, FORM, ISSUANCE, DELIVERY
AND REGISTRATION OF THE SERIES 2016A BONDS**

SECTION 201. LIMITATION ON ISSUANCE OF SERIES 2016A BONDS. No Series 2016A Bonds may be issued under the provisions of this Supplement No. 7 except in accordance with the provisions of the Master Indenture and this Article.

SECTION 202. FORM AND NUMBERING OF SERIES 2016A BONDS. The Series 2016A Bonds are issuable in fully registered form in denominations of \$5,000 and any integral multiple thereof, shall be lettered "RA-", shall be numbered from 1 consecutively upward and shall be substantially in the form set forth in Exhibit A hereto and made a part hereof, with such appropriate variations, omissions and insertions as are permitted or required by the Master Indenture or this Supplement No. 7.

SECTION 203. DETAILS OF SERIES 2016A BONDS.

(a) The Series 2016A Bonds shall be dated the date of their delivery, shall bear interest until their payment, such interest to the maturity thereof being payable semi-annually on each January 1 and July 1, the first interest payment date being July 1, 2016, at the rates and shall be stated to mature on July 1 in the years (without right of prior redemption), all as set forth in Section 208 hereof.

(b) Each Series 2016A Bond shall bear interest from the Interest Payment Date next preceding the date on which it is authenticated unless it is (i) authenticated upon an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) authenticated prior to the first Interest Payment Date, in which event it shall bear interest from its date; provided, however, that if at the time of authentication of any Series 2016A Bond interest is in default, such Series 2016A Bond shall bear interest from the date to which interest has been paid.

(c) Both the principal of and the interest on the Series 2016A Bonds shall be payable in any coin or currency of the United States of America that is legal tender for the payment of public and private debts on the respective dates of payment thereof. The payment of interest on each Series 2016A Bond shall be made by the Bond Registrar on each Interest Payment Date to the person appearing on the registration books of the Bond Registrar as the Owner thereof as of the Regular Record Date (i) by check mailed to the Owner at his address as it appears on such registration books or (ii) by wire transfer to any Owner of Series 2016A Bonds in the aggregate principal amount of \$1,000,000 or more that requests such method of payment and has furnished the necessary instructions and information to the Bond Registrar. Payment of the principal of all Series 2016A

Bonds shall be made upon the presentation and surrender of such Series 2016A Bonds at the designated corporate trust office of the Bond Registrar as the same become due and payable (whether at maturity or by acceleration or otherwise).

(d) Any interest on any Series 2016A Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Owner on the relevant Regular Record Date solely by virtue of such Owner having been such Owner; and such Defaulted Interest may be paid by the Corporation, at its election in each case, as provided in paragraph 1 or 2 below:

(1) The Corporation may elect to make payment of any Defaulted Interest on the Series 2016A Bonds to the persons in whose names such Bonds (or their respective Predecessor Bonds) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Corporation shall notify the Master Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Series 2016A Bond and the date of the proposed payment (which date shall be such as will enable the Master Trustee to comply with the next sentence hereof), and at the same time, the Corporation shall deposit with the Master Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Master Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this subparagraph provided. Thereupon the Master Trustee shall fix a Special Record Date for the payment of such Defaulted Interest, which shall be neither more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Master Trustee of the notice of the proposed payment. The Master Trustee shall promptly notify the Corporation of such Special Record Date and, in the name and at the expense of the Corporation, such expense to be paid from Gross Receipts or any moneys available to the Corporation for such purpose, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given by first-class mail, postage prepaid, to each Owner at such Owner's address as it appears in the registration books maintained under Section 206 hereof not less than ten (10) days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names the Series 2016A Bonds (or their respective Predecessor Bonds) are registered on such Special Record Date and shall no longer be payable pursuant to the following paragraph (2).

(2) The Corporation may make payment of any Defaulted Interest on the Series 2016A Bonds in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Bonds may be listed and upon such notice as may be required by such exchange, if, after notice given by the Corporation to the Master Trustee of the proposed payment pursuant to this subparagraph, such payment shall be deemed practicable by the Master Trustee.

Subject to the foregoing provisions of this Section 203, each Series 2016A Bond delivered under this Supplement No. 7 upon registration of, transfer of, in exchange for, or in lieu of any other Series 2016A Bond shall carry all the rights to interest accrued and unpaid, and to accrue, which were carried by such other Series 2016A Bond and each such Bond shall bear interest from such date, so that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

SECTION 204. EXECUTION AND FORM OF SERIES 2016A BONDS.

(a) The Series 2016A Bonds shall be signed by, or bear the facsimile signatures of, the President and the Secretary of the Corporation and the corporate seal of the Corporation shall be impressed, or a facsimile thereof printed, on the Series 2016A Bonds. In case any officer whose signature or a facsimile of whose signature appears on any Series 2016A Bonds ceases to be such officer before the delivery of such Bonds, such signature or such facsimile nevertheless shall be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery, and any Series 2016A Bond may bear the facsimile signature of, or may be signed by, such persons as at the actual time of the execution of such Bond are the proper officers to execute such Bond although at the date of such Bond such persons may not have been such officers.

(b) The definitive Series 2016A Bonds are issuable as permitted or required by this Supplement No. 7. All Series 2016A Bonds may have endorsed thereon such legends or text as may be necessary or appropriate to conform to the applicable rules and regulations of any governmental authority or any securities exchange on which the Series 2016A Bonds may be listed or to any requirement of law with respect thereto.

(c) The Series 2016A Bonds shall be issued by means of a book-entry system with no physical distribution of bond certificates to be made except as hereinafter provided. One bond certificate with respect to each date on which the Series 2016A Bonds are stated to mature, in the aggregate principal amount of the Series 2016A Bonds stated to mature on such date and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), shall be issued and delivered as directed by DTC. The book-entry system shall evidence ownership of the Series 2016A Bonds in the principal amount of \$5,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The principal of each Series 2016A Bond and interest with respect thereto shall be payable to Cede & Co. or

any other person appearing in the registration books of the Corporation kept by the Bond Registrar as the Owner of such Series 2016A Bond or its registered assigns or legal representatives. Transfer of principal and interest payments to participants of DTC shall be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Series 2016A Bonds by participants of DTC shall be the responsibility of such participants and other nominees of such beneficial owners. The Corporation, the Bond Registrar and the Master Trustee shall not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing records maintained by DTC, its participants or persons acting through such participants.

(d) In the event that (i) DTC determines not to continue to act as Securities Depository for the Series 2016A Bonds or (ii) the Corporation determines that continuation of the book-entry system of evidence and transfer of ownership of the Series 2016A Bonds would adversely affect the interests of the beneficial owners of the Series 2016A Bonds, or (iii) an Event of Default shall occur with respect to the Series 2016A Bonds and is continuing and the beneficial owners of a majority in principal amount of the Series 2016A Bonds shall advise DTC to cease acting as Securities Depository, the Corporation shall discontinue the book-entry system with DTC. If the Corporation identifies another qualified Securities Depository to replace DTC, the Corporation shall make arrangements with DTC and such other Securities Depository to effect such replacement and deliver replacement bonds registered in the name of such other Securities Depository or its Securities Depository Nominee in exchange for the Outstanding Series 2016A Bonds, and the references to DTC or Cede & Co. in this Supplement No. 7 shall thereupon be deemed to mean such other Securities Depository or its Securities Depository Nominee. If the Corporation fails to identify another qualified Securities Depository to replace DTC, the Corporation shall deliver replacement bonds in the form of fully registered certificates in the denomination of \$5,000 or any integral multiple thereof in exchange for the Outstanding Series 2016A Bonds as required by DTC.

SECTION 205. EXCHANGE OF SERIES 2016A BONDS. (a) Series 2016A Bonds, upon surrender thereof at the designated corporate trust office of the Bond Registrar, together with an assignment duly executed by the Owner or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, in such form as shall be satisfactory to the Bond Registrar, may, at the option of the Owner thereof, be exchanged for an equal aggregate principal amount of Series 2016A Bonds of the same maturity, of any denomination or denominations authorized by this Supplement No. 7, bearing interest at the same rate and in the same form as the Series 2016A Bonds surrendered for exchange.

(b) The Corporation shall make provision for the exchange of Series 2016A Bonds at the designated corporate trust office of the Bond Registrar.

SECTION 206. NEGOTIABILITY AND REGISTRATION OF TRANSFER OF SERIES 2016A BONDS. (a) The institution at the time serving as Master Trustee under the Master Indenture shall be and is hereby appointed Bond Registrar for the Series 2016A Bonds under this Supplement No. 7.

(b) The Bond Registrar shall keep books for the registration and the registration of transfer of Series 2016A Bonds as to which it is Bond Registrar as provided in this Supplement No. 7. The registration books shall be available at all reasonable times for inspection by the Corporation and any Owner of such Bonds and may be copied by either of the foregoing and their agents or representatives.

(c) The Bond Registrar shall evidence acceptance of the duties, responsibilities and obligations of the Bond Registrar under this Supplement No. 7 by the execution of the certificate of authentication on the Series 2016A Bonds.

(d) The transfer of any Series 2016A Bond may be registered only upon the books kept for the registration and registration of transfer of Series 2016A Bonds upon presentation thereof to the Bond Registrar together with an assignment duly executed by the Owner or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, in such form as shall be satisfactory to the Bond Registrar. No transfer of any Series 2016A Bond shall alter the ownership of such Bond for purposes of this Supplement No. 7 unless such transfer is registered with the Bond Registrar. Upon any such registration of transfer, the Corporation shall, if necessary, execute and the Bond Registrar shall authenticate and deliver in exchange for such Bond a new Series 2016A Bond or Series 2016A Bonds, registered in the name of the transferee, of any denomination or denominations authorized by this Supplement No. 7, in the aggregate principal amount equal to the principal amount of such Bond surrendered or exchanged, of the same maturity and bearing interest at the same rate.

(e) In all cases in which Series 2016A Bonds shall be exchanged or the transfer of Series 2016A Bonds shall be registered hereunder, the Corporation shall, if necessary, execute and the Bond Registrar shall authenticate and deliver at the earliest practicable time Series 2016A Bonds in accordance with the provisions of this Supplement No. 7. All Series 2016A Bonds surrendered in any such exchange or registration of transfer shall forthwith be canceled by the Bond Registrar. No service charge shall be made for any registration, transfer or exchange of Series 2016A Bonds, but the Corporation and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Series 2016A Bonds.

SECTION 207. OWNERSHIP OF SERIES 2016A BONDS. The Corporation, the Master Trustee, the Bond Registrar and any agent of the Corporation, the Master Trustee or the Bond Registrar, may treat the person in whose name any Series

2016A Bond is registered, including any Securities Depository Nominee, as the absolute Owner of such Bond for the purpose of receiving payment of the principal of and interest on such Bond, and for all other purposes whatsoever, whether or not such Bond be overdue, and, to the extent permitted by law, neither the Corporation, the Master Trustee, the Bond Registrar nor any such agent shall be affected by notice to the contrary.

SECTION 208. AUTHORIZATION OF SERIES 2016A BONDS. There shall be issued under and secured by the Master Indenture and this Supplement No. 7 Series 2016A Bonds of the Corporation in the aggregate principal amount of One Billion Two Hundred Million and 00/100 Dollars (\$1,200,000,000) for the purpose of providing funds, together with other available funds, to enable the FHCF to make additional reimbursement payments through the FHCF to participating insurers of reimbursable losses caused by any Covered Events in the Contract Year ending May 31, 2016 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act. The Series 2016A Bonds shall be designated "State Board of Administration Finance Corporation Revenue Bonds, Series 2016A". The Series 2016A Bonds are Pre-Event Parity Obligations and Pre-Event Bonds entitled to the benefits of the covenants and agreements in the Pledge Agreement, the Master Trust Indenture and this Supplement No. 7.

The Series 2016A Bonds shall be stated to mature (subject to the right of prior redemption, if any, as provided in Article III hereof) on July 1 of the following years, and shall bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months), payable semi-annually on each January 1 and July 1, the first interest payment date being July 1, 2016, until their respective maturities, at the following rates:

| <u>Year of Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> |
|-------------------------|-------------------------|----------------------|
| <u>(July 1)</u> 2019 | \$550,000,000 | 2.163% |
| 2021 | 650,000,000 | 2.638 |

The Series 2016A Bonds shall be executed substantially in the form and in the manner herein set forth and shall be deposited with the Bond Registrar for authentication, but before the Series 2016A Bonds shall be authenticated and delivered to the purchasers thereof, there shall be filed with the Master Trustee, in addition to the items required to be delivered to the Master Trustee pursuant to Section 208 of the Master Indenture, the following:

(a) a copy, certified by an Authorized Officer of the State Board of Administration to be a true and correct copy, of the resolution of the State Board of Administration determining that the Series 2016A Bonds should be issued in the absence of a hurricane in order to maximize the ability of the FHCF to meet future obligations, as contemplated by the last sentence of Section 215.555(6)(a)1. of the Act;

(b) a copy, certified by the Secretary of the Corporation to be a true and correct copy, of the Master Trust Indenture;

(c) an executed counterpart of this Supplement No. 7;

(d) a copy, certified by the Secretary of the Corporation to be a true and correct copy, of the Pledge Agreement;

(e) a copy, certified by the Secretary of the Corporation to be a true and correct copy, of the resolution of the Corporation (which resolution may be incorporated in this Supplement No. 7), approving the award of the Series 2016A Bonds and directing the authentication and delivery of such Bonds to or upon the order of the underwriters therein named upon payment of the purchase price therein set forth, plus the accrued interest (if any) thereon; provided, however, that the final determination of any of the details of such Bonds, including the purchase price therefor, may be delegated by such resolution to one or more Authorized Officers of the Corporation to the extent set forth therein;

(f) an Officer's Certificate of the Corporation (which may rely upon certificates or other documentation delivered by an Authorized Officer of the State Board of Administration) evidencing compliance with the requirements of Section 704 of the Master Indenture;

(g) an opinion or opinions of special counsel to the Corporation to the effect that (1) this Supplement No. 7, the Master Indenture and the Pledge Agreement have each been duly and validly authorized, executed and delivered by the Corporation and are each valid and binding agreements of the Corporation enforceable in accordance with their respective terms, (2) no provision of the Master Indenture, this Supplement No. 7 or the Pledge Agreement results in or constitutes a default under any agreement, indenture or other instrument to which the Corporation is a party or by which the Corporation may be bound and of which such special counsel to the Corporation has knowledge, (3) the Corporation's execution and delivery of the Master Indenture, this Supplement No. 7 and the Pledge Agreement and execution and issuance of the Series 2016A Bonds are not subject to any authorization, consent, approval or review of any governmental body, public officer or regulatory authority not theretofore obtained or effected, and (4) the form, terms, execution, issuance and delivery of the Series 2016A Bonds have been duly and validly authorized by the Corporation;

(h) an opinion or opinions of counsel to the State Board of Administration to the effect that (1) the Pledge Agreement has been duly and validly authorized, executed and delivered by the State Board of Administration, acting as the governing body and administrator of the FHCF, and is a valid and binding agreement of the FHCF enforceable in accordance with its terms, (2) the execution and delivery of the Pledge Agreement and compliance with the provisions on the part of the State Board of

Administration contained therein will not, to the best knowledge of such counsel, constitute a material breach of or material default under any applicable constitutional provision, law, administrative regulation, judgment, decree, or any relevant loan agreement, indenture, bond, note, resolution, agreement or other relevant instrument to which the State Board of Administration is a party or to which the State Board of Administration or any of the property or assets of the FHCF is otherwise subject, which breach or default would materially adversely affect the ability of the State Board of Administration to perform its obligations under the Pledge Agreement, and (3) the State Board of Administration's execution and delivery of the Pledge Agreement are not subject to any authorization, consent, approval or review of any governmental body, public officer or regulatory authority not theretofore obtained or effected;

- (i) an opinion of Bond Counsel relating to the Series 2016A Bonds; and
- (j) such other documents as are required to be delivered to the Master Trustee pursuant to this Supplement No. 7.

When the documents mentioned in the Master Indenture and subparagraphs (a) through (j), inclusive, above shall have been filed with the Master Trustee, and when the Series 2016A Bonds shall have been executed and authenticated as required by this Supplement No. 7, the Series 2016A Bonds shall be delivered to or upon the order of the purchasers thereof, but only upon the deposit with the Master Trustee or the State Board of Administration, as the case may be, of the purchase price of the Series 2016A Bonds and the accrued interest, if any, thereon.

Simultaneously with the Closing, from the proceeds of the Series 2016A Bonds (net of Underwriters' discount), which is equal to \$1,197,848,797.17, (i) \$1,196,611,867.17, together with \$3,388,132.83 of other legally available funds of the FHCF, shall be deposited with the State Board of Administration, for the account of the FHCF, and be deposited to the credit of the Series 2016A Bonds Proceeds Subaccount of the Pre-Event Parity Obligations Account in the Covered Events Relief Fund established pursuant to Section 8 of the Pledge Agreement, and (ii) \$1,236,930.00 shall be deposited with the Master Trustee into the Series 2016A Account of the Costs of Issuance Fund to pay or reimburse the Corporation for paying the Costs of Issuance associated with the issuance of the Series 2016A Bonds. Of such \$1,197,848,797.17 proceeds, \$12,000,000.00 shall represent the good faith deposit received by the Corporation, via deposit with the State Board of Administration, from the Underwriters of the Series 2016A Bonds.

ARTICLE III REDEMPTION OF SERIES 2016A BONDS

SECTION 301. MAKE-WHOLE REDEMPTION OF SERIES 2016A BONDS. The Series 2016A Bonds shall be subject to redemption prior to maturity by written direction of the Corporation, in whole or in part, on any Business Day, at the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is the greater of (i) 100% of the principal amount of the Series 2016A Bonds to be redeemed; or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2016A Bonds to be redeemed, not including any interest accrued and unpaid as of the date on which the Series 2016A Bonds are to be redeemed, discounted to the date on which the Series 2016A Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 20 basis points for the 2019 maturity and 25 basis points for the 2021 maturity; plus, in each case, accrued and unpaid interest on the Series 2016A Bonds to be redeemed to the redemption date. The "Treasury Rate" is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available prior to the pricing date of the refunding bonds or prior to the redemption date if no refunding bonds are issued (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the refunding bonds pricing date, if issued, or if no refunding bonds are issued, from the redemption date to the maturity date of the Series 2016A Bonds to be redeemed. The Corporation shall confirm in writing to the Master Trustee the amount of principal and interest and the Make-Whole Redemption Price to be paid under this Section.

SECTION 302. NOTICE OF REDEMPTION. When redemption of Series 2016A Bonds is authorized pursuant to the provisions hereof, the Trustee shall give to the Owners of Series 2016A Bonds to be redeemed notice, at the expense of the Corporation, of the redemption of the Series 2016A Bonds. Notice of such redemption of the Series 2016A Bonds shall be given by mail, postage prepaid, not more than thirty (30) days or fewer than fifteen (15) days prior to said date of redemption, to the Owners of any Series 2016A Bonds to be redeemed. Such notice shall state: (i) the CUSIP numbers of all Series 2016A Bonds being redeemed, (ii) the original issue date of such Series 2016A Bonds, (iii) the maturity date and rate of interest borne by each Series 2016A Bond being redeemed, (iv) the redemption date, (v) the date on which such notice is mailed, (vi) if less than all Outstanding Series 2016A Bonds are to be redeemed, the bond number (and, in the case of a partial redemption of any Series 2016A Bond, the principal amount) of each Series 2016A Bond to be redeemed, (vii) that on such redemption date there shall become due and payable upon each Series 2016A Bond to be redeemed the Make-Whole Redemption Price thereof or the Make-Whole Redemption Price of the specified portions

of the principal thereof in the case of Series 2016A Bonds to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable, and (viii) that the Series 2016A Bonds to be redeemed, whether as a whole or in part, are to be surrendered for payment at the designated corporate trust office of the Trustee at an address specified. Any such notice may be a conditional notice. In the event the conditions stated in such a notice have not been satisfied on the proposed redemption date, such redemption shall not occur and such notice shall be of no further force or effect. Such mailing shall not be a condition precedent to such redemption, and failure to mail any such notice, or any defect in such notice as mailed, shall not affect the validity of the proceedings for the redemption of the Series 2016A Bonds for which proper notice was given.

In the case of redemption of the Series 2016A Bonds, the Corporation will select the maturities of the Series 2016A Bonds to be redeemed. If the Series 2016A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Series 2016A Bonds shall be effected by the Bond Registrar among owners on a pro-rata basis subject to minimum authorized denominations. The particular Series 2016A Bonds to be redeemed shall be determined by the Bond Registrar, using such method as it shall deem fair and appropriate. If the Series 2016A Bonds are registered in book-entry only form and so long as DTC is the sole registered owner of the Series 2016A Bonds, if less than all of the Series 2016A Bonds of a maturity are called for prior redemption, the particular Series 2016A Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures; provided that, so long as the Series 2016A Bonds are held in book-entry form, the selection for redemption of such Series 2016A Bonds shall be made in accordance with the operational arrangements of DTC then in effect that currently provide for adjustment of the principal by a factor provided by the Bond Registrar pursuant to DTC operational arrangements. If the Bond Registrar does not provide the necessary information and identify the redemption as on a Pro Rata Pass-Through Distribution of Principal basis, the Series 2016A Bonds will be selected for redemption in accordance with DTC procedures by lot. It is the Corporation's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Corporation and the Beneficial Owners be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. However, the Corporation can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2016A Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the Series 2016A Bonds will be selected for redemption in accordance with DTC procedures by lot.

**ARTICLE IV
ESTABLISHMENT OF ACCOUNTS AND
SUBACCOUNTS, APPLICATION OF NET RECEIPTS
AND INVESTMENT OF FUNDS**

SECTION 401. ESTABLISHMENT OF ACCOUNTS AND SUBACCOUNTS. The following accounts and subaccounts are hereby established:

- (a) Series 2016A Subaccount of the Interest Account of the Bond Fund;
- (b) Series 2016A Subaccount of the Principal Account of the Bond Fund; and
- (c) Series 2016A Account of the Costs of Issuance Fund.

The account and subaccounts mentioned above shall be established with and held by the Master Trustee pursuant to the Master Indenture and this Supplement No. 7 for the benefit of the Owners of the Series 2016A Bonds.

SECTION 402. APPLICATION OF NET RECEIPTS. On or before the dates set forth below, so long as any of the Series 2016A Bonds is Outstanding, the Master Trustee shall withdraw, immediately following any withdrawal required by Section 503(b) of the Master Trust Indenture, from the Reimbursement Premiums Account in the Revenue Fund and, subsequent to such withdrawal, from the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund (other than the Emergency Assessments Account) in the order specified below, the amounts necessary to make the deposits or payments required by Sections 503(c)(iii) and 504 of the Master Trust Indenture, and, if and to the extent that the amounts on deposit to the credit of the Reimbursement Premiums Account, the Pre-Event Bonds Investment Income Account, the Derivative Agreements Account or any other account or subaccount established in the Revenue Fund are insufficient to make such deposits or payments, the Master Trustee shall withdraw from the Emergency Assessments Account in the Revenue Fund the amounts necessary to satisfy such deposits or payments; provided, however, in the case of the Series 2016A Bonds, the Master Trustee shall draw first from the Reimbursement Premiums Account, then from the Pre-Event Bonds Investment Income Account and then from the Series 2016A Bonds Proceeds Subaccount of the Pre-Event Parity Obligations Account in the Covered Events Relief Fund, prior to making any withdrawal from any of such other Accounts or any other account or subaccount, and the Master Trustee shall apply such amounts to the various subaccounts specified herein in the following order:

- (a) into the Series 2016A Subaccount of the Interest Account, on the Business Day immediately preceding each Interest Payment Date, an amount equal to the interest payable on the Series 2016A Bonds on such Interest Payment Date; and

(b) into the Series 2016A Subaccount of the Principal Account, on the Business Day immediately preceding each Principal Payment Date, an amount equal to the principal of the Series 2016A Bonds coming due on such Principal Payment Date.

SECTION 403. INVESTMENT OF MONEY. (a) Money held for the credit of the subaccounts established hereunder on deposit with the Master Trustee shall be continuously invested and reinvested by the Master Trustee, at the written direction of the Corporation, in Investment Obligations to the extent practicable. Any such Investment Obligations shall mature not later than the respective dates when the money held for the credit of such subaccounts will be required for the purposes intended. No Investment Obligations in any such subaccount may mature beyond the latest maturity date of any Series 2016A Bonds Outstanding at the time such Investment Obligations are deposited.

(b) Investment Obligations acquired with money in or credited to any subaccount established hereunder shall be deemed at all times to be part of such subaccount. Any loss realized upon the disposition or maturity of such Investment Obligations shall be charged against such subaccount. The interest accruing on any such Investment Obligations and any profit realized upon the disposition or maturity of such Investment Obligations to the credit of such subaccounts shall be credited to such respective subaccounts.

(c) Any such interest accruing and any such profit realized from the subaccounts established hereunder shall be transferred upon the receipt thereof by the Corporation or the Master Trustee, as the case may be, pursuant to the provisions of the Master Indenture and this Supplement No. 7.

(d) An Authorized Officer of the Corporation shall give to the Master Trustee written directions respecting the investment of any money required to be invested hereunder; subject, however, to the provisions of this Section 403, and the Master Trustee shall then invest such money in Investment Obligations as so directed. The Master Trustee may request in writing additional directions or authorization from an Authorized Officer of the Corporation with respect to the proposed investment of money. Upon receipt of such directions, the Master Trustee shall invest, subject to the provisions of this Section 403, such money in accordance with such directions.

(e) The Master Trustee shall sell at the fair market price or, acting in a commercially reasonable manner, reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to do so in order to provide money to make any payment from any such subaccount. The Master Trustee shall not be liable or responsible for any loss resulting from any such investment.

(f) Whenever a transfer of money between two or more of the subaccounts is permitted or required, such transfer may be made as a whole or value determined at the time of such transfer in accordance with Article VI of the Master Indenture; provided that the Investment Obligations transferred are those in which money of the receiving subaccount could be invested at the date of such transfer.

SECTION 404. PAYMENT OF PRINCIPAL AND INTEREST. (a) The Corporation covenants that it will promptly pay the principal of and the interest on every Series 2016A Bond issued under the provisions of this Supplement No. 7 at the places, on the dates and in the manner provided herein and in the Series 2016A Bonds, according to the true intent and meaning thereof and in accordance with the provisions of the Master Indenture and this Supplement No. 7. The Series 2016A Bonds shall constitute Bonds and Parity Obligations under the Master Indenture and shall be secured by the trust estate set forth in the Master Indenture. The Corporation further covenants that it will faithfully perform at all times all of its covenants, undertakings and agreements contained in this Supplement No. 7 and the Master Indenture, or in any Series 2016A Bond executed, authenticated and delivered hereunder or in any proceedings of the Corporation pertaining thereto. The Corporation represents and covenants that it is duly authorized under the Constitution and laws of the State, particularly the Act, to issue the Series 2016A Bonds authorized hereby and to pledge the Net Receipts in the manner and to the extent in the Master Indenture set forth; that all action on its part for the issuance of the Series 2016A Bonds has been duly and effectively taken; and that such Series 2016A Bonds in the hands of the Owners thereof are and will be valid and binding special obligations of the Corporation payable according to their terms.

(b) Subject to the provisions of Sections 503 and 504 of the Master Indenture, on the Business Day preceding each Interest Payment Date or Interest Payment Date and Principal Payment Date, the Master Trustee shall first set aside an amount sufficient to pay the interest on the Series 2016A Bonds becoming due and payable on such Interest Payment Date, and then an amount sufficient to pay the principal of the Series 2016A Bonds becoming due and payable on such Principal Payment Date, and shall make payments as provided herein and in the forms of the Series 2016A Bonds.

(c) At such time as to enable the Bond Registrar to make payments of interest on the Series 2016A Bonds in accordance with Section 203(c) hereof, the Master Trustee shall withdraw from the Series 2016A Subaccount of the Interest Account and make available to the Bond Registrar the amounts required to pay interest on the Series 2016A Bonds on the next succeeding Interest Payment Date. At such time as to enable the Bond Registrar to make payments of principal of the Series 2016A Bonds, the Master Trustee shall withdraw from the Series 2016A Subaccount of the Principal Account the amount required to pay the Series 2016A Bonds on the next succeeding Principal Payment Date and make the same available to the Bond Registrar for the payment of the Series 2016A

Bonds in accordance with the provisions of Section 203(c) hereof and in the manner provided in the forms of the Series 2016A Bonds.

(d) The Series 2016A Bonds shall not be secured by the Parity Common Reserve Account.

SECTION 405. STATE COVENANT. The Corporation acknowledges that Section 708 of the Master Indenture constitutes an important security provision of the Series 2016A Bonds, and confirms that the acknowledgement set forth in this Section 405 has been included as a result of negotiations with the underwriters of the Series 2016A Bonds.

**ARTICLE V
THE MASTER TRUSTEE**

SECTION 501. ACCEPTANCE OF DUTIES BY MASTER TRUSTEE.
The Master Trustee by execution hereof accepts and agrees to perform the duties and fulfill the trusts imposed upon it by this Supplement No. 7.

**ARTICLE VI
AMENDMENT TO MASTER TRUST INDENTURE
AND SUPPLEMENTAL INDENTURES**

SECTION 601. AMENDMENT OF MASTER TRUST INDENTURE.

Notwithstanding Section 503(e) of the Master Trust Indenture and Section 3(f) of the Pledge Agreement or in any other provision of the Master Indenture or the Pledge Agreement to the contrary, the State Board of Administration will transfer Reimbursement Premiums to the Master Trustee in an amount sufficient to provide for interest payments on Pre-Event Parity Obligations payable or projected to be payable during the period commencing on the first day of the Fiscal Year next succeeding the then current Fiscal Year referenced in Section 503(e)(ii)(Y) of the Master Trust Indenture and Section 3(f)(ii) of the Pledge Agreement and ending on the date that the Reimbursement Premiums to be transferred or otherwise available to the Master Trustee under the Pledge Agreement with respect to such next succeeding Fiscal Year are projected to be sufficient to provide for the transfers provided for in Section 504(a) of the Master Trust Indenture for such next succeeding Fiscal Year for all Outstanding Pre-Event Parity Obligations.

SECTION 602. AMENDMENT TO MASTER TRUST INDENTURE, AND SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF OWNERS.

The Corporation and the Master Trustee may, from time to time and at any time, without the consent of or notice to any of the Owners of the Series 2016A Bonds, execute and deliver such indentures supplemental hereto (which supplemental indentures shall thereafter form a part hereof) as shall be substantially consistent with the terms and provisions of this Supplement No. 7:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision herein that may be inconsistent with any other provision herein, to make any other provisions with respect to matters or questions arising under this Supplement No. 7 or to modify, alter, amend, add to or rescind, in any particular, any of the terms or provisions contained in this Supplement No. 7;

(b) to grant or to confer upon the Master Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Master Trustee;

(c) to add to the covenants and agreements of the Corporation in this Supplement No. 7 other covenants and agreements thereafter to be observed by the Corporation or to surrender any right or power herein reserved to or conferred upon the Corporation;

(d) to permit the qualification of this Supplement No. 7 under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the Corporation so determines, to add to this Supplement No. 7 or any supplemental indenture such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law;

(e) to provide for the issuance of Series 2016A Bonds in bearer form; or

(f) to make any other change that, in the opinion of the Trustee, which may, but is not required to, rely upon one or more of affirmation of ratings by the Rating Agencies, certificates of Consultants and Opinions of Counsel for such purpose, shall not materially adversely affect the security for the Parity Obligations.

SECTION 603. MODIFICATION OF SUPPLEMENT NO. 7 WITH CONSENT OF OWNERS.

(a) Subject to the terms and provisions contained in this Section 603, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Series 2016A Bonds then Outstanding shall have the right, from time to time, anything contained in this Supplement No. 7 to the contrary notwithstanding, to consent to and approve the adoption by the Corporation and the acceptance by the Master Trustee of such supplemental indentures as shall be deemed necessary or desirable by the Corporation for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Supplement No. 7 or in any supplemental indenture hereto; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Series 2016A Bond without the consent of the Owner of such Series 2016A Bond, (b) a reduction in the principal amount of any Series 2016A Bond or the rate of interest on any Series 2016A Bond without the consent of the Owner of such Series 2016A Bond, (c) the creation of a pledge of Net Receipts other than the lien and pledge created by the Master Indenture without the consent of the Owners of all Series 2016A Bonds, (d) a preference or priority of any Series 2016A Bond over any other Series 2016A Bond without the consent of the Owners of all Series 2016A Bonds, or (e) a reduction in the aggregate principal amount of Series 2016A Bonds required for consent to such supplemental indenture without the consent of the Owners of all Series 2016A Bonds. Nothing herein contained, however, shall be construed as making necessary the approval by the Owners of the execution and delivery of any supplemental indenture as authorized in Section 602 hereof.

(b) The Master Trustee shall, at the expense of the Corporation, such expense to be paid from Gross Receipts or from any other available moneys, cause notice of the proposed execution and delivery of such supplemental indenture to be mailed, first class, postage prepaid, to all Owners of the Series 2016A Bonds. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the designated corporate trust office of the Master Trustee for inspection by

all Owners. The Master Trustee shall not, however, be subject to any liability to any Owner by reason of its failure to mail the notice required by this Section 603, and any such failure shall not affect the validity of such supplemental indenture when approved and consented to as provided in this Section 603.

(c) Whenever, at any time within three years after the date of the mailing of such notice, the Corporation shall deliver to the Master Trustee an instrument or instruments in writing purporting to be executed by the Owners of not less than a majority in aggregate principal amount of Series 2016A Bonds then Outstanding, which instrument or instruments shall refer to the proposed supplemental indenture described in such notice and shall specifically consent to and approve the execution and delivery thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Corporation and the Master Trustee may execute and deliver such supplemental indenture in substantially such form, without liability or responsibility to any Owner, whether or not such Owner shall have consented thereto.

(d) If the Owners of not less than a majority in aggregate principal amount of the Series 2016A Bonds Outstanding at the time of the execution of such supplemental indenture have consented to and approved the execution and delivery thereof as herein provided, to the extent permitted by law, no Owner shall have any right to object to the execution and delivery of such supplemental indenture, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution and delivery thereof, or enjoin or restrain the Corporation or the Master Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

(e) Upon the execution and delivery of any supplemental indenture pursuant to the provisions of this Section 603 or Section 602 hereof, this Supplement No. 7 shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Supplement No. 7 of the Corporation, the Master Trustee and all Owners shall thereafter be determined, exercised and enforced in all respects pursuant to the provisions of this Supplement No. 7, as so modified and amended.

SECTION 604. EXCLUSION OF SERIES 2016A BONDS. Series 2016A Bonds owned or held by or for the account of the Corporation shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Series 2016A Bonds provided for in this Article VI, and the Corporation as Owner of such Series 2016A Bonds shall not be entitled to consent or take any other action provided for in this Article VI. At the time of any consent or other action taken under this Article VI, the Corporation shall furnish the Master Trustee an Officer's Certificate, upon which the Master Trustee may rely, describing all Series 2016A Bonds so to be excluded.

SECTION 605. RESPONSIBILITIES OF MASTER TRUSTEE AND CORPORATION UNDER THIS ARTICLE. The Master Trustee and the Corporation shall be entitled to exercise their discretion in determining whether or not any proposed supplemental indenture or any term or provision therein contained is desirable, after considering the purposes of such instrument, the needs of the Corporation, the rights and interests of the Owners, and the rights, obligations and interests of the Master Trustee. The Master Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of counsel approved by it, who may be Bond Counsel for the Corporation, as conclusive evidence that any such proposed supplemental indenture does or does not comply with the provisions of this Supplement No. 7, and that it is or is not proper for it, under the provisions of this Article VI, to execute and deliver such supplemental indenture.

**ARTICLE VII
QUALIFIED ESCROW FUNDS**

SECTION 701. QUALIFIED ESCROW FUNDS. Notwithstanding any provisions herein to the contrary, any and all moneys in the Series 2016A Bonds Proceeds Subaccount of the Pre-Event Parity Obligations Account in the Covered Events Relief Fund, the Series 2016A Subaccount of the Interest Account of the Bond Fund, the Series 2016A Subaccount of the Principal Account of the Bond Fund and any other account or subaccount designated by the President or other authorized officer may be designated as Qualified Escrow Funds as provided in the Master Trust Indenture pursuant to a certificate of the President or other authorized officer. In the event of such designation, such Qualified Escrow Funds shall be used solely to pay principal of, redemption premium, if any, and interest on such Series 2016A Bonds as may be designated by the President or other authorized officer of the Corporation.

**ARTICLE VIII.
MISCELLANEOUS PROVISIONS**

SECTION 801. MANNER OF GIVING NOTICE. All notices, demands and requests to be given to or made hereunder by the Corporation, the Master Trustee or the Bond Registrar shall be given or made in writing and shall be deemed to be properly given or made if sent by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

(a) As to the Corporation--

State Board of Administration Finance Corporation
c/o State Board of Administration of the State of Florida
1801 Hermitage Boulevard
Tallahassee, Florida 32308
Attention: President

(b) As to the Master Trustee or Bond Registrar--

Regions Bank
10245 Centurion Parkway, 2nd Floor
Jacksonville, Florida 32256
Attention: Corporate Trust Department

Any such notice, demand or request may also be transmitted to the appropriate above-mentioned party by electronic mail or telephone and shall be deemed to be properly given or made at the time of such transmission if, and only if, such transmission of notice shall be confirmed in writing and sent as specified above.

Any of such addresses may be changed at any time upon written notice of such change sent by United States certified or registered mail, postage prepaid, to the other parties by the party effecting the change.

SECTION 802. SUBSTITUTE NOTICE. If, because of the temporary or permanent suspension of postal service, the Corporation, the Master Trustee or the Bond Registrar shall be unable to mail any notice required to be given by the provisions of this Supplement No. 7, such party shall give notice in such other manner as in the judgment of such party shall most effectively approximate mailing, and the giving of notice in such manner shall for all purposes of this Supplement No. 7 be deemed to be in compliance with the requirement for the mailing thereof.

SECTION 803. CORPORATION, MASTER TRUSTEE, BOND REGISTRAR AND OWNERS ALONE HAVE RIGHTS UNDER SUPPLEMENT NO. 7. Except as herein otherwise expressly provided, nothing in this Supplement No. 7, express or implied, is intended or shall be construed to confer upon any person, firm or corporation, other than the Corporation, the Master Trustee, the Bond Registrar and the Owners, any right, remedy or claim, legal or equitable, under or by reason of this Supplement No. 7 or any provision being intended to be and being for the sole and exclusive benefit of the Corporation, the Master Trustee, the Bond Registrar and the Owners.

SECTION 804. EFFECT OF PARTIAL INVALIDITY. All covenants, stipulations, obligations and agreements of the Corporation contained in this Supplement No. 7 shall be deemed to be covenants, stipulations, obligations and agreements of the Corporation to the full extent permitted by the Constitution and laws of the State. In case any one or more of the provisions of this Supplement No. 7 or the Series 2016A Bonds shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Supplement No. 7 or the Series 2016A Bonds, but this Supplement No. 7 and the Series 2016A Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained therein. In case any covenant, stipulation, obligation or agreement contained in this Supplement No. 7 or the Series 2016A Bonds shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the Corporation to the full extent permitted by law.

SECTION 805. EFFECT OF COVENANTS: GOVERNING LAW. This Supplement No. 7 is executed and delivered with the intent that the laws of the State shall govern this construction.

SECTION 806. HEADINGS. Any heading preceding the text of the several articles hereof, any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Supplement No. 7, nor shall they affect its meaning, construction or effect.

SECTION 807. FURTHER AUTHORITY. The officers, attorneys and other agents or employees of the Corporation are hereby authorized to do all acts and things required of them by this Supplement No. 7 for the full, punctual and complete performance of all of the terms, covenants and agreements contained in the Series 2016A Bonds and this Supplement No. 7.

SECTION 808. PAYMENT DUE ON NON-BUSINESS DAYS. In the case of the Series 2016A Bonds, if the date for making any payment or the last day for performance of any act or the exercising of any right as provided in this Supplement No. 7 is not a Business Day, such payment may be made or act performed or right exercised

on the next Business Day with the same force and effect as if done on the date provided in this Supplement No. 7.

SECTION 809. MULTIPLE COUNTERPARTS. This Supplement No. 7 may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original, and such counterparts shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Corporation and the Master Trustee have caused this Supplement No. 7 to be executed in their respective names by their respective duly authorized officers all as of the date first written above.

(SEAL) **STATE BOARD OF ADMINISTRATION
FINANCE CORPORATION**
By: _____
President

ATTEST:

Secretary

**REGIONS BANK, as
Master Trustee**
By: _____
Vice President and Trust Officer

Acknowledge By:
**STATE BOARD OF ADMINISTRATION
OF THE STATE OF FLORIDA,**
acting as the governing body and administrator
of the Florida Hurricane Catastrophe Fund
By: _____

EXHIBIT A

FORM OF SERIES 2016A BONDS

RA- \$ _____

**UNITED STATES OF AMERICA
STATE OF FLORIDA
STATE BOARD OF ADMINISTRATION FINANCE CORPORATION
REVENUE BOND, SERIES 2016A**

| | | |
|----------------------|----------------------|--------------|
| <u>Interest Rate</u> | <u>Maturity Date</u> | <u>CUSIP</u> |
| | July 1, 20__ | 341271__ |

State Board of Administration Finance Corporation (the "Corporation"), an instrumentality of the State of Florida, for value received, hereby promises to pay, but solely from the sources and in the manner hereinafter provided, to CEDE & CO. or registered assigns or legal representative (the "Owner"), on the Maturity Date set forth above, upon the presentation and surrender hereof, at the designated corporate trust office of Regions Bank (successor to Wells Fargo Bank, N.A.), in Jacksonville, Florida (the "Bond Registrar"), the principal sum of _____ DOLLARS (\$ _____). The Corporation also promises to pay, but solely from said sources, interest on this bond (calculated on the basis of a 360-day year consisting of twelve 30-day months) from the interest payment date next preceding the date on which it is authenticated, unless it is authenticated on an interest payment date, in which event it shall bear interest from such interest payment date, or it is authenticated prior to July 1, 2016 in which event it shall bear interest from its date, payable semiannually on each January 1 and July 1, the first interest payment date being July 1, 2016, at the Interest Rate per annum set forth above until the principal sum hereof is paid. The interest so payable and punctually paid or duly provided for on any interest payment date will be paid to the person in whose name this bond (or one or more Predecessor Bonds, as defined in the Master Indenture hereinafter defined) is registered at the close of business on the Regular Record Date for such interest, which shall be the 15th day (whether or not a business day) of the calendar month preceding the calendar month in which an interest payment date occurs. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Owner on such Regular Record Date, and may be paid to the person in whose name this bond is registered at the close of business on a Special Record Date (as defined in the Master Indenture) for the payment of such defaulted interest to be fixed by the Master Trustee (hereinafter mentioned), notice whereof being given to such Owners not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Series 2016A Bonds (hereinafter

mentioned) may be listed and upon such notice as may be required by such exchange, or as more fully provided in the Master Indenture. All such payments shall be made in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

This bond is one of a duly authorized series of revenue bonds of the Corporation, designated "State Board of Administration Finance Corporation Revenue Bonds, Series 2016A" (the "Series 2016A Bonds"), issued under and pursuant to the Constitution and laws of the State of Florida, including Section 215.555, Florida Statutes (the "Act"), a Master Trust Indenture, dated as of June 1, 2006 (as amended and supplemented, the "Master Indenture"), by and between the Corporation and Regions Bank (successor to Wells Fargo Bank, N.A.), Jacksonville, Florida, as master trustee (the "Master Trustee"), and the Seventh Supplemental Indenture, dated as of March 1, 2016 ("Supplement No. 7"), by and between the Corporation and the Master Trustee. The Master Trustee is also the Bond Registrar for the Series 2016A Bonds. The Series 2016A Bonds are being issued for the purpose of providing funds, together with other available funds, to enable the FHCF to make reimbursement payments through the FHCF to participating insurers of reimbursable losses caused by any Covered Events occurring in the Contract Year ending May 31, 2016 or any subsequent Contract Year, subject to the limitations on such reimbursements set forth in the Act.

The Series 2016A Bonds are being issued by means of a book-entry system with no physical distribution of bond certificates to be made except as provided in Supplement No. 7. One bond certificate with respect to each date on which the Series 2016A Bonds are stated to mature, in the aggregate principal amount of the Series 2016A Bonds stated to mature on such date and registered in the name of Cede & Co., a nominee of The Depository Trust Company, New York, New York ("DTC"), is being issued and required to be deposited with DTC and immobilized in its custody. The book-entry system will evidence ownership of the Series 2016A Bonds in the principal amount of \$5,000 or any integral multiple thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Transfer of principal and interest payments to beneficial owners of the Series 2016A Bonds by participants of DTC will be the responsibility of such participants and other nominees of such beneficial owners. The Corporation will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. While Cede & Co. is the Owner of this bond, notwithstanding the provisions hereinabove contained, payments of principal of and interest on this bond shall be made in accordance with the existing arrangements between the Bond Registrar and DTC.

The Corporation, the State Board of Administration, acting as the governing body and administrator of the FHCF, and the Master Trustee have entered into a Pledge and Security Agreement, dated as of June 1, 2006 (the "Pledge Agreement"), pursuant to

which the State Board of Administration has pledged to the Corporation all of the right, title and interest of the FHCF in and to the Pledged Collateral (as defined in the Pledge Agreement), and has agreed to transfer directly to the Master Trustee the Pledged Collateral in such amounts and at such times as are required to provide for the timely payment of the principal of and interest on the Series 2016A Bonds.

The Series 2016A Bonds are special obligations of the Corporation secured by a pledge, security interest in and lien upon the Net Receipts (as defined in the Master Indenture) and an assignment of the Corporation's right, title and interest in and to the Pledge Agreement (subject to the reservation of certain rights of the Corporation). The Corporation is not obligated to pay the principal of or the interest on the Series 2016A Bonds except as provided in the Master Indenture from Net Receipts, and neither the faith and credit nor the taxing power of the State of Florida or any political subdivision thereof is pledged to the payment of the principal of and the interest on the Series 2016A Bonds. The Corporation has no taxing power. The Master Indenture provides for the issuance from time to time under the conditions, limitations and restrictions therein set forth of additional bonds and Parity Debt (as defined in the Master Indenture) secured on a parity as to the pledge of Net Receipts with the Series 2016A Bonds. The Series 2016A Bonds are being issued on parity under the Master Indenture with the Corporation's Revenue Bonds, Series 2013A.

The Master Indenture provides for the creation of a special fund designated "Florida Hurricane Catastrophe Fund Finance Corporation Bond Fund" (the "Bond Fund"). Pursuant to Supplement No. 7, special subaccounts have been created within the certain accounts of the Bond Fund with respect to the Series 2016A Bonds (the "Subaccounts"), which Subaccounts are charged with the payment of the principal of and the interest on the Series 2016A Bonds. Supplement No. 7 also provides for the deposit of Net Receipts to the credit of the Subaccounts to the extent and in the manner provided in the Master Indenture.

The Series 2016A Bonds shall be subject to redemption prior to maturity by written direction of the Corporation, in whole or in part, on any Business Day, at the Make-Whole Redemption Price (as defined in Supplement No. 7).

Notice of any such redemption shall be given by mail, postage prepaid, not more than 30 days or fewer than 15 days prior to said date of redemption, to the Owners of any Series 2016A Bonds to be redeemed. Such notice shall specify, among other things: (1) that the whole or a designated portion of this Series 2016A Bond is to be redeemed, (2) the date of redemption, and (3) the place or places where the redemption will be made. Any such notice may be a conditional notice. In the event the conditions stated in such a notice have not been satisfied on the proposed redemption date, such redemption shall not occur and such notice shall be of no further force or effect.

Under the Master Indenture, in certain events of default, on the conditions, in the manner and with the effect, the principal of all Parity Obligations then outstanding may be declared to be and become due and payable prior to the stated maturities thereof, together with the interest accrued thereon.

Reference is made to the Master Indenture, Supplement No. 7 and the Pledge Agreement for a more complete statement of the provisions thereof and of the rights of the Corporation, the Master Trustee and the Owners of the Series 2016A Bonds. Copies of the Master Indenture, Supplement No. 7 and the Pledge Agreement shall be available for inspection by any Owner of the Bonds at all reasonable times at the designated corporate trust office of the Master Trustee. By the purchase and acceptance of this bond, the Owner hereof signifies assent to all of the provisions of the Master Indenture, Supplement No. 7 and the Pledge Agreement.

At the designated corporate trust office of the Bond Registrar, in the manner and subject to the conditions provided in the Master Indenture, Series 2016A Bonds may be exchanged for an equal aggregate principal amount of Series 2016A Bonds of the same series and maturity, of authorized denominations and bearing interest at the same rate.

The Bond Registrar shall keep at its designated corporate trust office books for the registration of transfer of the Series 2016A Bonds. The transfer of this bond may be registered only upon such books and as otherwise provided in the Master Indenture upon the surrender hereof to the Bond Registrar together with an assignment duly executed by the Owner hereof or such Owner's attorney or legal representative in such form as shall be satisfactory to the Bond Registrar. Upon any such registration of transfer, the Bond Registrar shall deliver in exchange for this bond a new Series 2016A Bond or Bonds, registered in the name of the transferee, of authorized denominations, in an aggregate principal amount equal to the principal amount of this bond, of the same series and maturity and bearing interest at the same rate.

This bond, notwithstanding the provisions for registration of transfer stated herein and contained in the Master Indenture and Supplement No. 7, at all times shall be, and shall be understood to be, an investment security within the meaning of and for all the purposes of the Uniform Commercial Code of Florida. This bond is issued with the intent that the laws of the State of Florida shall govern its construction.

Modifications or alterations of the Master Indenture and Supplement No. 7 or in any supplemental indenture thereto may be made only to the extent and in the circumstances permitted by the Master Indenture and Supplement No. 7, as the case may be.

All acts, conditions and things required to happen, exist and be performed precedent to and in the issuance of this bond and the execution and delivery of the Master

Indenture and Supplement No. 7 have happened, exist and have been performed as so required.

This bond shall not be valid or become obligatory for any purpose or be entitled to any benefit or security under the Master Indenture or Supplement No. 7 until it shall have been authenticated by the execution by the Bond Registrar of the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, the State Board of Administration Finance Corporation has caused this bond to be manually signed by its President and Secretary and its corporate seal to be impressed hereon, all as of the 8th day of March, 2016.

**STATE BOARD OF ADMINISTRATION
FINANCE CORPORATION**

(SEAL)

President

ATTEST:

Secretary

A-5

CERTIFICATE OF AUTHENTICATION

This bond is a Bond of the Series designated therein and issued under the provisions of the within-mentioned Master Indenture and Supplement No. 7.

Date of Authentication:

**REGIONS BANK, as
Bond Registrar**

March __, 2016

By: _____
Vice President

A-6

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the Corporation or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by the authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

Insert Social Security or Other Identifying Number of Assignee

(Name and Address of Assignee)

the within Bond and does hereby irrevocably constitute and appoint _____, as attorneys to register the transfer of the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

NOTICE: Signature must be guaranteed by an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or similar program.

NOTICE: The signature to this assignment must correspond with the name of the Registered Holder as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever and the Social Security or other identifying number of such assignee must be supplied.

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APPENDIX C-4
PLEDGE AND SECURITY AGREEMENT

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**PLEDGE AND SECURITY
AGREEMENT**

among

**FLORIDA HURRICANE CATASTROPHE
FUND FINANCE CORPORATION,**

FLORIDA HURRICANE CATASTROPHE FUND

and

**WELLS FARGO BANK, N.A.,
Master Trustee**

Dated as of June 1, 2006

TABLE OF CONTENTS

| | | Page |
|----|-------------|--|
| 1 | | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | Section 1. | <i>Defined Terms</i>2 |
| 6 | Section 2. | <i>Issuance of Parity Obligations</i>4 |
| 7 | Section 3. | <i>Pledge; Delivery of Pledged Collateral</i>4 |
| 8 | Section 4. | <i>Special Covenants</i>7 |
| 9 | Section 5. | <i>Investment of Pledged Collateral</i>8 |
| 10 | Section 6. | <i>FHCF Remains Liable</i>8 |
| 11 | Section 7. | <i>Representations and Warranties</i>9 |
| 12 | Section 8. | <i>Covered Events Relief Fund</i>9 |
| 13 | Section 9. | <i>Rights of the Corporation and the Master Trustee</i>11 |
| 14 | Section 10. | <i>Remedies</i>11 |
| 15 | Section 11. | <i>Further Assurances</i>12 |
| 16 | Section 12. | <i>Master Trustee May Perform</i>12 |
| 17 | Section 13. | <i>Indemnity and Expenses</i>13 |
| 18 | Section 14. | <i>Amendment</i>14 |
| 19 | Section 15. | <i>Termination of Pledge Agreement</i>15 |
| 20 | Section 16. | <i>Notices</i>15 |
| 21 | Section 17. | <i>No Waiver; Remedies</i>16 |
| 22 | Section 18. | <i>Conflict</i>16 |
| 23 | Section 19. | <i>Rights of the Master Trustee</i>16 |
| 24 | Section 20. | <i>Members, Officers and Employees of the State Board of Administration and the Corporation Not Liable</i>17 |
| 25 | | |
| 26 | Section 21. | <i>Separate Accounts and Records</i>17 |
| 27 | Section 22. | <i>Transfers to FHCF</i>17 |
| 28 | Section 23. | <i>Severability</i>18 |
| 29 | Section 24. | <i>Governing Law</i>18 |
| 30 | Section 25. | <i>Headings</i>18 |
| 31 | Section 26. | <i>Counterparts</i>18 |

1
2 THIS PLEDGE AND SECURITY AGREEMENT, dated as of June 1, 2006 (this "Pledge
3 Agreement"), is made by and among the State Board of Administration of the State of Florida,
4 acting as the governing body and administrator of the Florida Hurricane Catastrophe Fund (the
5 "State Board of Administration"), a trust fund established for bond covenants, indentures or
6 resolutions within the meaning of Section 19(f)(3), Article III of the Constitution of the State of
7 Florida (the "FHCF"), Florida Hurricane Catastrophe Fund Finance Corporation, a public
8 benefits corporation, which is an instrumentality of the State of Florida (the "Corporation"), and
9 Wells Fargo Bank, N. A., Jacksonville, Florida, a national banking association duly incorporated
10 under the laws of the United States of America, in its capacity as master trustee (the "Master
11 Trustee") under the Master Indenture (hereinafter defined),

12 WITNESSETH:

13 WHEREAS, Section 215.555, Florida Statutes (the "Act") creates the FHCF and provides
14 that the FHCF will be administered by the State Board of Administration; and

15 WHEREAS, the Act provides that the FHCF will reimburse certain insurers for a portion
16 of their catastrophic hurricane losses, subject to the limitations on such reimbursements set forth
17 in the Act, in order to create additional insurance capacity sufficient to ameliorate the current
18 dangers to the economy of the State of Florida and to the public health, safety and welfare of its
19 citizens posed by a lack of an orderly private market for property insurance; and

20 WHEREAS, the Act creates the Corporation to provide a mechanism for the cost-
21 effective and efficient issuance of bonds necessary to enable the FHCF to carry out the purposes
22 of the Act; and

23 WHEREAS, the purpose of such bonds is to fund reimbursements through the FHCF to
24 pay for the costs of construction, reconstruction, repair, restoration and other costs associated
25 with damage to properties of policyholders of covered policies due to the occurrence of a
26 hurricane; and

27 WHEREAS, the Act provides for the payment by certain insurers of reimbursement
28 premiums and for the payment of emergency assessments in the amounts and under the
29 circumstances set forth in the Act and authorizes the pledge of all or any portion of the revenues
30 derived from such reimbursement premiums and emergency assessments, together with the
31 interest earnings thereon, to the payment of the principal of and redemption premium, if any, and
32 interest on bonds issued by the Corporation for the benefit of the FHCF; and

33 WHEREAS, the Board of Directors of the Corporation has duly authorized the execution
34 and delivery of a master trust indenture, dated as of June 1, 2006 (the "Master Trust Indenture"
35 and, as supplemented and amended, the "Master Indenture"), by and between the Corporation
36 and the Master Trustee, pursuant to which the Corporation will issue and incur Parity
37 Obligations secured by a pledge of and security interest in its Net Receipts; and

38 WHEREAS, in order to provide for the prompt payment of the principal of and
39 redemption premium, if any, and interest on the Parity Obligations issued by the Corporation and

1 for the performance by the Corporation of its other obligations under the Master Indenture, the
2 State Board of Administration has determined to pledge to the Corporation, and grant to the
3 Corporation a security interest in, all of the right, title and interest of the FHCF in and to the
4 Pledged Collateral (as hereinafter defined); and

5 WHEREAS, pursuant to the Master Indenture, the Corporation will, for the benefit of the
6 owners of the Parity Obligations, pledge and assign in the Master Indenture to the Master Trustee
7 all of the Corporation's right, title and interest (including the right to enforce the same and the
8 right to receive the Pledged Collateral) in and to this Pledge Agreement (subject to the
9 reservation of certain rights of the Corporation);

10 NOW, THEREFORE, in consideration of the premises and in order to induce the
11 Corporation to execute and deliver the Master Indenture, to issue Parity Obligations under the
12 Master Indenture and to transfer certain proceeds of such Parity Obligations to the State Board of
13 Administration, upon the issuance thereof, for the purposes permitted by the Act, the State Board
14 of Administration, the Corporation and the Master Trustee hereby agree as follows:

15 Section 1. *Defined Terms.* Capitalized terms not defined herein shall have the
16 meanings ascribed to such terms in the Master Trust Indenture. For the purposes hereof, unless
17 the context otherwise indicates, the following words and terms shall have the following
18 meanings:

19 "Contract Year" means the term of the reimbursement contracts between the State Board
20 of Administration and insurers writing Covered Policies.

21 "Corpus Earnings" means the income derived from the investment of the Corpus of the
22 FHCF.

23 "Corpus of the FHCF" means, as of a particular date, the sum of (i) the unrestricted net
24 assets held by the FHCF on the last day of the preceding Fiscal Year, (ii) the Reimbursement
25 Premiums and Reimbursement Premium Earnings held by the FHCF in the then current Fiscal
26 Year that are in excess of the amounts required for deposit to the credit of the accounts and
27 subaccounts in the Revenue Fund in accordance with the provisions of Section 502 of the Master
28 Trust Indenture and as shall be required for application in accordance with the provisions of
29 Sections 503 and 504 of the Master Trust Indenture, and (iii) without duplication, the amount of
30 the Reimbursement Premiums released in accordance with the provisions of Section 3(f) hereof
31 and Section 503(e)(ii)(Y) of the Master Trust Indenture and the amount of the Emergency
32 Assessments released in accordance with the provisions of Section 503(e)(ii)(Z) of the Master
33 Trust Indenture, in each case, from the pledge and security interest granted by this Pledge
34 Agreement. Proceeds of Bonds do not constitute a portion of the Corpus of the FHCF for
35 purposes of this definition.

36 "Covered Event" means Covered Event as defined in the Act.

37 "Covered Events Relief Fund" means the Florida Hurricane Catastrophe Fund Covered
38 Events Relief Fund created and so designated by Section 8 hereof.

39 "Covered Policy" means Covered Policy as defined in the Act.

1 “Current Expenses of the FHCF” means the current expenses for the operation of the
2 FHCF, including, without limiting the generality of the foregoing, all administrative expenses,
3 salaries and other compensation, personnel expenses properly chargeable to the FHCF, fees and
4 expenses incurred for professional consultants and fiduciaries, refunds related to over-payments
5 of Reimbursement Premiums or refunds of interest related to loss reimbursements or
6 overpayments of Reimbursement Premiums, the premiums, fees and costs of procuring
7 reinsurance for the FHCF, all operating transfers or contributions required by the Act, including
8 operating transfers or contributions pursuant to Section 215.555(7)(c) of the Act, and all Current
9 Expenses of the FHCF so identified in this Pledge Agreement or in a resolution adopted by the
10 State Board of Administration; but Current Expenses of the FHCF shall not include (i)
11 depreciation or amortization, (ii) any deposit to any fund, account and subaccount established
12 under the Master Indenture or any Supplemental Indenture or any payment of principal,
13 redemption premium, if any, and interest on any Bonds from any such fund, account and
14 subaccount, (iii) any debt service payment in respect of Parity Debt or Subordinated
15 Indebtedness, or (iv) payments or advances to insurers writing Covered Policies in the State for
16 hurricane losses pursuant to reimbursement contracts entered into with such insurers by the State
17 Board of Administration pursuant to the Act.

18 “Emergency Assessments” means the money paid or payable to the Corporation or the
19 FHCF from the emergency assessments levied with respect to assessable lines insurance as
20 provided from time to time by the Act. There shall be included within the ambit of “Emergency
21 Assessments” any interest, penalty or surcharge paid or payable on late payments of such
22 emergency assessments.

23 “Emergency Assessment Earnings” means the income derived from the investment of
24 Emergency Assessments.

25 “Fiscal Year” means the fiscal year of the FHCF, which shall be the period beginning on
26 July 1 of each year and ending on June 30 of the following year, unless the Master Trustee is
27 notified in writing by an Authorized Officer of the State Board of Administration of a change in
28 such period, in which case the Fiscal Year shall be the period set forth in such notice.

29 “Other Pledged Money” means any money derived from any fees, premiums,
30 assessments or other levies paid or payable to the FHCF or the Corporation, including the
31 income derived from the investment thereof, pursuant to any law enacted, after the date of
32 delivery of this Pledge Agreement, by the Legislature of the State, to the extent that such money
33 is permitted or required by law to be pledged and used for the payment of the principal of and
34 redemption premium, if any, and interest on Parity Obligations.

35 “Pledged Collateral” for any particular period means the excess of Reimbursement
36 Premiums and Reimbursement Premium Earnings over the payment of Current Expenses of the
37 FHCF, Emergency Assessments, Emergency Assessment Earnings, the net proceeds of, and
38 investment income on such proceeds of, Parity Obligations, net payments to or for the account of
39 the Corporation derived from Derivative Agreements and Other Pledged Money. There shall be
40 included within the ambit of “Pledged Collateral”: (i) all certificates and instruments, if any,
41 from time to time representing or evidencing any of the Pledged Collateral, (ii) all interest,
42 dividends, cash, instruments or other Property from time to time received, receivable or

1 otherwise distributed in respect of or in exchange for any or all of the Pledged Collateral and (iii)
2 all proceeds of any or all of the Pledged Collateral. There shall be excluded from the ambit of
3 "Pledged Collateral" the Corpus of the FHCF and Corpus Earnings, the net proceeds of Parity
4 Obligations disbursed by the FHCF for losses, or advances for losses, from Covered Events, and
5 Reimbursement Premiums and Reimbursement Premium Earnings released pursuant to Section
6 3(f) hereof and Section 503(e)(ii)(Y) of the Master Trust Indenture and Emergency Assessments
7 and Emergency Assessment Earnings released pursuant to Section 503(e)(ii)(Z) of the Master
8 Trust Indenture, in each case, from the pledge and security interest granted hereby. In the case of
9 the net proceeds of Parity Obligations, the pledge and security interest granted by this Pledge
10 Agreement shall be effective only pending their disbursement by the FHCF for losses, or
11 advances for losses, from Covered Events and shall be in favor of the Owners or Holders only of
12 the Series of Parity Obligations (or Parity Obligations that refunded the Parity Obligations) from
13 which such proceeds were derived.

14 "Reimbursement Premiums" means the money paid or payable to the FHCF from
15 reimbursement premiums levied from time to time under the Act. There shall be included within
16 the ambit of "Reimbursement Premiums" any interest, penalty or surcharge paid or payable on
17 late payments of such reimbursement premiums.

18 "Reimbursement Premium Earnings" means the income derived from the investment of
19 Reimbursement Premiums.

20 Section 2. *Issuance of Parity Obligations.* Subject to the provisions of the Master
21 Indenture, the Corporation hereby agrees that, upon the written request of the State Board of
22 Administration, accompanied by such certificates or other documentation, upon which the
23 Corporation may rely, as shall be necessary for the Corporation to comply with the provisions of
24 the Master Trust Indenture, particularly the provisions of Section 208 and, in the case of Parity
25 Obligations issued or incurred under the Master Trust Indenture (except for the Bonds issued
26 pursuant to Supplement No. 1 and Supplement No. 2) , Section 704, including, without
27 limitation, any certificate as to the Premium and Assessment Revenue Available for Debt
28 Service, the Corporation will issue and incur its Parity Obligations for any purpose permitted by
29 the Act.

30 The Corporation further agrees that it will make such transfers or deposits of the proceeds
31 of Parity Obligations as are required by Parity Resolutions.

32 Section 3. *Pledge; Delivery of Pledged Collateral.* (a) In consideration of the
33 issuance and incurrence by the Corporation of its Parity Obligations and the deposits or transfers
34 of the proceeds thereof in accordance with the corresponding Parity Resolutions, the State Board
35 of Administration hereby pledges, assigns, transfers and hypothecates to the Corporation, and
36 grants to the Corporation a security interest in, all of the right, title and interest of the FHCF in
37 and to the Pledged Collateral, whether now owned or hereafter acquired, whether in possession
38 of the FHCF or the Corporation or the Master Trustee or a Depository, all as security for the
39 prompt and full payment when due of the principal of and redemption premium, if any, and
40 interest on all Parity Obligations and any other amounts required to be paid by the Corporation
41 under the Master Indenture.

1 (b) The State Board of Administration hereby agrees to prepare, execute and file such
2 financing statements or amendments to existing financing statements or continuations thereof as
3 shall be necessary, in the Opinion of Counsel, to evidence the security interest in the Pledged
4 Collateral granted herein.

5 (c) (i) In general, the State Board of Administration shall deliver to the Master
6 Trustee so much of the Pledged Collateral as shall be held by the FHCF and as shall be required
7 for deposit to the credit of the accounts and subaccounts in the Revenue Fund in accordance with
8 the provisions of Section 502 of the Master Indenture and as shall be required for application in
9 accordance with the provisions of Sections 503, 504 and 804 of the Master Indenture or, if any
10 Parity Obligations have been declared due and payable pursuant to Section 803 of the Master
11 Indenture, in accordance with the provisions of Section 804 and Section 805(b) of the Master
12 Indenture.

13 (ii) In particular, the State Board of Administration shall deliver to the Master
14 Trustee, not later than the last business day of each month (or more often if required in order for
15 the Corporation to pay or provide for payment of debt service and other amounts due on Parity
16 Obligations), the following that have been received or realized as of the [25th] day of such month
17 (A) all Emergency Assessments and Emergency Assessment Earnings and (B) taking into
18 account the balance to the credit of (I) the Reimbursement Premiums Account and the Pre-Event
19 Bonds Investment Income Account in the Revenue Fund and (II) the subaccounts established for
20 Pre-Event Parity Obligations in the various accounts in the Bond Fund, so much of the
21 Reimbursement Premiums and Reimbursement Premium Earnings, net of the Current Expenses
22 of the FHCF, as shall enable the Master Trustee to make all of the deposits required by Section
23 503(a), (b) and (c) of the Master Trust Indenture for the entire current Fiscal Year; provided that,
24 in the event any of the Outstanding Pre-Event Parity Obligations are Variable Rate Indebtedness,
25 such Obligations shall be assumed, for purposes of the amount to be transferred, to bear interest
26 for the balance of the Fiscal Year at the rate described in paragraph (ii) of the definition of Debt
27 Service Requirement in the Master Trust Indenture.

28 (iii) In the event that the State Board of Administration receives a notice from
29 the Master Trustee, pursuant to Section 503(d)(i) of the Master Indenture, to the effect that the
30 amounts on deposit in the Revenue Fund were insufficient to make the deposits or payments
31 required by Section 504(a), (b) and (c) (or any of them) of the Master Indenture, the State Board
32 of Administration shall deliver to the Master Trustee (i) so much of the investment income from
33 the investment of proceeds of Pre-Event Bonds theretofore realized by the FHCF in such Fiscal
34 Year, and (ii) to the extent a deficiency remains, so much of the proceeds of the Pre-Event
35 Bonds, as are required to provide the Master Trustee with sufficient funds to make such deposits
36 or payments.

37 (d) The obligation of the State Board of Administration to deliver the Pledged
38 Collateral to the Master Trustee, in the amounts sufficient and at the times required for the
39 Corporation to comply with the provisions of Sections 503, 504, 804 and 805 of the Master
40 Indenture, shall be absolute and unconditional. The State Board of Administration shall perform
41 such obligation without demand and without abatement, deduction or set-off, notwithstanding
42 any rights or claims which the FHCF might otherwise have against the Corporation, the Master
43 Trustee, any Bond Registrar or any other Person.

1 (e) The State Board of Administration hereby agrees that, so long as any Parity
2 Obligations are Outstanding and any notice from the Master Trustee referred to in subsection (c)
3 above has not been withdrawn, no Reimbursement Premiums or Reimbursement Premium
4 Earnings will be advanced or paid to insurers writing Covered Policies as reimbursement
5 payments under reimbursement contracts for reimbursable losses.

6 (f) Except during the continuation of an Event of Default, immediately following the
7 date on which the amounts on deposit to the credit of the accounts and subaccounts in the
8 Revenue Fund, taking into account the amounts to the credit of the various subaccounts in the
9 various accounts (except the balance to the credit of the Parity Common Reserve Account and
10 any Special Reserve Account) in the Bond Fund are sufficient for the Master Trustee to make (i)
11 the transfer to the Corporation or a Depository for the account of the Corporation of the balance
12 of the amount required for the payment of the Current Expenses of the Corporation in the current
13 Fiscal Year in accordance with the provisions of Section 503(b) of the Master Trust Indenture
14 and (ii) the deposits or payments of the amounts required by Section 504(a), (b) and (c) of the
15 Master Trust Indenture in the current Fiscal Year with respect to the Parity Obligations then
16 Outstanding, any Reimbursement Premiums, Reimbursement Premium Earnings and investment
17 income from the investment of proceeds of Pre-Event Bonds held by the FHCF on such date in
18 such Fiscal Year in excess of such requirements for such Fiscal Year shall be released from the
19 pledge and security interest granted herein, any Reimbursement Premiums, Reimbursement
20 Premium Earnings and investment income from the investment of proceeds of Pre-Event Bonds
21 received by the FHCF after such date in such Fiscal Year shall not be required to be delivered to
22 the Master Trustee, and all Reimbursement Premiums, Reimbursement Premium Earnings and
23 the investment income from the investment of proceeds of Pre-Event Bonds so released or no
24 longer required to be delivered to the Master Trustee in such Fiscal Year may be used by the
25 FHCF for any purpose permitted by the Act; provided that, in the event any of the Outstanding
26 Pre-Event Parity Obligations are Variable Rate Indebtedness, such Obligations shall be assumed,
27 for purposes of this subsection (f), to bear interest for the balance of the Fiscal Year at the rate
28 described in paragraph (ii) of the definition of Debt Service Requirement in the Master Trust
29 Indenture.

30 (g) The State Board of Administration and the Corporation hereby acknowledge that
31 the Office of Insurance Regulation has received from the Corporation and the FHCF a notice
32 that, simultaneously with the execution and delivery of this Pledge Agreement, Bonds are being
33 issued by the Corporation and the FHCF has no agreements in effect with local governments,
34 and, therefore, as provided by the Act, for so long as the Corporation shall have any Parity
35 Obligations Outstanding, the FHCF shall have no right, title or interest in or to the Emergency
36 Assessments and the Emergency Assessment Earnings, except as provided in the FHCF's
37 agreements with the Corporation. This Pledge Agreement with the Corporation is one such
38 agreement, and, by the terms hereof, the FHCF shall collect and receive the Emergency
39 Assessments subject to the pledge and security interest granted in Section 3(a) to the Master
40 Trustee for the benefit of the Owners and Holders of Parity Obligations and to the obligation
41 imposed by Section 3(c)(i) and (ii) to transfer to the Master Trustee all of the Emergency
42 Assessments so collected and received. Simultaneously with the execution and delivery of this
43 Pledge Agreement, the Corporation will assign to the Master Trustee as security for the Parity
44 Obligations, all of the Corporation's right, title and interest in and to this Pledge Agreement
45 (except for those certain rights under this Pledge Agreement that are set forth in the granting

1 clauses of the Master Indenture). The State Board of Administration hereby consents to such
2 assignment and agrees that the Master Trustee may enforce any and all rights, privileges and
3 remedies of the Corporation under or with respect to this Pledge Agreement, including those
4 rights reserved by the Corporation.

5 Section 4. *Special Covenants.* The State Board of Administration hereby covenants
6 that:

7 (a) (i) the moneys on deposit in any fund, account or subaccount maintained by the
8 Master Trustee or the State Board of Administration in connection with any Parity Tax-Exempt
9 Obligations, whether or not such moneys were derived from the proceeds of the sale of such
10 Parity Tax-Exempt Obligations or any other source, will not be used in any manner that would
11 cause such Parity Tax-Exempt Obligations to be "arbitrage bonds" within the meaning of Section
12 148 of the Code or bonds not described under Section 103(a) of the Code; and

13 (ii) no portion of the proceeds of any Parity Tax-Exempt Obligations will be
14 used in a manner that would cause such Parity Tax-Exempt Obligations to be "private activity
15 bonds" within the meaning of Section 141(a) of the Code, unless at the time of the issuance of
16 such private activity bonds there shall be delivered to the Master Trustee, the State Board of
17 Administration and the Corporation an opinion of bond counsel to the effect that (A) the interest
18 on such private activity bonds will not be includable in the gross income of the owners thereof
19 for federal income tax purposes and (B) that the issuance of such private activity bonds will not
20 impair the federal income tax status of any other Parity Tax-Exempt Obligations then
21 Outstanding;

22 (b) within thirty (30) days after receipt of the audit report mentioned below but in no
23 event later than two hundred seventy (270) days after the end of each Fiscal Year, the State
24 Board of Administration will file with the Master Trustee and with each Owner or Holder who
25 may have so requested of the State Board of Administration in writing, a copy of the Audited
26 Financial Statements, prepared in accordance with generally accepted accounting principles, of
27 the FHCF and the Corporation as of the end of such Fiscal Year accompanied by the opinion of
28 an Auditor;

29 (c) not later than ninety (90) days after the end of each Fiscal Year, commencing with
30 the Fiscal Year ending on June 30, 2007, the State Board of Administration shall file with the
31 Master Trustee an Officer's Certificate demonstrating that the Revenue Available for Debt
32 Service for the prior Fiscal Year (set forth in such Certificate) was not less than the greater of (i)
33 one hundred twenty-five percent (125%) of the principal and interest that became due and
34 payable in such Fiscal Year on Parity Obligations and (ii) one hundred percent (100%) of the
35 principal and interest that became due and payable in such Fiscal Year for Parity Obligations and
36 Subordinated Indebtedness for such Fiscal Year (both such calculations set forth in such
37 Certificate); provided, however, that if the State Board of Administration is unable to deliver
38 such an Officer's Certificate, the State Board of Administration covenants to take all actions
39 permitted by law or under this Pledge Agreement, including (A) petitioning the Legislature of
40 the State for any amendment or amendments to the Act deemed appropriate by the State Board of
41 Administration, (B) cooperating with the Corporation in connection with any action to increase
42 collections of Pledged Collateral, and (C) retaining a Consultant within thirty (30) days to make

1 recommendations to increase the Revenue Available for Debt Service in the following Fiscal
2 Year to the levels required or, if in the opinion of the Consultant the attainment of such levels is
3 impracticable, to the highest levels attainable. Any Consultant so retained shall be required to
4 submit such recommendations within sixty (60) days after being so retained. The State Board of
5 Administration agrees that it will, to the extent permitted by law, follow, or cause to be followed,
6 the recommendations of any Consultant so retained. For purposes of the Officer's Certificate
7 described in this subsection, there may be subtracted from the amount of the interest otherwise
8 includable in the amounts described in clauses (i) and (ii) above an amount equal to the sum of
9 the interest on Parity Obligations paid during such Fiscal Year from (Y) the Capitalized Interest
10 Account in the Bond Fund and (Z) without duplication, investment income on and proceeds of
11 Pre-Event Parity Obligations. The Officer's Certificate described in this subsection (c) may be
12 provided jointly by an Authorized Officer of the State Board of Administration and an
13 Authorized Officer of the Corporation; and

14 (d) the State Board of Administration will take such action, in addition to the specific
15 actions prescribed by this Pledge Agreement, as may be necessary and permitted under the Act to
16 ensure the full and timely payment of debt service on Pre-Event Parity Bonds following a
17 withdrawal from the Pre-Event Parity Obligations Account of the Covered Events Relief Fund of
18 all or any portion of the proceeds of such Bonds.

19 Section 5. *Investment of Pledged Collateral.* The State Board of Administration
20 shall enter into agreements with either the Master Trustee or a Depositary or Depositaries for the
21 investment of any money derived from the Pledged Collateral and deposited in any of the funds
22 or accounts established under the Master Indenture or this Pledge Agreement or give the Master
23 Trustee and any Depositary written directions respecting the investment of such money, subject,
24 however, to the lien, assignment and pledge effected hereby and to the provisions of Article VI
25 of the Master Indenture. The Master Trustee hereby agrees to enter into such agreements and
26 follow such directions respecting the investment of any money required or permitted to be
27 invested under the Master Indenture, subject, however, to the lien, assignment and pledge
28 effected hereby and to the provisions of Article VI of the Master Indenture.

29 Section 6. *FHCF Remains Liable.* Anything herein to the contrary notwithstanding,
30 (a) the FHCF shall remain liable under the reimbursement contracts entered into by the State
31 Board of Administration with insurers writing Covered Policies in the State to the extent set forth
32 therein and to perform all of its duties and obligations thereunder to the same extent as if this
33 Pledge Agreement had not been executed, (b) the execution and delivery of this Pledge
34 Agreement shall not release the FHCF from any of its duties or obligations under such
35 reimbursement contracts, (c) neither the Corporation nor the Master Trustee shall (i) have any
36 obligation or liability under such reimbursement contracts by reason of this Pledge Agreement or
37 (ii) be obligated to perform any of the obligations or duties of the FHCF or the State Board of
38 Administration thereunder; provided, however, nothing in this Section shall relieve the FHCF of
39 its obligation to deliver to the Master Trustee the Pledged Collateral to the extent required by
40 Section 3 hereof, and (d) the FHCF shall remain liable, notwithstanding any release from the
41 pledge and security interest created by this Pledge Agreement of portions of the Pledged
42 Collateral as provided in Section 3(f), to make timely and sufficient transfers of Pledged
43 Collateral to the Master Trustee to enable the Corporation to make timely and sufficient payment
44 of all amounts due under the Master Indenture.

1 Section 7. *Representations and Warranties.* The State Board of Administration
2 hereby represents and warrants that: (i) the obligations of the FHCF under this Pledge
3 Agreement shall not constitute a debt of the State or any political subdivision thereof nor a
4 pledge of the faith and credit of the State or any political subdivision thereof within the meaning
5 of any constitutional or statutory provision; (ii) the FHCF does not have the power or authority to
6 levy any tax; (iii) the FHCF owns the Pledged Collateral free and clear of any lien, security
7 interest, pledge or encumbrance except for the liens, security interests and pledges created by this
8 Pledge Agreement and by the Master Indenture; (iv) no effective financing statement or other
9 instrument similar in effect covering all or any part of the Pledged Collateral is on file in any
10 recording office; (v) this Pledge Agreement creates a valid, enforceable and perfected security
11 interest in favor of the Corporation in the Pledged Collateral, securing the payment of the Parity
12 Obligations, and all actions necessary or desirable to establish and protect such pledge have been
13 duly taken; and (vi) no authorization, approval or other action by, and no notice to or filing with,
14 any governmental authority or regulatory body is required either (A) for the grant by the State
15 Board of Administration of the security interest granted herein or for the execution, delivery or
16 performance of this Pledge Agreement by the State Board of Administration, or (B) for the
17 perfection of or the exercise by the Corporation and the Master Trustee of their respective rights
18 and remedies hereunder. Unless the State Board of Administration shall have previously advised
19 the Corporation and the Master Trustee in writing that one or more of the above statements is no
20 longer true, the State Board of Administration shall be deemed to have represented and
21 warranted to the Corporation and the Master Trustee on all dates subsequent to the date of
22 execution hereof that the statements contained herein are true and correct.

23 Section 8. *Covered Events Relief Fund.* (a) A special fund is hereby established
24 with the State Board of Administration and designated the "Florida Hurricane Catastrophe Fund
25 Covered Events Relief Fund" and within the Covered Events Relief Fund there are hereby
26 established special accounts, one for Post-Event Parity Obligations and one for Pre-Event Parity
27 Obligations, and, within each of the special accounts, there are hereby established special
28 subaccounts for each Series of Post-Event Bonds and Pre-Event Bonds, respectively (unless the
29 applicable Supplemental Indenture provides for the commingling of proceeds in a single
30 subaccount), each to be designated the "[Bond Series and letter] Covered Events Relief
31 Subaccount" (each, a "Proceeds Subaccount"). Upon the issuance or incurrence of each Series
32 of Parity Obligations that are Post-Event Parity Obligations, the net proceeds thereof shall be
33 transferred by the Corporation to the State Board of Administration, for the account of the
34 FHCF, and shall be deposited by the State Board of Administration in the appropriate Proceeds
35 Subaccount of the Post-Event Parity Obligations Proceeds Account, to be held by the FHCF for
36 disbursement for reimbursement payments, and advances of such payments, under
37 reimbursement contracts for reimbursable losses caused by a Covered Event. Upon the issuance
38 or incurrence of each Series of Parity Obligations that are Pre-Event Parity Obligations, the net
39 proceeds thereof shall be transferred by the Corporation to the State Board of Administration, for
40 the account of the FHCF, and shall be deposited by the State Board of Administration in the
41 appropriate Proceeds Subaccount of the Pre-Event Parity Obligations Proceeds Account to be
42 held by the FHCF in reserve for disbursement for reimbursement payments, and advances of
43 such payments, under reimbursement contracts for reimbursable losses caused by a future
44 Covered Event.

1 (b) Money in the Covered Events Relief Fund may, subject to Section 4(a) hereof and
2 Section 502(c) of the Master Trust Indenture, be invested in any investment authorized under
3 Section 215.47, Florida Statutes, as amended from time to time, or any successor statute.
4 Investments acquired with money in or credited to any Proceeds Subaccount shall be deemed at
5 all times to be part of such Subaccount. Any loss realized upon the disposition or maturity of
6 such investments shall be charged against such Subaccount unless otherwise directed by the
7 State Board of Administration. The interest accruing on any such investments and any profit
8 realized upon the disposition or maturity of such investments shall be credited to such
9 Subaccount unless otherwise directed by the State Board of Administration.

10 (c) In the case of the special Proceeds Subaccounts created for Post-Event Parity
11 Obligations, payment of the reimbursable losses caused by a Covered Event occurring during a
12 Contract Year shall be made from the appropriate Proceeds Subaccount or Subaccounts. All
13 such payments shall be subject to the provisions and restrictions set forth in this Pledge
14 Agreement, including Section 4(a) hereof, and the Master Indenture, and the State Board of
15 Administration shall not cause or agree to permit to be paid from any such Subaccount any sums
16 except in accordance with such provisions and restrictions. When all reimbursement payments
17 under reimbursement contracts for reimbursable losses caused by a Covered Event have been
18 paid, which fact shall be evidenced by delivery to the Master Trustee of an Officer's Certificate
19 of the State Board of Administration, the balance in the related Proceeds Subaccount shall be
20 transferred as the Corporation may direct or as may be provided in the applicable Supplemental
21 Indenture.

22 (d) (i) In the case of each special Proceeds Subaccount created for Pre-Event
23 Parity Obligations,

24 (A) the FHCF shall, in accordance with the provisions of
25 Section 3(c)(iii), transfer to the Master Trustee for the account of the Corporation, from time to
26 time from each such Subaccount the investment income on proceeds of Pre-Event Parity
27 Obligations or from proceeds of Pre-Event Parity Obligations, amounts sufficient for the Master
28 Trustee to pay the Current Expenses of the Corporation not provided for from Reimbursement
29 Premiums or otherwise and to make timely the deposits required by Section 504(a) and (b) and,
30 if applicable, Section 504(c), in respect of the related Series of Pre-Event Parity Obligations, and

31 (B) other than as provided in Section 3(c), no withdrawals from
32 any such Subaccount for any other purpose than described in clause (A) may be made prior to
33 the occurrence of a Covered Event except that withdrawals may be made to redeem or defease
34 any Pre-Event Parity Obligations in accordance with the terms of the applicable Parity
35 Resolution.

36 (ii) Proceeds of Pre-Event Parity Obligations may be withdrawn from a Proceeds
37 Subaccount following the occurrence of a Covered Event, provided that an Authorized Officer of
38 the State Board of Administration shall deliver to the Master Trustee prior to the first such
39 withdrawal an Officer's Certificate certifying the following:

40 (A) The aggregate amount and monthly schedule of
41 withdrawals from such Subaccount anticipated to be made as a result of the Covered Event,

1 (B) That an amount, stated in such Certificate and equal to the
2 difference between the balance then to the credit of the applicable Subaccount for such Pre-Event
3 Parity Obligations in the Interest Account in the Bond Fund and the interest, estimated in such
4 Certificate and calculated in the event that any of the Outstanding Pre-Event Parity Obligations
5 are Variable Rate Indebtedness at the rate described in paragraph (ii) of the definition of Debt
6 Service Requirement in the Master Trust Indenture, to become due and payable in the next six
7 months on a principal amount of Pre-Event Parity Obligations equal to the aggregate amount of
8 the withdrawals anticipated to be made as set forth in (A) above, shall have been withdrawn from
9 the proceeds of such Pre-Event Parity Obligations credited to such Subaccount or otherwise
10 transferred to the Master Trustee, and in any case deposited to the credit of the appropriate
11 subaccount in the Interest Account for such Pre-Event Parity Obligations,

12 (C) That, taking into account all of the anticipated withdrawals
13 described in (A) above, such Officer estimates that there will be sufficient Revenue Available for
14 Debt Service to make full and timely payment of debt service on the Pre-Event Parity
15 Obligations as the same shall become due and payable, and

16 (D) That notice of such withdrawal has been provided to the
17 State Board of Administration and that such notice contained the information included in clauses
18 (A), (B) and (C) above and an estimate, based upon factors deemed reasonable and appropriate
19 by the certifying Authorized Officer, of the aggregate increase, if any, in the Emergency
20 Assessment percentage necessary to be levied to provide for the estimated annual Debt Service
21 Requirement for each future Fiscal Year on a principal amount of the Pre-Event Parity
22 Obligations equal to the aggregate amount of the anticipated withdrawals described in (A) above.

23 (iii) When all of the Pre-Event Parity Obligations authorized by a
24 Supplemental Indenture shall have been paid or defeased (whether through a refunding or
25 otherwise) in accordance with such Supplemental Indenture, which fact shall be evidenced by
26 delivery to the Master Trustee of an Officer's Certificate of the State Board of Administration,
27 the balance in the related Proceeds Subaccount shall be transferred as the Corporation may direct
28 or as may be provided in the applicable Supplemental Indenture.

29 Section 9. *Rights of the Corporation and the Master Trustee.* Neither the
30 Corporation nor the Master Trustee shall be liable for any failure to collect or realize upon all or
31 any part of the Pledged Collateral, or for any delay in so doing, and neither the Corporation nor
32 the Master Trustee shall be under any obligation to take any action whatsoever with regard to the
33 Pledged Collateral except to the extent set forth in this Pledge Agreement, in the Master
34 Indenture and in any indenture supplemental thereto. If an Event of Default shall have occurred
35 and be continuing, the Master Trustee, as assignee pursuant to the Master Indenture of all the
36 Corporation's right, title and interest in and to this Pledge Agreement, may, without notice,
37 exercise all rights, privileges or options pertaining to the Pledged Collateral as if it were the
38 absolute owner of such Pledged Collateral, upon such terms and conditions as it may determine,
39 all without liability except to account for the Pledged Collateral actually received by it.

40 Section 10. *Remedies.* (a) Upon the happening and continuance of any Event of
41 Default, then and in every such case the Master Trustee may proceed, and upon the written
42 request of the Owners or Holders of not less than a majority in aggregate principal amount of the

1 Parity Obligations then Outstanding (subject to any limitations on or alternative provisions for
2 the giving of such requests as may be established in any indenture supplemental to the Master
3 Indenture) shall proceed, subject to the provisions of Section 902 of the Master Indenture, to
4 protect and enforce its rights and the rights of the Owners or Holders of the Parity Obligations
5 under applicable laws and under this Pledge Agreement by such suits, actions or special
6 proceedings in equity or at law, or by proceedings in the office of any board or officer having
7 jurisdiction, either for the specific performance of any covenant or Pledge Agreement contained
8 herein or in aid or execution of any power herein granted or for the enforcement of any proper
9 legal or equitable remedy, as the Master Trustee, being advised by counsel, chosen by the Master
10 Trustee, shall deem most effectual to protect and enforce such rights, including but not limited
11 to:

12 (i) Suit upon all or any part of the Pledged Collateral;

13 (ii) Civil action to require any Person holding money, documents or other
14 property pledged to secure payment of amounts due or to become due on the Parity Obligations
15 to account as if it were the trustee of an express trust for the Owners and Holders;

16 (iii) Civil action to enjoin any acts or things, which may be unlawful or in
17 violation of the rights of the Owners and Holders; and

18 (iv) Enforcement of any other right of the Owners and Holders conferred by
19 law or hereby.

20 (b) Regardless of the happening of an Event of Default, the Master Trustee, if
21 requested in writing by the Owners or Holders of not less than a majority of the aggregate
22 principal amount of the Parity Obligations then Outstanding (subject to any limitations on or
23 alternative provisions for the giving of such requests as may be established in any Supplemental
24 Indenture) shall proceed, subject to the provisions of Section 902 of the Master Indenture, to
25 institute and maintain such suits and proceedings as it may be advised shall be necessary or
26 expedient (i) to prevent any impairment of the security hereunder by any acts which may be
27 unlawful or in violation hereof, or (ii) to preserve or protect the interests of the Owners and
28 Holders, provided that such request and the action to be taken by the Master Trustee are not in
29 conflict with any applicable law or the provisions hereof and, in the sole judgment of the Master
30 Trustee, are not unduly prejudicial to the interest of the Owners and Holders not making such
31 request.

32 Section 11. *Further Assurances.* The State Board of Administration shall, at any time
33 and from time to time upon the written request of the Master Trustee, execute and deliver such
34 further documents and do such further acts and things as the Master Trustee may reasonably
35 request in order to effect the purposes of this Pledge Agreement.

36 Section 12. *Master Trustee May Perform.* If the FHCF fails to perform any agreement
37 contained herein, the Master Trustee may itself perform, or cause performance of, such
38 agreement, and the expenses of the Master Trustee incurred in connection therewith shall be
39 payable by the FHCF as Current Expenses of the FHCF.

1 Section 13. *Indemnity and Expenses.* (a) To the extent permitted by law, the State
2 Board of Administration agrees to indemnify the Corporation and the Master Trustee from and
3 against any and all claims, losses and liabilities (collectively referred to hereinafter as "Losses")
4 of whatsoever nature (including, but not limited to, reasonable attorneys' fees, litigation and
5 court costs, amounts paid in settlement and amounts paid to discharge judgments) directly or
6 indirectly resulting from, arising out of or related to one or more Claims, as hereinafter defined,
7 excluding any such Loss or Claim that arises out of an act of negligence or willful misconduct of
8 any member, officer, director, agent, or employee of the Corporation or the Master Trustee. The
9 word "Claims" as used herein shall mean all claims, lawsuits, causes of action and other legal
10 actions and proceedings of whatsoever nature, including, but not limited to, claims, lawsuits,
11 causes of action and other legal actions and proceedings brought against the Corporation or the
12 Master Trustee or to which the Corporation or the Master Trustee is a party, that directly or
13 indirectly result from, arise out of or relate to the execution, delivery or performance of this
14 Pledge Agreement, the Master Indenture or any related instruments or documents. The
15 obligations of the State Board of Administration under this Section 13(a) shall apply to all
16 Losses or Claims, or both, that result from, arise out of, or are related to any event, occurrence,
17 condition or relationship prior to termination of this Pledge Agreement, whether such Losses or
18 Claims, or both, are asserted prior to termination of this Pledge Agreement or thereafter. The
19 Corporation or the Master Trustee, as the case may be, shall reimburse the State Board of
20 Administration for payments made by the State Board of Administration pursuant to this Section
21 13(a) to the extent of any proceeds, net of all expenses of collection, actually received by the
22 Corporation or the Master Trustee from any insurance covering such Claims with respect to the
23 Losses sustained. The Corporation and the Master Trustee shall have the duty to claim any such
24 insurance proceeds and the Corporation and the Master Trustee shall assign their respective
25 rights to such proceeds, to the extent of such required reimbursement, to the State Board of
26 Administration. In case any action shall be brought against the Corporation or the Master
27 Trustee in respect of which indemnity may be sought against the State Board of Administration,
28 then the Corporation or the Master Trustee, as the case may be, shall promptly notify the State
29 Board of Administration in writing. Failure to notify the State Board of Administration shall not
30 relieve it from any liability that it may have other than on account of this Pledge Agreement.
31 The State Board of Administration shall have the right to assume the investigation and defense of
32 any such action, including the employment of counsel, which counsel shall be satisfactory to the
33 indemnified parties, and the payment of all expenses. The Corporation shall have the right to
34 employ separate counsel in any such action and participate in the investigation and defense
35 thereof, and the reasonable fees and expenses of such counsel shall be paid by the State Board of
36 Administration. The Master Trustee shall have the right to employ separate counsel in any such
37 action and participate in the investigation and defense thereof, but the fees and expenses of such
38 counsel shall be paid by the Master Trustee, unless the employment of such counsel has been
39 authorized by the State Board of Administration or the Master Trustee has concluded in good
40 faith that there may be legal defenses available to it that are different from or in addition to those
41 available to the State Board of Administration, in which case the Master Trustee shall have the
42 right to designate and retain separate counsel in such action and the reasonable fees and expenses
43 of such counsel shall be paid by the State Board of Administration. If no such authorization or
44 conclusion in good faith is made and the State Board of Administration assumes the defense of
45 such action, the State Board of Administration shall not be liable for the fees and expenses of any
46 counsel for the Master Trustee incurred thereafter in connection with such action. In no event

1 shall the State Board of Administration be liable for the fees and expenses of more than one
2 counsel for the Master Trustee in connection with any one action or separate but similar or
3 related actions in the same jurisdiction arising out of the same general allegations or
4 circumstances, unless the retaining of additional counsel has been specifically authorized by the
5 State Board of Administration. All payments made by the State Board of Administration
6 pursuant to this Section 13(a) shall be Current Expenses of the FHCF.

7 (b) The State Board of Administration shall pay to the Corporation and the Master
8 Trustee the amount of any and all reasonable expenses, including the reasonable fees and
9 disbursements of their respective counsel and of any consultants and agents, which the
10 Corporation or the Master Trustee may incur in connection with (i) the administration of this
11 Pledge Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection
12 from, or other realization upon, any of the Pledged Collateral, (iii) the exercise or enforcement of
13 any of the rights of the Corporation or the Master Trustee hereunder or (iv) the failure by the
14 FHCF to perform or observe any of the provisions hereof. All such expenses pursuant to this
15 Section 13(b) shall be payable by the FHCF as Current Expenses of the FHCF.

16 Section 14. *Amendment.* This Pledge Agreement may, without the consent of or
17 notice to any of the Owners or Holders, be amended, from time to time, to:

18 (a) cure any ambiguity or formal defect or omission in this Pledge Agreement or in
19 any supplement hereto;

20 (b) correct or supplement any provisions herein which may be inconsistent with any
21 other provisions herein or make any other provisions with respect to matters which do not
22 materially or adversely affect the interests of the Owners and the Holders;

23 (c) grant to or confer upon the Master Trustee for the benefit of the Owners and the
24 Holders any additional rights, remedies, powers, authority or security that may lawfully be
25 granted to or conferred upon the Owners and the Holders or the Master Trustee;

26 (d) add conditions, limitations and restrictions on the State Board of Administration
27 to be observed thereafter; or

28 (e) make any amendment or modification to this Pledge Agreement resulting from
29 the elimination of any restriction on the use of Reimbursement Premiums under the Code to pay
30 or to secure debt service on Tax-Exempt Parity Obligations to the extent the elimination of such
31 restriction is permitted by any administrative pronouncement of the Internal Revenue Service
32 (including a private letter ruling) addressed to the Corporation, the FHCF, or any successor of
33 either, or to the extent such elimination of such use restriction is permitted (based upon an
34 Opinion of Counsel) by the Code; or

35 (f) make any other change that, in the opinion of the Master Trustee, which may rely
36 upon certificates of Consultants and Opinions of Counsel for such purpose, shall not materially
37 adversely affect the security for the Parity Obligations.

38 Before entering into any amendment under this Section 14, the Master Trustee shall be
39 entitled to receive, and in so doing shall be fully protected in relying upon, an Opinion of

1 Counsel to the effect the any such proposed amendment is authorized or permitted under this
2 Pledge Agreement.

3 Other than amendments referred to in the preceding paragraph of this Section and subject
4 to the terms and provisions and limitations contained in Section 1102 of the Master Indenture
5 and not otherwise, the Owners and Holders of not less than a majority in aggregate principal
6 amount of the Parity Obligations then Outstanding, shall have the right, from time to time,
7 anything contained herein to the contrary notwithstanding, to consent to and approve the
8 execution by the State Board of Administration, the Corporation and the Master Trustee of such
9 supplements and amendments hereto as shall be deemed necessary and desirable for the purpose
10 of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or
11 provisions contained herein; provided, however, nothing in this Section shall permit or be
12 construed as permitting a supplement or amendment which would impair the pledge and
13 security interest granted by this Pledge Agreement.

14 Section 15. *Termination of Pledge Agreement.* This Pledge Agreement shall (i) remain
15 in full force and effect until payment in full of the Parity Obligations, (ii) be binding upon the
16 FHCF, its successors and assigns and (iii) inure to the benefit of the Corporation, the Master
17 Trustee and their respective successors, transferees and assigns. Upon the payment in full of the
18 Parity Obligations, the security interest granted herein shall terminate and all rights to the
19 Pledged Collateral shall revert to the FHCF. Upon any such termination, the Master Trustee
20 shall, at the FHCF's expense, execute and deliver to the FHCF such documents as the State
21 Board of Administration shall reasonably request to evidence such termination.

22 Section 16. *Notices.* All notices, demands and requests to be given to or made
23 hereunder by the Corporation, the State Board of Administration or the Master Trustee shall be
24 given or made in writing and shall be deemed to be properly given or made if sent by United
25 States certified or registered mail, return receipt requested, postage prepaid, addressed as
26 follows:

| 27 <u>Party</u> | <u>Address</u> |
|--|---|
| 28 Florida Hurricane Catastrophe Fund: 29 30 31 32 | Florida Hurricane Catastrophe Fund c/o State Board of Administration 1801 Hermitage Boulevard Tallahassee, Florida 32308 Attention: Chief Operating Officer |

1 Corporation: Florida Hurricane Catastrophe Fund
2 Finance Corporation
3 c/o State Board of Administration
4 1801 Hermitage Boulevard
5 Tallahassee, Florida 32308
6 Attention: Senior FHCF Officer

7 Master Trustee: Wells Fargo Bank, N.A.
8 7077 Bonneval Road, Suite 400
9 Jacksonville, FL 32216
10 Attention: Corporate Trust Department

11 Any such notice, demand or request may also be transmitted to the appropriate above-
12 mentioned party by telegram or telephone and shall be deemed to be properly given or made at
13 the time of such transmission if, and only if, such transmission of notice shall be confirmed in
14 writing and sent as specified above.

15 Any of such addresses may be changed at any time upon written notice of such change
16 sent by United States certified or registered mail, postage prepaid, to the other parties by the
17 party effecting the change.

18 Section 17. *No Waiver; Remedies.* No failure on the part of the Corporation or the
19 Master Trustee to exercise, and no delay in exercising, any right under this Pledge Agreement
20 shall operate as a waiver of such right, and no single or partial exercise of any right under this
21 Pledge Agreement shall preclude any further exercise of such right or the exercise of any other
22 right. The remedies provided in this Pledge Agreement are cumulative and not exclusive of any
23 remedies provided by law.

24 Section 18. *Conflict.* In the event that any part of this Pledge Agreement is
25 determined to be in conflict with the terms of the Master Indenture, the terms of the Master
26 Indenture shall govern to the extent of such conflict.

27 Section 19. *Rights of the Master Trustee.* Neither the Master Trustee nor any of its
28 officers, directors, employees, agents, attorneys-in-fact or affiliates shall be liable for any action
29 taken or omitted to be taken by it or any such officer, director, employee, agent, attorney-in-fact
30 or affiliate under or in connection with this Pledge Agreement (except for the Master Trustee's
31 or any such person's own negligence or willful misconduct). The Master Trustee undertakes to
32 perform only such duties as are expressly set forth herein. The Master Trustee may rely, and
33 shall be protected in acting or refraining from acting, upon any written notice, instruction or
34 request furnished to it hereunder and believed by it to be genuine and to have been signed or
35 presented by the proper party. The Master Trustee may consult with counsel of its choice and
36 shall have full and complete authorization and protection for any action taken or suffered by it
37 hereunder in good faith and in accordance with the opinion of such counsel. Notwithstanding
38 any provision to the contrary contained herein, the Master Trustee shall not be relieved of
39 liability arising in connection with its own negligence or willful misconduct.

1 Section 20. *Members, Officers and Employees of the State Board of Administration*
2 *and the Corporation Not Liable.* Neither the members, officers and employees of the State
3 Board of Administration nor the members of the Board of Directors or the officers and
4 employees of the Corporation shall be personally liable for any costs, losses, damages or
5 liabilities caused or subsequently incurred by the State Board of Administration or any member,
6 officer, employee or agent thereof in connection with or as a result of this Pledge Agreement.

7 Section 21. *Separate Accounts and Records.* The State Board of Administration and
8 the Corporation represent and covenant, each for itself, that:

9 (i) Each of them will maintain its respective books, financial records and
10 accounts (including, without limitation, inter-entity transaction accounts) in a manner so as to
11 identify separately the assets and liabilities of each such entity; each has observed and will
12 observe all applicable corporate or trust procedures and formalities, including where applicable,
13 the holding of regular periodic and special meetings of governing bodies, the recording and
14 maintenance of minutes of such meetings, and the recording and maintenance of resolutions, if
15 any, adopted at such meetings; and all transactions and agreements between and among them
16 have reflected and will reflect the separate legal existence of each entity and have been and will
17 be formally documented in writing.

18 (ii) Each of them has paid and will pay its respective liabilities and losses
19 from its own respective separate assets, and has compensated and will compensate all
20 consultants, independent contractors and agents from its own funds for services provided to it by
21 such consultants, independent contractors and agents.

22 (iii) None of them has commingled or will commingle any of its assets, funds
23 or liabilities with the assets, funds or liabilities of any other person or entity. Each of them has
24 conducted and will conduct all business between itself and third parties in its own name and
25 separate and distinct from the others.

26 (iv) Neither the assets nor the creditworthiness of the FHCF will be held out as
27 being available for the payment of any liability of the Corporation, and vice versa. Assets will
28 not be transferred by the Corporation to or from the FHCF inconsistently with the Act or with
29 the intent to hinder, delay or defraud creditors.

30 (v) Each of them in its papers and in the statements of its officials has referred
31 and will refer to the others as separate and distinct legal entities; and will take no action that is
32 inconsistent with this Pledge Agreement or that would give any creditor of any of them cause to
33 believe either that any obligation incurred by it would be not only its obligation, but also of
34 another party, or that it were not or would not continue to remain an entity separate and distinct
35 from the others.

36 Section 22. *Transfers to FHCF.* Subject to the provisions of the Act, the Master
37 Indenture and this Pledge Agreement, all money received by the Corporation or the Master
38 Trustee which, together with other money available for the purposes of the Master Indenture,
39 exceeds the amount required for such purposes shall be transferred to the order of the FHCF not
40 later than the times provided therefor in the Master Indenture and in this Pledge Agreement.

1 Section 23. *Severability.* Any provision of this Pledge Agreement that is prohibited,
2 unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to
3 the extent of such prohibition, unenforceability or nonauthorization without invalidating the
4 remaining provisions of this Pledge Agreement or affecting the validity, enforceability or legality
5 of such provision in any other jurisdiction.

6 Section 24. *Governing Law.* This Pledge Agreement shall be governed by, and
7 construed and interpreted in accordance with, the domestic law of the State.

8 Section 25. *Headings.* Section headings in this Pledge Agreement are included for
9 convenience of reference only and shall not constitute a part of this Pledge Agreement for any
10 other purpose.

11 Section 26. *Counterparts.* This Pledge Agreement may be signed in any number of
12 counterpart copies, and all such copies shall constitute one and the same instrument.

1 IN WITNESS WHEREOF, the parties have caused this Pledge Agreement to be duly
2 executed and delivered as of the date first above written.

3 FLORIDA HURRICANE CATASTROPHE FUND
4 FINANCE CORPORATION

By: [Signature]
President

5
6
7 (SEAL)

8 Attest:

9 [Signature]
10 Secretary
11

12 STATE BOARD OF ADMINISTRATION,
13 acting as the governing body and administrator of the
14 FLORIDA HURRICANE CATASTROPHE FUND

By: [Signature]
Executive Director

15
16
17 (SEAL)

18 Attest:

19 [Signature]
20 Assistant General Counsel
21
22

23 WELLS FARGO BANK, N.A.
24 Master Trustee

25 By: _____
26 [Title]

27 (SEAL)

28 Attest:

29 _____
30 [Title]

1 IN WITNESS WHEREOF, the parties have caused this Pledge Agreement to be duly
2 executed and delivered as of the date first above written.

3 FLORIDA HURRICANE CATASTROPHE FUND
4 FINANCE CORPORATION

5 By: _____
6

7 (SEAL)

8 Attest:
9
10 _____
11


12 STATE BOARD OF ADMINISTRATION,
13 acting as the governing body and administrator of the
14 FLORIDA HURRICANE CATASTROPHE FUND

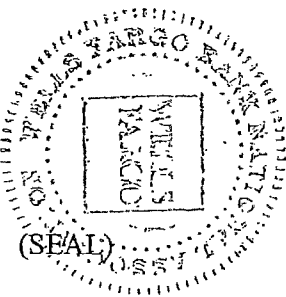
15 By: _____
16

17 (SEAL)

18 Attest:
19
20 _____
21

22 WELLS FARGO BANK, N.A.
23 Master Trustee

24 By: 
25 _____
26 Brian P. Clark, Vice President



27 Attest:
28 
29 _____
Title:

APPENDIX D
PROVISIONS FOR BOOK-ENTRY ONLY SYSTEM FOR REGISTERED BONDS

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PROVISIONS FOR BOOK-ENTRY-ONLY SYSTEM OR REGISTERED BONDS**The Depository Trust Company and Book-Entry-Only System**

THE INFORMATION IN THIS SECTION CONCERNING THE DEPOSITORY TRUST COMPANY AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CORPORATION BELIEVES TO BE RELIABLE; HOWEVER, NEITHER THE CORPORATION NOR THE SBA TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. CAPITALIZED, UNDEFINED TERMS HEREIN HAVE THE MEANING GIVEN WITHIN APPENDIX C-1.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2016A Bonds. The 2016A Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the 2016A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules

applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the 2016A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016A Bond (a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2016A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2016A Bonds, except in the event that use of the book-entry system for the 2016A Bonds is discontinued.

To facilitate subsequent transfers, all 2016A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in Beneficial Ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2016A Bond documents. For example, Beneficial Owners of 2016A Bonds may wish to ascertain that the nominee holding the 2016A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notice be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2016A Bonds unless authorized by a Direct Participant in accordance with DTC MMI

Procedure's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2016A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2016A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Bond Registrar/Paying Agent/Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Registrar/Paying Agent/Trustee, the Corporation, or the State Board of Administration, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Registrar/Paying Agent/Trustee; disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2016A Bonds at any time by giving reasonable notice to the Corporation or Bond Registrar/Paying Agent/Trustee. The Corporation may decide to discontinue use of the system of book-entry transfers for the 2016A Bonds through DTC (or a successor securities depository). Under such circumstances, in the event that a successor depository is not obtained, certificates for the 2016A Bonds are required to be printed and delivered as provided in the documents authorizing the issuance and sale of the 2016A Bonds.

For every transfer and exchange of beneficial interests in the 2016A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other government charge that may be imposed in relation thereto.

So long as Cede & Co., as nominee of DTC, is the registered owner of the 2016A Bonds, references herein to the Registered Owners or Holders of the 2016A Bonds shall mean Cede & Co. and not mean the Beneficial Owners of the 2016A Bonds unless the context requires otherwise.

The Corporation, the SBA and the Bond Registrar/Paying Agent/Trustee will not have any responsibility or obligation with respect to:

- (i) the accuracy of the records of DTC, its nominee or any DTC Participant or any successor securities depository, participants thereof or nominee thereof with respect to any beneficial ownership interest in the 2016A Bonds;

- (ii) the delivery to any DTC Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any notice with respect to any 2016A Bond, including, without limitation, any notice of redemption;
- (iii) the payment to any DTC Participant or participant of any successor securities depository or any other person, other than a registered owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on the 2016A Bonds, or the purchase price of, any 2016A Bond;
- (iv) any consent given by DTC or any successor securities depository as registered owner; or
- (v) the selection by DTC or any DTC Participant or by any successor depository or its participants of the beneficial ownership interests in the 2016A Bonds for partial redemption.

So long as the 2016A Bonds are held in book-entry only form, the Corporation, the State Board of Administration and the Bond Registrar/Paying Agent/Trustee may treat DTC and any successor Securities Depository as, and deem DTC and any successor Securities Depository to be, the absolute owner of the 2016A Bonds for all purposes whatsoever, including, without limitation:

- (i) the payment of the principal of, premium, if any, and interest on the 2016A Bonds;
- (ii) giving notices of redemption and other matters with respect to the 2016A Bonds;
- (iii) registering transfers with respect to the 2016A Bonds; and
- (iv) the selection of the beneficial ownership interests in the 2016A Bonds for partial redemption.

Payment, Registration, Transfer and Exchange

The following provisions shall be applicable only if the book-entry-only system of registration is discontinued; for provisions which are applicable while the book-entry only system of registration is in effect, see "Book-Entry Only System" above.

The Corporation, the Master Trustee, the Bond Registrar/Paying Agent and any agent of the Corporation, the Master Trustee or the Bond Registrar/Paying Agent, may treat the person in whose name any Bond is registered as the Owner of such Bond for the purpose of receiving payment of the principal of and premium, if any, and interest on such Bond, and for all other

purposes whatsoever, whether or not such Bond be overdue, and, to the extent permitted by law, neither the Corporation, the Master Trustee, the Bond Registrar/Paying Agent nor any such agent shall be affected by notice to the contrary.

The payment of interest on each 2016A Bond shall be made by the Bond Registrar on each Interest Payment Date to the person appearing on the registration books of the Bond Registrar as the Owner thereof as of the Regular Record Date (i) by check mailed to the Owner at his address as it appears on such registration books or (ii) by wire transfer to any Owner of 2016A Bonds in the aggregate principal amount of \$1,000,000 or more that requests such method of payment and has furnished the necessary instructions and information to the Bond Registrar. Payment of the principal of all 2016A Bonds shall be made upon the presentation and surrender of such 2016A Bonds at the principal corporate trust office of the Bond Registrar as the same become due and payable (whether at maturity or by acceleration or otherwise).

The transfer of any 2016A Bond may be registered only upon the books kept for the registration and registration of transfer of 2016A Bonds upon presentation thereof to the Bond Registrar together with an assignment duly executed by the Owner or his attorney or legal representative, or legal representative of his estate if the Owner is deceased, in such form as shall be satisfactory to the Bond Registrar. No transfer of any 2016A Bond shall alter the ownership of such Bond unless such transfer is registered with the Bond Registrar. Upon any such registration of transfer, the Corporation shall, if necessary, execute and the Bond Registrar shall authenticate and deliver in exchange for such Bond a new 2016A Bond or 2016A Bonds, registered in the name of the transferee, of any denomination or denominations authorized by the Master Indenture, in the aggregate principal amount equal to the principal amount of such bond surrendered or exchanged, of the same maturity and bearing interest at the same rate.

No service charge shall be made for any registration, transfer or exchange of 2016A Bonds, but the Corporation and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of 2016A Bonds.

The Bond Registrar/Paying Agent will not be required to issue, transfer or exchange any 2016A Bonds on the Record Date.

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APPENDIX E
FORM OF APPROVING OPINION

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**FORM OF OPINION OF NABORS, GIBLIN & NICKERSON, P.A.,
WITH RESPECT TO THE 2016A BONDS**

Upon delivery of the 2016A Bonds in definitive form, Nabors, Giblin & Nickerson, P.A., Tampa, Florida, Bond Counsel, proposes to render its opinion with respect to such 2016A Bonds in substantially the following form:

(Date of Delivery)

State Board of Administration
Finance Corporation
Tallahassee, Florida

State Board of Administration of Florida
Tallahassee, Florida

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the State Board of Administration Finance Corporation (the "Corporation") of its \$1,200,000,000 State Board of Administration Finance Corporation Revenue Bonds, Series 2016A (the "Series 2016A Bonds"). The Series 2016A Bonds are being issued pursuant to Section 215.555, Florida Statutes (the "Act"). The Series 2016A Bonds are being issued for the principal purpose of providing moneys to enable the Florida Hurricane Catastrophe Fund (the "FHCF"), a trust fund established by the Act, to maximize the ability of the FHCF to meet future obligations, specifically to provide funds to enable the FHCF to make reimbursement payments through the FHCF to participating insurers for reimbursable losses caused by any Covered Events occurring in the Contract Year ending May 31, 2016 or any subsequent Contract Year.

In connection with the delivery of this opinion, we have examined the following: (i) the Act; (ii) the Master Trust Indenture, dated as of June 1, 2006, between the Corporation and Regions Bank, as successor to Wells Fargo Bank, N.A., as Master Trustee (the "Master Trustee"), as amended and supplemented (the "Master Trust Indenture"), in particular as amended and supplemented by the Seventh Supplemental

Indenture, dated as of March 1, 2016 (the "Seventh Supplemental Indenture"); (iii) the resolution of the Corporation adopted April 14, 2015 (the "Corporation Resolution"); (iv) the resolution of the State Board of Administration of the State of Florida (the "SBA Resolution") adopted April 14, 2015; (v) the Pledge and Security Agreement, dated as of June 1, 2006 (the "Pledge Agreement"), among the Corporation, the FHCF and the Master Trustee; and (vi) such other documents, instruments, proceedings and opinions as we have deemed relevant in rendering this opinion. All terms used herein in capitalized form and not otherwise defined herein shall have the same meanings as ascribed to them under the Master Trust Indenture.

As to questions of fact material to our opinion, we have relied upon representations of the Corporation and the State Board of Administration of the State of Florida (the "SBA") contained in the Corporation Resolution, the SBA Resolution, the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement and the certified proceedings and other certifications of appropriate officials of the Corporation and the SBA furnished to us, without undertaking to verify the same by independent investigation. Furthermore, we have assumed continuing compliance with the covenants and agreements contained in the Corporation Resolution, the SBA Resolution, the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement. We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in any agreements, documents, certificates, representations and opinions relating to the Series 2016A Bonds, and have relied solely on the facts, estimates and circumstances described and set forth therein. In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

Based upon the foregoing and in reliance upon the matters hereinafter referred to, we are of the opinion, under existing law, that:

1. The Corporation is an instrumentality and public benefits corporation of the State, duly created and validly existing under and by virtue of the Act, with the power to enter into the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement and to issue the Series 2016A Bonds.

2. The FHCF is a trust fund established by the Act for bond covenants, indentures, or resolutions within the meaning of Article III, Section 19(f)(3) of the Florida Constitution.

3. The Corporation Resolution has been duly adopted by the Corporation pursuant to the Act, is valid and binding upon the Corporation and is enforceable in accordance with its terms.

4. The Corporation has duly authorized, executed and delivered the Master Trust Indenture and the Seventh Supplemental Indenture and each of the Master Trust Indenture and the Seventh Supplemental Indenture constitutes a legal, valid and binding obligation of the Corporation enforceable against the Corporation in accordance with its terms. The Master Trust Indenture creates a valid pledge of, and lien on, the Net Receipts, subject only to the provisions of the Master Trust Indenture permitting the withdrawal, payment, use or setting apart thereof for the purposes and on the terms and conditions set forth in the Master Trust Indenture.

5. Each of the Corporation and the SBA has the right and lawful authority to enter into the Pledge Agreement, and the Pledge Agreement has been duly authorized, executed and delivered by the Corporation and the SBA and constitutes a legal, valid and binding obligation of each of the Corporation and the SBA enforceable in accordance with its terms. By virtue of the Act, the Pledge Agreement creates a valid pledge of and security interest in the Pledged Collateral (as defined in the Pledge Agreement), subject only to the provisions of the Pledge Agreement permitting the withdrawal, payment, use or setting apart thereof for or to the purposes and on the terms and conditions set forth in the Pledge Agreement.

6. The Series 2016A Bonds have been duly authorized, executed and issued by the Corporation in accordance with the Act and the Constitution and laws of the State of Florida (the "State"), and in accordance with the Master Trust Indenture and the Pledge Agreement, and represent valid special obligations of the Corporation, enforceable in accordance with their terms and the terms of the Master Trust Indenture. The Series 2016A Bonds are payable from the Net Receipts derived from the Pledged Collateral received by the Corporation in accordance with the Pledge Agreement and do not constitute a debt or liability of the State or of any political subdivision thereof. None of the credit, revenues or taxing power of the State or of any political subdivision thereof is pledged to the payment of the Series 2016A Bonds.

7. Interest on the Series 2016A Bonds is not excluded from gross income of the holders thereof for federal income tax purposes.

8. The Series 2016A Bonds and interest thereon are exempt from taxation by the State and any political subdivision thereof, including the income tax under Chapter 220, Florida Statutes. This exemption does not apply to any tax imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, other than the Corporation.

All opinions as to the enforceability of the legal obligations of the Corporation and the SBA set forth herein are subject to and limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights and (ii) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief. We have assumed the due

authorization, execution and delivery of the Master Trust Indenture, the Seventh Supplemental Indenture and the Pledge Agreement by the Master Trustee.

It should be noted that (1) except as may expressly be set forth in an opinion delivered by us to the underwriters (on which opinion only they may rely) for the Series 2016A Bonds on the date hereof, we have not been engaged or undertaken to review the accuracy, sufficiency or completeness of the Official Statement or other offering material relating to the Series 2016A Bonds and we express no opinion relating thereto, and (2) we have not been engaged or undertaken to review the compliance with any federal or state law with regard to the sale or distribution of the Series 2016A Bonds and we express no opinion relating thereto.

The opinions set forth herein are expressly limited to, and we opine only with respect to, the laws of the State of Florida. The only opinions rendered hereby shall be those expressly stated as such herein, and no opinion shall be implied or inferred as a result of anything contained herein or omitted herefrom.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts and circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

We have examined the form of the Series 2016A Bonds and, in our opinion, the form of the Series 2016A Bonds is regular and proper.

Respectfully submitted,

APPENDIX F
FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State Board of Administration Finance Corporation (the "Corporation") and the State Board of Administration of Florida (the "State Board of Administration") acting as the governing body and administrator of the Florida Hurricane Catastrophe Fund (the "FHCF") in connection with the issuance of \$1,200,000,000 aggregate principal amount of State Board of Administration Finance Corporation Revenue Bonds, Series 2016A (the "Bonds"). The Corporation and the State Board of Administration covenant and agree as follows:

SECTION 1. PURPOSE OF THE DISCLOSURE AGREEMENT. This Disclosure Agreement is being executed and delivered by the Corporation and the State Board of Administration for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12 (the "Rule") of the United States Securities and Exchange Commission (the "SEC"). It shall inure solely to the benefit of the Corporation, the State Board of Administration, the Owners, the Beneficial Owners and the Participating Underwriters.

SECTION 2. DEFINITIONS. In addition to the definitions set forth in the Master Trust Indenture and the Seventh Supplemental Indenture relating to the Bonds between the Corporation and Regions Bank, Jacksonville, Florida (successor to Wells Fargo Bank, N.A.), executed as of June 1, 2006 and March 1, 2016, respectively (collectively, the "Indenture"), and the definitions set forth in the Official Statement relating to the Bonds, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Beneficial Owner" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for U.S. federal income tax purposes.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

SECTION 3. CONTINUING DISCLOSURE. (A) Information To Be Provided. The Corporation assumes all responsibilities for any continuing disclosure as described below. In order to comply with the Rule, the Corporation hereby agrees to provide or cause to be provided the information set forth below, or such other information as may be required, from time to time, to be provided by the Rule or the State Board of Administration. The State Board of Administration will be responsible for the filing of the information required by the Rule.

(1) Financial Information and Operating Data. For fiscal years ending on June 30, 2016 and thereafter, annual historical financial information and operating data shall be provided within nine months after the end of the State's fiscal year. Such information shall include:

- (a) Debt Service Coverage;
- (b) Tabular information set forth in the Offering Memorandum under the section entitled "OPERATION OF THE FHCF" with the exception of the Tables entitled "Preliminary FHCF Estimated Coverage Obligation and Funding Sources," "Total Insured Values " and "Gross Residential Losses Per Event," respectively; and
- (c) Annual financial statements of the Corporation and the FHCF.

(2) Audited Financial Statements. If not submitted as part of the annual financial information, a copy of the Corporation's and the FHCF's audited financial statements, prepared in accordance with generally accepted accounting principles, will be provided when and if available.

(3) Material Events Notices. Notice of the following events relating to the Bonds will be provided in a timely manner not in excess of ten (10) business days after the occurrence of the event:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;

- (c) modifications to rights of security holders, if material;
- (d) bond calls, if material, and tender offers;
- (e) defeasances;
- (f) release, substitution or sale of property securing repayment of the securities, if material;
- (g) rating changes;
- (h) an Event of Bankruptcy, insolvency, receivership or similar event of the Obligated Person;
- (i) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (j) appointment of a successor or additional trustee or the change of name of a trustee, if material; and
- (k) notice of any failure on the part of the Corporation to meet the requirements of Section 3 hereof.

(4) Failure to Provide Annual Financial Information; Remedies.

- (a) Notice of the failure of the Corporation to provide the information required by paragraphs (A)(1) or (A)(2) of this Section will be provided in a timely manner.
- (b) The Corporation acknowledges that its undertaking pursuant to the Rule set forth in this Section is for the benefit of the Beneficial Owners and Owners of the Bonds and shall be enforceable only by such Beneficial Owners and Owners; provided that the right to enforce the provisions of such undertaking shall be conditioned upon the same enforcement restrictions as are applicable to the information undertakings in the Authorizing Resolution and shall be limited to a right to obtain specific enforcement of the Corporation's obligations hereunder.

(B) Methods of Providing Information.

(1) (a) Annual financial information and operating data described in paragraph 3(A)(1) and the audited financial statements described in paragraph 3(A)(2) shall be transmitted to each nationally recognized municipal securities information repository (hereafter "NRMSIR"). As of the date hereof, the only Repository recognized by the Securities and Exchange Commission for such purpose is the Municipal Securities Rulemaking Board ("MSRB"), which currently accepts continuing disclosure submissions through its Electronic Municipal Market Access ("EMMA") web portal at <http://emma.msrb.org>.

(b) Material event notices described in paragraph 3(A)(3) and notices described in paragraph 3(A)(4) shall be transmitted to each NRMSIR.

(2) Information shall be provided as required by the rules of the NRMSIR.

(C) If this Disclosure Agreement is amended to change the operating data or financial information to be disclosed, the annual financial information containing amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(D) The Corporation's and the State Board of Administration's obligations hereunder shall continue until such time as the Bonds are no longer Outstanding or until the Corporation and the State Board of Administration shall otherwise no longer remain obligated on the Bonds.

(E) This Disclosure Agreement may be amended or modified so long as:

- (1) any such amendments are not violative of any rule or regulation of the SEC or MSRB, or other federal or state regulatory body;

(2) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person, or type of business conducted;

(3) this Disclosure Agreement, as amended, would have complied with the requirements of Rule 15c2-12 of the SEC at the time of the primary offering, after taking into account any amendments or interpretations of the rule, as well as any change in circumstances; and

(4) the amendment does not materially impair the interests of Beneficial Owners or Owners, as determined either by parties unaffiliated with the issuer or obligated person (such as bond counsel), or by approving vote of the Beneficial Owners and Owners pursuant to the terms of the Indenture at the time of the amendment.

SECTION 4. ADDITIONAL INFORMATION. If, when submitting any information required by this Disclosure Agreement, the Corporation or the State Board of Administration chooses to include additional information not specifically required by this Disclosure Agreement, neither the Corporation nor the State Board of Administration shall have any obligation to update such information or include it in any such future submission.

Dated this 8th day of March, 2016.

STATE BOARD OF ADMINISTRATION
FINANCE CORPORATION

STATE BOARD OF ADMINISTRATION
OF FLORIDA

By _____

By _____

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