CITIZENS
PROPERTY INSURANCE CORPORATION

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2002

WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANT

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Report of Certified Public Accountant

To the Board of Governors and Management of the
Citizens Property Insurance Corporation:

We have audited the accompanying statement of financial position of Citizens Property Insurance Corporation ("Citizens") as of December 31, 2002, and the related statements of operations, comprehensive income and changes in retained surplus and cash flows for the year then ended. These financial statements are the responsibility of the Citizens' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens Property Insurance Corporation as of December 31, 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental schedules have been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

Atlanta, Georgia
February 24, 2003

CITIZENS
PROPERTY INSURANCE CORPORATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2002

ASSETS	2002
Cash and cash equivalents	$1,076,590,847
Trading securities	181,557,064
Available-for-sale securities	2,170,320,770
Held-to-maturity securities	74,163,177
Premiums receivable, net	842,543
Investment income due and accrued	24,450,020
Prepaid reinsurance premiums	688,651
Prepaid takeout bonus	5,711,998
Due from affiliates	52,556
Deferred policy acquisition costs	49,658,228
Receivable for securities	265,680
Other assets	5,896,205
Total assets	$3,590,197,739
LIABILITIES AND RETAINED SURPLUS	
LIABILITIES:	
Loss reserves	$ 60,452,792
Loss adjustment expense reserves	22,691,127
Unearned premiums	398,239,676
Notes payable	1,774,951,655
Deferred gain on termination of interest rate swaps	12,124,732
Advance premiums and suspended cash	36,028,050
Servicing company fees payable	695,813
Fees and surcharges payable	209,817
Reinsurance premiums payable	7,227,836
Accounts payable and accrued expenses	12,660,644
Taxes and fees payable	5,560,971
Interest payable	48,818,393
Income taxes payable	2,349,398
Total liabilities	2,382,010,904
COMMITMENTS AND CONTINGENCIES (Notes 2 and 20)	
RETAINED SURPLUS:	
Unappropriated surplus	1,127,726,794
Appropriated surplus	6,070,470
Accumulated other comprehensive income	74,389,571
Total retained surplus	1,208,186,835
Total liabilities and retained surplus	$3,590,197,739

The accompanying notes to financial statements are an integral part of these statements.

CITIZENS
PROPERTY INSURANCE CORPORATION

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
REVENUES:	
Written premiums	$ 803,832,033
Less – premiums ceded	(162,870,040)
Change in unearned premiums	(118,105,519)
Change in unearned premiums - ceded	(231,565)
Net premiums earned	522,624,909
Net investment income	231,140,683
Total revenues	753,765,592
EXPENSES:	
Losses incurred	82,787,121
Loss adjustment expenses incurred	18,793,236
Servicing company fees	10,104,539
Producer commissions, net	63,121,382
Taxes and fees	16,969,917
Processing and other fees	2,474,175
Other underwriting expenses	19,356,166
Depopulation expense	8,511,894
Line of credit fees and note issuance costs	6,150,887
Net interest expense	139,660,745
Other expenses	512,377
Total expenses	368,442,439
Income before income taxes	385,323,153
INCOME TAX BENEFIT	87,710,540
Net income	$ 473,033,693

The accompanying notes to financial statements are an integral part of these statements.

CITIZENS
PROPERTY INSURANCE CORPORATION

STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN RETAINED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 2002

	Accumulated Other Comprehensive Income	Unappropriated Surplus	Appropriated Surplus	Comprehensive Income	Total
Balance as of December 31, 2001, as previously reported	$ 380,013	$ 271,949,512	$ 20,108,550	$ -	$ 292,438,075
Merger with affiliate	41,959,480	368,705,509	-	-	410,664,989
Revised Balance at January 1, 2002	42,339,493	640,655,021	20,108,550	-	703,103,064
Net income	-	473,033,693	-	473,033,693	473,033,693
Release of surplus for Contingent Catastrophe Reserve (See Note 18)	-	14,038,080	(14,038,080)	-	-
Change in excess additional pension liability over unrecognized prior service costs	(84,307)	-	-	(84,307)	(84,307)
Change in net unrealized gain on available-for-sale Securities	32,134,385	-	-	32,134,385	32,134,385
Comprehensive income				$ 505,083,771	
Balance as of December 31, 2002	$ 74,389,571	$1,127,726,794	$ 6,070,470		$1,208,186,835

The accompanying notes to financial statements are an integral part of these statements.

CITIZENS
PROPERTY INSURANCE CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 473,033,693
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	(9,926,094)
Allowance for uncollectible accounts	656,279
Unrealized loss on trading securities	815,441
Realized gain on hedging transaction	(750,677)
Loss on disposals of fixed assets	7,724
Provision for deferred income taxes	9,371,842
(Increase) decrease in:	
Premiums receivable	2,235,754
Trading securities	25,930,299
Prepaid reinsurance premiums	231,566
Prepaid takeout bonus, net	3,196,740
Due from affiliates	8,315
Receivable for securities	11,334,320
Deferred policy acquisition costs	(16,385,104)
Other assets	10,637,719
Increase (decrease) in:	
Loss reserves	22,660,001
Loss adjustment expense reserves	8,391,635
Unearned premiums	118,105,519
Advance premiums and suspended cash	3,737,042
Servicing company fees payable	(269,744)
Fees and surcharges payable	93,286
Interest payable	(11,555,814)
Taxes and fees payable	2,791,697
Reinsurance premiums payable	4,475,836
Accounts payable and accrued expenses	(1,209,450)
Income taxes payable	(25,041,163)
Net cash provided by operating activities	632,576,662

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002

(continued)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of available-for-sale securities	$(2,845,430,496)
Maturities of available-for-sale securities	910,710,268
Sales of available-for-sale securities	2,269,964,910
Purchases of held-to-maturity securities	(225,833,161)
Maturities of held-to-maturity securities	229,114,000
Sales of held-to-maturity securities	10,447,770
Sale of fixed assets	27,715
Purchases of fixed assets	(2,489,818)
Net cash provided by investing activities	346,511,188
CASH FLOWS FROM FINANCING ACTIVITIES:	
Notes payable maturities	(450,000,000)
Proceeds from termination of interest rate swaps	10,250,000
Net cash used in financing activities	(439,750,000)
NET INCREASE IN CASH & CASH EQUIVALENTS	539,337,850
CASH & CASH EQUIVALENTS, beginning of year	537,252,997
CASH & CASH EQUIVALENTS, end of year	$1,076,590,847
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 158,381,250
Cash received for income taxes	$ 88,559,131

1. GENERAL

Citizens Property Insurance Corporation ("Citizens") was established on August 1, 2002, pursuant to Section 627.351(6), Florida Statutes, as amended in 2002 by Senate Bill 1418 and House Bill 385 (the "Act"), to provide certain residential property and casualty insurance coverage to qualified risks in the State of Florida under circumstances specified in the Act. The intent of the legislation is that property insurance be provided through Citizens to applicants who are in good faith entitled to procure insurance through the voluntary market but are unable to do so. Citizens results from a combination of the Florida Residentia l Property and Casualty Joint Underwriting Association (the "FRPCJUA") and the Florida Windstorm Underwriting Association (the "FWUA"). The FRPCJUA was renamed Citizens and the FWUA rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens (see Note 3, Business Combinations). Citizens is not required to obtain or to hold a certificate of authority issued by the Department.

Citizens operates pursuant to a Plan of Operation (the "Plan") approved by the Florida Department of Financial Services, Office of Insurance Regulations (the "Department") and under the supervision of a seven member Board of Governors appointed by the Chief Financial Officer of the State of Florida (the "Chief Financial Officer"). The executive director and senior managers of Citizens are engaged by and serve at the pleasure of the Chief Financial Officer.

Pursuant to the Act, all revenues, expenses, assets and liabilities of Citizens shall remain divided into three separate accounts: the Personal Lines Account, the Commercial Lines Account and the High-risk Account. A brief history of each account follows:

Personal lines account history - The pre-merger FRPCJUA was established on January 21, 1993, pursuant to Section 627.351(6), Florida Statutes, to provide certain residential property and casualty insurance coverage to qualified risks in the State of Florida under certain circumstances. Residential property and casualty coverage consists of the types of coverage provided to homeowners, mobile homeowners, tenants, condominium unit owners, and similar policies ("Personal Lines Account").

Commercial lines account history - During 1995, legislation was enacted whereby all obligations, rights, assets, and liabilities of the Florida Property and Casualty Joint Underwriting Association (the "FPCJUA") that related to commercial residential coverage were transferred to the FRPCJUA. The FRPCJUA statute was modified to enable the FRPCJUA to underwrite the risks transferred from the FPCJUA, which consist of the types of coverage provided to condominium associations, apartment buildings and similar policies ("Commercial Lines Account").

High-risk account history – The pre-merger FWUA, which was a residual market mechanism for windstorm coverage in selected areas of the State of Florida, was created by an act of the Florida Legislature in 1970 that enacted Section 627.351(2), Florida Statutes. The FWUA was a Florida unincorporated association, the members of which were all property insurance companies holding a certificate of authority to provide property insurance coverage in the State of Florida. The FWUA provided policies of windstorm insurance for property owners within the Eligible Areas who were unable to obtain such coverage in the voluntary market. Insured properties include residential, commercial residential (i.e., non-owner occupied) and commercial properties ("High-risk Account").

Citizens' enabling legislation and Citizens' Plan establish a process by which Citizens may levy assessments to recover deficits incurred in a given plan year by Account. The Plan provides for deficits to be determined in accordance with accounting principles generally accepted in the United States ("GAAP") adjusted for certain items ("Adjusted GAAP" – see Note 22). Deficits are calculated separately and assessments are levied separately for each of Citizens' three accounts.

All insurers authorized to write one or more subject lines of business in Florida are subject to regular assessments by Citizens and are collectively referred to as "assessable insurers". Surplus lines insureds, who procure one or more of the subject lines of business in the state of Florida from an insurer writing such coverage pursuant to the Surplus Lines Law, are also subject to regular and emergency assessments by Citizens and are collectively referred to as "assessable insureds". Subject lines of business means insurance written on real or personal property as defined in Section 624.604, Florida Statutes, including insurance for fire, industrial fire, allied lines, farmowners multiperil, homeowners multiperil, commercial multiperil, and mobile homes, and including liability coverage on all such insurance but excluding inland marine and certain vehicle insurance other than insurance on mobile homes used as permanent dwellings.

When a deficit is incurred in any account in a given plan year, regular assessments are levied on assessable insurers based upon each assessable insurer's share of direct written premium for the subject lines of business in the state of Florida for the calendar year preceding the year in which the deficit occurred, as reduced by any credits for voluntary writings for that year. Regular assessments on assessable insureds, collectively, are based on the ratio of the amount being assessed for an Account to the aggregate statewide direct written premiums for the Subject lines of business for the preceding year.

When the deficit incurred in any account in a particular year is less than or equal to 10% of the aggregate statewide direct premium written for the subject lines of business for the prior calendar year, Citizens must levy a regular assessment in the amount required to recover that deficit. When the deficit incurred in any account in a particular calendar year is greater than 10% of the aggregate statewide direct written premium for subject lines of business for the prior calendar year, Citizens must levy a regular assessment limited to the greater of (i) 10% of the deficit or (ii) 10% of the aggregate statewide direct written premium for subject lines of business for the prior calendar year. Citizens' determination of the amount of regular assessments to be levied is subject to verification and approval by the Department.

If the deficit in any year in any account is greater than the amount that may be recovered through a regular assessment, Citizens must levy an emergency assessment in the year following the year in which the deficit occurred and annually thereafter until the deficit has been recovered. An emergency assessment is imposed directly on policyholders of Citizens, policyholders of each assessable insurer and assessable insureds, collectively. Citizens, assessable insurers and the Florida Surplus Lines Office are responsible for collecting the emergency assessments upon the issuance of a new policy or at the time of policy renewal. The amount of emergency assessments that may be imposed in any one year with respect to a deficit is subject to certain statutory limitations. Citizens' determination of the amount of an emergency assessment is subject to verification by the Department. To date, Citizens has not incurred a deficit in the Personal Lines Account, the Commercial Lines Account or the High-risk Account in excess of the maximum amount of regular assessments that may be assessed.

Citizens is exempt, by statute, from State of Florida corporate income taxes and intangible taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") that differ from statutory accounting practices prescribed or permitted for insurance companies by the Department. Citizens obtained approval from the Department to file the December 31, 2002 audited financial statements on a non-comparative basis.

Cash and Cash Equivalents and Short-term Investments - Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. Short-term investments, included in cash and cash equivalents, which are carried at cost, consist of amounts invested in the State of Florida Chief Financial Officer's Special Purpose Investment Trust Account (the "Special Purpose Account") and in various money market investments. The Special Purpose Account consists of pooled funds invested by the Chief Financial Officer of the State of Florida under the guidelines provided by Section 18.10, Florida Statutes. All short-term investments in the Special Purpose Account and money market investments are considered to be cash equivalents.

Investments - Securities that may be sold as part of Citizens' asset and liability management or in response to, or in anticipation of changes in interest rates and resulting prepayment risk, or for other factors are stated at fair value. Such securities are classified as available-for-sale securities, with unrealized gains or losses reflected as a component of "Retained surplus", net of income taxes. Other securities that are bought and held principally for the purpose of selling them in the near term are also stated at fair value. Such securities are classified as trading securities with unrealized holding gains and losses included in earnings. Securities obtained with the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost. Amortization of premiums and accretion of discounts are recognized using the interest method.

Interest Rate Swap Terminations - The gains or losses from terminations of interest rate swap agreements used in prior years for hedging are recognized over the life of the terminated agreements and used to adjust the basis of the hedged liability.

Note Issuance Costs - Note issuance costs incurred in connection with acquiring the notes (see Note 7) are deferred and amortized over the life of the note agreements.

Prepaid Takeout Bonus - Takeout bonuses incurred in connection with the depopulation of Citizens (see Note 18) are deferred and amortized over the term of the related agreement under which the policy is removed from Citizens, which is generally a three year period.

Deferred Policy Acquisition Costs - Costs which vary directly with acquiring, renewing and servicing the business such as net commissions, servicing company fees and taxes and fees (see Notes 8 and 10) are deferred and recognized over the term of the related policy. Amortization of deferred policy acquisition costs recognized for the year ended December 31, 2002 was $90,195,838.

Fixed assets - Fixed assets, which are included in other assets, are stated at cost less related accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of three to seven years. Depreciation expense for fixed assets was $1,658,428 for the year ended December 31, 2002 and accumulated depreciation at December 31, 2002 was $6,137,636.

Loss Reserves and Loss Adjustment Expense Reserves - Liabilities for loss reserves and loss adjustment expense reserves are based on claims adjusters' evaluations and on independent actuarial evaluations, using Citizens' loss experience and industry statistics. While the ultimate amount of losses incurred and loss adjustment expenses incurred is dependent on future developments, in management's opinion, these reserves are adequate to cover the future payment of losses. However, no assurance can be given that the ultimate settlement of losses may not vary significantly from the reserves provided. Adjustments, if any, to estimates recorded resulting from subsequent actuarial evaluations or ultimate payments will be reflected in operations in the period in which such adjustments are known or estimable. Citizens does not discount liabilities for loss reserves and loss adjustment expense reserves.

Premiums - Premiums are recorded as earned on a daily pro rata basis over the contract period that the related policies are expected to be in force. The portion of premiums not earned at the end of the period is recorded as unearned premiums.

Assessments - Assessments made pursuant to the Act and the Plan are recognized as revenue in the period levied by Citizens and approved by the Board of Governors and the Department.

Reinsurance - Premiums ceded under reinsurance agreements are recorded as a reduction of earned premiums over the hurricane season covered by the agreement. Reinsurance recoverables on unpaid losses would be recorded as a reduction of losses incurred and loss adjustment expenses incurred. Reinsurance recoverables on paid losses would be recorded as receivables. All catastrophe reinsurance payments are recorded as prepaid reinsurance and are amortized over the life of the hurricane season for which the payments apply. Assumed premiums would be recorded at their respective assumed amounts.

Income Taxes – Citizens is exempt from federal income taxes.

Use of Estimates in the Preparation of Financial Statements - The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Instruments - The carrying value of Cash and cash equivalents, Premiums receivable, Due from affiliates, Premium refunds due, Servicing company fees payable, Reinsurance premiums payable and Accounts payable and accrued expenses approximates fair value given their short term nature.

Concentrations - Citizens underwrites residential property and casualty insurance policies in the State of Florida. Therefore, adverse economic changes or certain changes in the insurance laws of the State of Florida could have a significant impact on Citizens' future financial position and results of operations. Approximately 41%, 22% and 19% of Citizens' insurance coverage exposure lies in Miami-Dade, Broward and Palm Beach counties, respectively, as of December 31, 2002. Severe storm activity in any of these counties could have a significant impact on Citizens' future financial position and results of operations.

Comprehensive Income – SFAS No. 130, "Reporting Comprehensive Income, " establishes rules for the reporting of comprehensive income, which includes net income and changes in the unrealized gain (loss) on available-for-sale securities and is presented in the statement of comprehensive income and changes in retained surplus.

Concentration of Credit Risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, premiums receivable, trading securities, available-for-sale securities and held-to-maturity securities. The Company's cash management and investment policies restrict investments by type, credit and issuer, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of December 31, 2002, management believes the Company had no significant concentrations of credit risk.

3. BUSINESS COMBINATIONS

Citizens results from the combination of the FRPCJUA and the FWUA. Effective August 1, 2002, the FRPCJUA was renamed Citizens and the FWUA rights, obligations, assets, liabilities and all insurance policies were transferred to Citizens. The surplus of FWUA became part of the surplus of Citizens. However, all revenues, expenses, assets and liabilities of Citizens remain divided into three separate accounts that are equivalent to the FRPCJUA's personal lines and commercial lines and the FWUA's account. No consideration was paid or received by any of the above named entities in this merger transaction.

Although the FRPCJUA and the FWUA had separate Board of Governors, separate Plan of Operations and separate staff, both entities were under common control as both were created and were governed by the Florida Statutes created by the Florida State Legislature. The merger is accounted for in a manner similar to pooling of interests as described in the AICPA Accounting

Interpretation ("AIN") No. 39 of Accounting Principles Board Opinion ("APB") Opinion No. 16 Business Combinations. This requires that the former GAAP basis of accounting be retained and that the income of Citizens includes income of both entities for the year ended December 31, 2002 and the financial statements have been prepared as if the merger took place on January 1, 2002.

Proforma results of operations for the two entities at July 31, 2002, prior to the merger were as follows:

	FRPCJUA	FWUA
Total Revenues	$ 165,187,294	$ 227,631,488
Net Income	$ 238,039,213	$ 95,874,416

4. PREMIUMS RECEIVABLE

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

5. INVESTMENTS

The amortized cost and aggregate estimated fair value of available-for-sale securities at December 31, 2002 are as follows:

2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government Securities	$ 733,128,744	$ 30,976,820	$ (27,462)	$ 764,078,102
Corporate Bonds	588,439,919	28,123,676	(213,773)	616,349,822
Mortgage-backed securities	774,278,229	16,628,668	(1,014,051)	789,892,846
Total	$ 2,095,846,892	$ 75,729,164	$ (1,255,286)	$ 2,170,320,770

Proceeds from sales of available-for-sale securities during 2002 were $2,269,964,910 with gross realized gains of $30,968,653 and gross realized losses of $4,461,369. Proceeds from maturities of available-for-sale securities during 2002 were $910,710,268.

Trading securities consists of U.S. Treasury and U.S. Government backed securities, corporate bonds, mortgage-backed securities and collateralized mortgage obligations. The net unrealized gains on trading securities during 2002 were $4,830,229 and are included in net investment income in the accompanying statement of operations.

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2002, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 162,177,806	$ 164,418,139
Due after one year through five years	1,151,803,432	1,208,274,505
Due after five years through ten years	6,122,425	6,270,280
Due after ten years	1,465,000	1,465,000
Mortgage-backed securities	774,278,229	789,892,846
Total	$ 2,095,846,892	$ 2,170,320,770

The amortized cost and aggregate estimated fair value of held-to-maturity securities at December 31, 2002 are as follows:

2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government Securities	$ 10,470,605	$ 546	$ -	$ 10,471,151
Corporate Bonds	63,692,572	59,062	-	63,751,634
Total	$ 74,163,177	$ 59,608	$ -	$ 74,222,785

Proceeds from maturities of held-to-maturity securities during 2002 were $229,114,000. One held-to-maturity security was sold during the year due to unforeseen and unusual circumstances, resulting in proceeds of $10,447,770 and $915 gross realized losses in 2002. This security was purchased with the intent to hold it to maturity. However, the issuer of this MINT commercial paper security mistakenly issued the commercial paper with a June 30, 2003 maturity date and then later realized that the liquidity facility for the program expired prior to that date and there was no legal authority to issue the paper with a June 30, 2003 maturity date. The problem was discovered and corrected on the same day by replacing the original MINT commercial paper with GE commercial paper of equal par value and with the correct maturity date.

The amortized cost and estimated fair value of held-to-maturity securities at December 31, 2002, by contractual maturity, are shown below.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 74,163,177	$ 74,222,785
Total	$ 74,163,177	$ 74,222,785

6. LIABILITY FOR LOSS RESERVES AND LOSS ADJUSTMENT EXPENSE RESERVES

Activity in the liability for loss reserves and loss adjustment expense reserves for the year ended December 31, 2002 is as follows:

Loss reserves and loss adjustment expense reserves, beginning of year	$ 52,092,270
Incurred related to:	
Current year	97,372,812
Prior years	4,207,545
Total incurred	101,580,357
Paid related to:	
Current year	44,863,120
Prior years	25,665,588
Total paid	70,528,708
Loss reserves and loss adjustment expense reserves, end of year	$ 83,143,919

As a result in changes in estimates of insured events in prior years, the provision for loss and loss adjustment expenses increased by $4,207,545.

Citizens has entered into agreements with several companies that provide claim adjustment services. The agreements provide for compensation to the companies based on a graduated fee schedule, based on the cost and type of losses handled by the companies. Compensation for Property Claim Service designated catastrophes are paid based upon a fee schedule plus an additional amount based on a percentage of paid losses. The agreements are effective for one year, with provisions for automatic renewal for successive one year periods. In the opinion of management, any additional liability that may ultimately result from unusual loss adjustment expenses will not have a material adverse effect on the financial position or results of operations of Citizens.

7. NOTES PAYABLE

Series 1997A issued August 25, 1997 and Series 1999A issued March 31, 1999 – In August 1997 and March 1999, the pre-merger FWUA issued $750 million and $1 billion of secured notes, respectively. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. Repayment and annual debt service of the High-risk Account bonds will be facilitated through premium and surcharge revenues, unused proceeds of the bonds, amounts available under the High-risk Account Line of Credit, Regular Assessments and Emergency Assessments, as necessary.

Series 1997A, issued May 13, 1997 – In May 1997, the pre-merger FRPCJUA issued $500 million of Series 1997A Notes for the Personal Lines Account and Commercial Lines Account. The bonds were issued for the purpose of funding losses in the event of a future catastrophe. The bonds are secured by a security interest in emergency assessments (see Note 1). Under certain circumstances the bonds will also be secured by and payable by regular assessments or reimbursements received by or on behalf of Citizens from the Florida Hurricane Catastrophe Fund (see Note 15). The Trust Indenture contains covenants that impose restrictions on Citizens' ability to sell, lease, pledge, assign or otherwise encumber or dispose of its security interest. The bonds are a direct and general obligation of Citizens and are secured ratably and without preference with Citizen's Personal Lines Account and Commercial Lines Account line of credit agreement (see Note 14).

Interest rates and maturities of Citizens' bonds outstanding at December 31, 2002 are as follows:

Series 1997A, interest at 7.375%, due July 1, 2003	$ 125,000,000
Series 1997A, interest at 7.45%, due July 1, 2004	125,000,000
Series 1997A, interest at 7.625%, due July 1, 2007	100,000,000
Series 1997A, interest at 6.70%, due August 25, 2004	150,000,000
Series 1997A, interest at 6.85%, due August 25, 2007	300,000,000
Series 1999A, interest at 7.125%, due February 25, 2019	1,000,000,000
	1,800,000,000
Less- unamortized discount	(6,350,199)
Less- unamortized issuance costs	(18,698,146)
Total	$1,774,951,655

The total interest expense on the notes for the year ended December 31, 2002 was $147,411,877 including discount amortization of $968,127.

Interest Rate Swap Agreements – Citizens had no interest rate exchange agreements outstanding at December 31, 2002. However, in connection with the issuance of the Series 1997A Notes issued May 13, 1997, Citizens entered into interest rate exchange agreements with various counterparties for notional amounts of $500 million. The interest rate exchange agreements were terminated during 1998, 2001 and 2002, for which Citizens received termination payments of

$7,304,508, $7,632,219, and $10,250,000, respectively. The gain on terminated interest rate swap agreements has been deferred and is being amortized over the remaining term of the terminated agreements under the effective interest method. The total amount of deferred gain amortized and recognized as a reduction of interest expense for the year ended December 31, 2002 was $4,984,059.

8. PRODUCER COMMISSIONS AND SERVICING COMPANY FEES

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

Citizens has entered into two separate agreements with each of the following companies to provide underwriting and policy management services: American International Insurance Group, Audubon Insurance Company/MacNeill Group, and AIB Insurance Group ("Servicers").

The Servicing Agreement dated June 21, 1999 (the "Servicing Agreement") provides for monthly compensation to the companies ranging from 8.5% to 9.25% of direct written premiums, net of surcharges. The percentage paid is determined based upon the individual provider's number of policies in force on the last day of the respective month and agreed upon services performed. These agreements expire in May 2003 and will not be renewed.

The Servicing Agreement dated November 5, 2001 (the "ePAS Agreement") provides for compensation ranging from $28 to $53 per policy based on the number of policies processed by the Servicers on the Citizens ePAS system in a given month. All ePAS agreements expired December 31, 2002. The ePAS Agreements with American International and Audubon were not renewed for 2003. The ePAS Agreement with AIB was extended through March 31, 2003. A new ePAS Agreement was executed with the MacNeill Group with effective dates January 1, 2003 through December 31, 2003.

A separate agreement was executed with AIB to provide print and mail services. The term of the agreement is November 1, 2001 through November 1, 2004. AIB is paid a fee for services that is based on the number of items printed and mailed.

9. FEES AND SURCHARGES

Surcharges are collected by Citizens on behalf of the Department or the respective entities and consist of Emergency Management Preparedness Association ("EMPA") and Fire College Trust Fund ("FCTF") surcharges paid by the insureds. EMPA surcharges represent $2 for each application submitted to Citizens for the Personal Lines Account and $4 for each application submitted for the Commercial Lines Account. FCTF surcharges are based on .1% of the Commercial Lines Account net direct written premiums.

Producer appointment fees are collected by Citizens on behalf of the Department and represent a $60 annual fee paid by producers in the State of Florida in order to be authorized to write business for Citizens.

10. TAXES AND FEES

Citizens is subject to the State of Florida premium tax, the Municipal Police Officers' Retirement Trust Fund excise tax, the Firefighters' Pension Trust Fund excise tax and the State Fire Marshal regulatory assessment.

11. RETAINED SURPLUS

The appropriated surplus for the Personal Lines Account relates to the May 31, 1999 and January 31, 2000 removal of policies from Citizens by Clarendon National Insurance Company and Qualsure Insurance Company, respectively. Appropriated surplus is set aside in escrow for a Contingent Catastrophe Reserve (see Note 18).

12. PROCESSING AND OTHER FEES

During 2002, Citizens began transitioning to a new policy and claims administration system, ePAS. Therefore, Citizens currently has systems administration agreements with two system administrators: (1) Insurance Management Services Office, Inc. (“IMSO”) relating to the new ePAS system and (2) Computer Sciences Corporation (“CSC”), formerly known as Policy Management Systems Corporation ("PMSC"). In accordance with the Agreements, IMSO and CSC provide centralized data repository relating to the authorized lines of business generated by Citizens servicing companies.

IMSO systems administration agreement - The policy administration system agreement with IMSO was entered into effective July 25, 2001 with an initial term of twenty years. This agreement details the charges for implementation and ongoing support of ePAS. Implementation charges were capitalized as software. Related to ongoing support, this agreement sets forth that the specific terms, conditions and compensation for systems administration services be memorialized in separate agreements, per below:

IMSO Software Maintenance and Support Agreement - effective April 2, 2002, initial term of twenty four months automatically renews for each successive twelve month periods. In compensation for the operation, maintenance and support of ePAS, Citizens will pay to IMSO $41,250 per month in addition to $148 to $222 per hour for certain services.

IMSO Master Hosting Services Agreement - effective September 5, 2001with an initial term of two (2) years and shall automatically renew for successive one year periods. IMSO to provide internet data center services, such as providing the computer hardware, operating system software and host system internet access and services such as backup, recovery, monitoring, remote access, maintenance and reporting of the hardware, operating system and internet access at the hosting site. Compensation: (a) monthly sum equal to Intel Online Services, Inc.’s invoice to IMSO for the corresponding services, and (b)$10,000 per month for dedicated Hosting Administration and (c) 15% monthly of the total of the amounts in (a) and (b) for value added services.

CSC systems administration agreement - effective September 1, 1999, there was an Addendum to the amended Agreement with CSC. The Addendum requires Citizens to pay CSC a monthly per policy administrative fee ranging between $4.26 and $12.25 based on the number of policies in force as of each month end or a monthly minimum fee of $25,000. In addition, it gives Citizens the right to terminate the Agreement, without cause, upon 45 days written notice. The Agreement was extended through March 31, 2003.

13. INCOME TAXES

Pursuant to a determination letter received from the Internal Revenue Service during 2002, the Company is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and as such, is liable for income taxes only on business income unrelated to the purpose for which it is exempt.

The 2002 current provision represents the activity of FWUA prior to the merger, as described in note 3. In addition, Citizens received $149 million of refunds and reduced the tax liability by $12 million in 2002 related to audits of the FRPCJUA federal income tax refund claims that had been previously filed. During 2002 the 11th circuit court determined that the FRPCJUA was an entity exempt from taxation beginning in 1996.

All deferred tax assets were eliminated during 2002 since Citizens is a tax-exempt entity and will no longer be subject to tax. The change in net unrealized gain on available-for-sale securities in the statements of comprehensive income and changes in retained surplus for 2002 includes $16,390,492 related to the release of the deferred tax liabilities.

During 2002, FWUA transferred its assets and liabilities to Citizens in accordance with Florida Statute 627.351(6)(l)(2). Citizens intends to file federal income tax refund claims in excess of $182,000,000 related to the transfer. Citizens has not recorded the anticipated refund since it anticipates that the claim for refund will be contested by the IRS due to the size of the refund.

The income tax benefit is comprised of the following for the year ended December 31, 2002:

Current:	
Federal	$ (106,228,985)
State	9,146,603
	(97,082,382)
Deferred:	
Federal	8,142,008
State	1,229,834
	9,371,842
Income tax benefit	$ (87,710,540)

Citizens had no deferred tax assets or liabilities at the end of 2002.

The difference between the total expected tax provision (benefit), computed by applying the company's federal tax rate of 35%, and the reported income tax provision (benefit) relating to income taxes is as follows for the year ended December 31, 2002:

Income before income taxes	$ 134,863,104
State income taxes, net of federal benefit	5,945,292
Book over tax reserves	(206,322)
Unearned premiums	(3,435,957)
Market discount accrual	360,266
Capitalized bond fees	(231,415)
Income not subject to tax	(73,238,589)
Adjustment to prior year taxes	90,085
Reversal of deferred taxes	9,371,842
Tax recovery due to change in tax status	(161,235,078)
Other	6,232
Income tax benefit	$ (87,710,540)

14. LINE OF CREDIT AGREEMENTS

Line of Credit, High-risk Account - Effective August 6, 1997 (as amended and restated June 1, 1999 and further amended and restated June 16, 2000 and August 1, 2001 and July 26, 2002), the pre-merger FWUA entered into a Credit Agreement with various lending institutions under which it may currently borrow up to $480 million. The Credit Agreement is secured by and repaid through the collection of High-risk Account assessments. The expiration date of the amended credit agreement is July 15, 2003. Citizens is required to pay an annual commitment fee of .30% of the daily amount by which the aggregate amount of the commitment exceeds the outstanding principal amount of the loan. The commitment fee percentage is based on Moody's Investors Service, Inc. ("Moodys") and Standard & Poor's Ratings Services ("S&P") ratings of A- and A3, respectively, on the High-risk Account Series 1997A Notes. Annual commitment fees associated with this credit agreement were $1,925,750 for the year ended December 31, 2002. No amounts were borrowed under this Amended Credit Agreement through December 31, 2002.

Line of Credit, Personal & Commercial Lines Accounts - Effective May 13, 1997, the pre-merger FRPCJUA entered into a $1.5 billion credit agreement (the "Line of Credit") with a syndication of banks. The Line of Credit is secured by a security interest in emergency assessments (see Note 1). Under certain circumstances the Line of Credit will also be secured by and payable by regular assessments or reimbursements received by or on behalf of Citizens from the FHCF. Pursuant to the amendment dated March 26, 2002, the available borrowing amount was reduced to $730 million. The expiration date of the amended credit agreement is March 25, 2003. Citizens is required to pay an annual commitment fee of .30% of the daily amount by which the aggregate amount of the commitment exceeds the outstanding principal amount of the loan. The commitment fee percentage is based on Moody's and S&P ratings of A and A2, respectively, on the Personal & Commercial Lines account long term debt. Annual commitment fees associated with this credit agreement were $2,108,416 for the year ended December 31, 2002. No amounts were borrowed under this Amended Credit Agreement through December 31, 2002.

15. REINSURANCE AGREEMENTS

Citizens participates in the Florida Hurricane Catastrophe Fund (the "FHCF"). The FHCF will reimburse Citizens a specified percentage of losses incurred relating to a hurricane in Florida. Premiums ceded to the FHCF, net of refunds received, totaled $136,567,698 during 2002. The High-risk Account is treated for all FHCF purposes as if it were a separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. Likewise, the Personal and Commercial Lines Accounts are viewed together for FHCF purposes, as if the two accounts were one and represent a single, separate participating insurer with its own exposures, reimbursement premium and loss reimbursement. The FHCF coverages and retention amounts by account are as follows:

	Coverage Amounts	Retention Amounts
Personal and Commercial Lines Accounts	$ 544 million	$ 198 million
High-risk Account	$ 2,700 million	$ 922 million

Effective July 1, 2002, Citizens entered into a private reinsurance contract through June 1, 2003. Through this contract, Citizens obtained $90 million of coverage for the Personal Lines Account and the Commercial Lines Account, which complements the FHCF coverage. The contract has an attachment of $136 million and covers losses not covered by the FHCF. Premiums ceded relating to this agreement totaled approximately $14 million during 2002.

The effect of reinsurance on premiums written and earned for the year ended December 31, 2002 is as follows:

	Premiums	
	Written	Earned
Direct	$ 803,832,033	$ 685,726,514
Ceded	(162,870,040)	(163,101,605)
Net premiums	$ 640,961,993	$ 522,624,909

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

16. RETIREMENT PLANS

Deferred Compensation Plan – Citizens sponsors a 457(b)/401(a) deferred employee savings plan for qualified employees (the "Savings Plan"). The Savings Plan qualifies as a deferred salary arrangement under Section 401(a) of the Internal Revenue Code. Under the Savings Plan, participating eligible employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Citizens matches 100% of each employee's contributions, up to a maximum of 8% of the employee's pretax earnings. Citizens' matching contributions to the Savings Plan were $390,130 for the year ended December 31, 2002.

Pension Plan - The pre-merger FWUA had a noncontributory defined benefit pension plan (the "Pension Plan") maintained by the Insurance Company-Supported Organizations Employees' Pension Plan. The benefits were based on years of service and the employee's highest consecutive five years earnings out of the last ten years prior to retirement and vest when an employee attains five years of service. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Citizens Board of Governors adopted a resolution on December 11, 2002, which terminated Citizens' participation in and sponsorship of such Pension Plan effective December 31, 2002 with accrued benefits of Pension Plan participants becoming frozen and fully vested as of such date as provided under the terms of the Pension Plan, and with Citizens continuing to make contributions as actuarially determined to be necessary to fund the frozen accrued benefits.

Information regarding the pension plan for the years ended December 31, 2002 is as follows:

Components of Net Periodic Benefit Cost:

Service cost	$ 185,507
Interest cost	166,110
Return on plan assets	(182,118)
Amortization of unrecognized transition asset	(180,400)
Amount of prior service cost recognized	48
Amount of loss recognized	10,400
Amount of prior service cost recognized due to curtailment	453
Net periodic benefit cost	$ -

Reconciliation of Funded Status:

Accumulated benefit obligation	$ 2,200,908
Vested Plan Benefit Obligation ("PBO")	2,200,908
Fair value of assets	1,834,152
Funded status	(366,756)
Unrecognized net actuarial loss	319,967
Unrecognized prior service costs	-
Unrecognized transition asset	(235,660)
Accrued benefit cost	$ (282,449)

Change in Benefit Obligation:

PBO at beginning of year	$ 2,212,082
Service cost (excluding expenses)	185,507

Interest cost	166,110
Plan participants' contributions	-
Plan amendments	501
Actuarial loss including effect of change in assumptions	251,789
Benefits paid	(86,802)
Curtailments	(528,279)
Vested PBO at end of year	$ 2,200,908
Nonvested PBO at end of year	$ -

Change in Plan Assets:

Fair value of plan assets at beginning of year	$ 2,012,019
Actual return on plan assets	(205,120)
Employer contributions	114,055
Benefits paid	(86,802)
Fair value of plan assets at end of year	$ 1,834,152

Weighted Average Assumptions as of December 31, 2002:

Discount rate	7.00%
Rate of compensation increase	4.00%
Expected return on plan assets	9.00%

Post-retirement Benefit Plan **-** In addition to providing pension benefits, Citizens provides certain health care and life insurance benefits for retired employees. The postretirement health care plan is contributory, with retiree contributions adjusted annually. The life insurance plan is noncontributory. Employees may become eligible for those benefits provided they meet the age and service requirements of 55 and 15 years of service. Spouses and dependent children of these retirees are also eligible to participate. In addition, spouses and dependent children of deceased active employees are eligible to participate in the plans for one year after the death of the employee. The estimated cost of such benefits is accrued over the working lives of those employees expected to qualify for such benefits as a level percentage of their payroll costs.

Information regarding the post-retirement benefit plan at December 31, 2002 is as follows:

Components of Net Periodic Benefit Cost:

Service cost	$ -
Interest cost	18,774
Amount of prior service cost recognized	633
Amount of loss recognized	(3,085)
Net periodic benefit cost	16,322

Reconciliation of Funded Status:

Accumulated benefit obligation	$ 284,373
Fair value of assets	-
Funded status	(284,373)
Unrecognized net actuarial loss	(59,447)
Unrecognized prior service costs	9,620
Accrued benefit cost	$ (334,200)

Weighted average assumptions as of December 31, 2002:

Discount rate	6.75%
Rate of health care cost increase	12.00%
Benefit cost	$ 16,322
Benefits paid	$ 14,889

A one percent increase or decrease in assumed health care cost trend rates would result in a corresponding increase and decrease in the accumulated postretirement benefit obligation of $31,045 and $26,468, respectively.

17. RELATED PARTY TRANSACTIONS

In accordance with Section 627.3515, Florida Statutes, Citizens pays certain expenses on behalf of the Florida Market Assistance Plan ("FMAP"), which was established to assist residents of the state in locating property and casualty insurance. During 2002, Citizens incurred $99,980 for FMAP costs to help support FMAP's operations.

18. DEPOPULATION

Pursuant to the Act, Citizens is authorized to adopt one or more programs, subject to approval by the Department, for the reduction of both new and renewal writings. Agreements were entered into with various insurance companies (the "Takeout Company or Companies") licensed in the State of Florida to remove policies from Citizens.

Policies may be removed from Citizens at policy renewal or as part of a bulk assumption ("Assumption Agreement"). If the policies are removed at policy renewal, the Takeout Company offers the policyholder a new policy. In a bulk assumption, the Takeout Company agrees to assume, for the policies under the agreement, all insured losses and loss adjustment expenses that occur on or after the date on which the policies are assumed until the expiration of the policy term, at which time a policy is offered to the policyholder by the Takeout Company. If the Takeout Companies are unable to meet their obligations to policyholders, Citizens may be liable for losses incurred prior to the policy expiration date. In the opinion of management, any losses relating to these transactions will not have a material adverse effect on Citizens' financial position and results of operations.

During 2002, Citizens ceded $12,099,451 in premiums to Takeout Companies pursuant to Assumption Agreements. At December 31, 2002, assumed premiums in the amount of $218,398 were due from certain Takeout Companies.

Citizens provides policy administration services with respect to the assumed policies. All agreements provide for the Takeout Company to adjust losses. The Takeout Company pays a ceding commission to Citizens to compensate Citizens for policy acquisition costs, which includes servicing company fees, producer commissions, and premium taxes. Section 627.3511, Florida Statutes, provides that producer commissions need not be refunded by the producers on certain policies.

Certain agreements provide for a policy takeout bonus of up to $300 per policy to be paid to the Takeout Company. Such takeout bonuses have been placed into escrow bank accounts pursuant to an escrow agreement. After three years, funds placed in escrow will be released to the Takeout Companies in accordance with the policy takeout agreement. During 2002, Citizens paid out of escrow $10,637,119 in accordance with the policy takeout agreements for policies removed in 1998 and 1999. In addition, Citizens paid out $5,893,379 in accumulated interest. As of December 31, 2002, $49,974,225 is in escrow.

At the end of the three year period, Citizens requires the Takeout Company to have an independent audit of the policies for which they are claiming a bonus to determine if the policy is properly classified and is eligible for payment. Based upon results of that audit, Citizens evaluates the original amounts placed into escrow to determine if the escrow account is over or underfunded. During 2002, Citizens paid into escrow $244,329 for underfunded accounts and received $295,092 for overfunded accounts.

Under certain circumstances, an additional incentive is offered under the Enhanced Takeout Program. For each policy removed, $210 may be placed into escrow to cover losses paid on assumed policies as a result of one or more hurricanes that exceed the estimated annual hurricane loss ("EAHL") in any of the three subsequent hurricane seasons. The Contingent Catastrophe Reserve is adjusted on June 1 each year for policies that were removed from Citizens but are no longer in force. Moreover, if the Takeout Company does not pay out losses in excess of its EAHL during the three hurricane seasons, the amount of appropriated surplus will become unassigned and unrestricted. Only two Takeout Companies have qualified for this additional incentive, Clarendon National Insurance Company in 1999 and Qualsure Insurance Company in 2000.

Certain agreements allow Takeout Companies credits against regular assessments for the policies removed from Citizens.

19. OPERATING LEASES

Citizens leases office space and certain office equipment under various operating leases. Rental expense on operating leases amounted to $1,197,049 for the year ended December 31, 2002. At December 31, 2002, future minimum payments under operating leases are as follows:

Year	
2003	$ 1,258,364
2004	1,140,408
2005	212,794
2006	66,422
	$ 2,677,988

20. COMMITMENTS AND CONTINGENCIES

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

Due to the nature of Citizens, as a property insurance residual market mechanism with a high concentration of policies in coastal counties (see Note 2), severe storm activity in such areas could result in significant catastrophic losses. In addition to the resources on hand, Citizens has various funding mechanisms in place to address possible catastrophic losses which include regular assessments (see Note 1), a line of credit (see Note 14), and reinsurance (see Note 15). Citizens has the ability to levy emergency assessments (see Note 1) in order to repay debt incurred to fund losses. Although Citizens has imposed and collected regular assessments, it has never imposed an emergency assessment and therefore has no experience as to the timing, actual percentage collection or other matters relating to the collection of emergency assessments.

21. RECONCILIATION OF SAP TO GAAP

Citizens also prepares financial statements in accordance with Statutory Accounting Practices ("SAP") prescribed or permitted by the Department and the National Association of Insurance Commissioners, which is a comprehensive basis of accounting other than GAAP.

Reconciliation of Citizens' 2002 statutory basis net income and accumulated surplus to its GAAP basis net income and retained surplus is as follows:

Net income - Statutory basis	$ 470,397,342
Adjustments:	
Realized gain on swap termination	750,677
Policy acquisition costs	16,385,104
Line of credit fees and note issuance costs	(459,127)
Takeout bonuses	(3,196,741)
Deferred income taxes	(9,371,842)
Allowance for doubtful accounts	(656,278)
Unrealized loss on trading securities	(815,442)
Net income - GAAP basis	$ 473,033,693
Accumulated surplus - Statutory basis	$1,051,716,540
Adjustments:	
Policy acquisition costs	49,658,228
Nonadmitted assets, net	3,097,818
Line of credit fee and note issuance costs	18,698,146
Takeout bonuses	5,711,998
Cumulative unrealized gain on trading securities	4,830,227
Unrealized gain on available-for-sale securities	74,473,878
Retained surplus - GAAP basis	$1,208,186,835

22. ADJUSTED GAAP SURPLUS

On June 18, 1999, the Board of Governors approved an amendment to the Plan. The amendment was intended to more accurately reflect Citizens' surplus available to pay claims. The amendment modified the method used to calculate a plan year deficit used for determining assessments (see Note 1). The amendment provides for the deficit to be determined using Adjusted GAAP. Adjusted GAAP surplus is calculated by reducing GAAP surplus by Citizens' non-liquid, non-available assets. These assets include unamortized takeout bonuses, deferred financing costs, deferred income tax assets, net, assets related to proceeds from the Notes, amounts in defeasance accounts and surplus appropriated for the CCR.

23. SUBSEQUENT EVENTS

On March 19, 2003, Citizens signed Amendment 7 to the Amended Credit Agreement for the Personal Lines Account and Commercial Lines Account. Amendment 7 decreases the line to $675 million, changes the commitment fees to 37 basis points, increases borrowing costs if a draw is made, and extends the termination date to March 23, 2004.

CITIZENS PROPERTY INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES

STATEMENT OF FINANCIAL POSITION - BY ACCOUNT
DECEMBER 31, 2002

	Total	Personal Lines Account	Commercial Lines Account	High-risk Account
ASSETS				
Cash and cash equivalents	$1,076,590,847	$ 692,158,813	$ 101,072,096	$ 283,359,938
Trading securities	181,557,064	172,606,301	8,950,763	-
Available-for-sale securities	2,170,320,770	96,393,535	4,618,271	2,069,308,964
Held-to-maturity securities	74,163,177	70,506,932	3,656,245	-
Premiums receivable, net	842,543	1,114,300	(735,514)	463,757
Investment income due and accrued	24,450,020	4,812,353	491,276	19,146,391
Prepaid reinsurance premiums	688,651	688,651	-	-
Prepaid takeout bonus	5,711,998	5,711,998	-	-
Due from affiliates	52,556	52,556	-	-
Deferred policy acquisition costs	49,658,228	16,194,360	3,273,050	30,190,818
Receivable for securities	265,680	-	-	265,680
Other assets	5,896,205	4,260,894	13,997	1,621,314
Inter-account receivable (payable)	-	4,312,958	(3,711,708)	(601,250)
Total assets	$ 3,590,197,739	$ 1,068,813,651	$ 117,628,476	$ 2,403,755,612
LIABILITIES AND RETAINED SURPLUS				
LIABILITIES:				
Loss reserves	$ 60,452,792	$ 49,412,525	$ 7,346,339	$ 3,693,928
Loss adjustment expense reserves	22,691,127	18,418,625	1,312,352	2,960,150
Unearned premiums	398,239,676	127,268,749	21,675,678	249,295,249
Notes payable	1,774,951,655	331,970,182	17,214,821	1,425,766,652
Deferred gain on termination of interest rate swaps	12,124,732	11,526,982	597,750	-
Advance premiums and suspended cash	36,028,050	10,603,235	5,886,802	19,538,013
Servicing company fees payable	695,813	695,813	-	-
Fees and surcharges payable	209,817	151,981	50,288	7,548
Reinsurance premiums payable	7,227,836	5,732,740	1,495,096	-
Accounts payable and accrued expenses	12,660,644	9,750,980	309,606	2,600,058
Taxes and fees payable	5,560,971	2,226,996	385,002	2,948,973
Interest payable	48,818,393	12,433,373	644,752	35,740,268
Income taxes payable	2,349,398	-	-	2,349,398
Total liabilities	2,382,010,904	580,192,181	56,918,486	1,744,900,237
COMMITMENTS AND CONTINGENCIES				
RETAINED SURPLUS:				
Unappropriated surplus	1,127,726,794	481,975,758	60,704,881	585,046,155
Appropriated surplus	6,070,470	6,070,470	-	-
Accumulated other comprehensive income	74,389,571	575,242	5,109	73,809,220
Total retained surplus	1,208,186,835	488,621,470	60,709,990	658,855,375
Total liabilities and retained surplus	$ 3,590,197,739	$1,068,813,651	$ 117,628,476	$2,403,755,612

CITIZENS PROPERTY INSURANCE CORPORATION

SUPPLEMENTAL SCHEDULES

STATEMENT OF OPERATIONS - BY ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2002

	Total	Personal Lines Account	Commercial Lines Account	High-risk Account
REVENUES:				
Written premiums	$803,832,033	$254,546,671	$ 44,493,392	$504,791,970
Less – premiums ceded	(162,870,040)	(46,329,582)	(4,634,517)	(111,905,941)
Change in unearned premiums	(118,105,519)	(61,750,010)	(17,851,301)	(38,504,208)
Change in unearned premiums - ceded	(231,565)	(204,045)	(27,520)	-
Net Premiums Earned	522,624,909	146,263,034	21,980,054	354,381,821
Net investment income	231,140,683	92,030,534	9,149,496	129,960,653
Total revenues	753,765,592	238,293,568	31,129,550	484,342,474
EXPENSES:				
Losses incurred	82,787,121	70,904,023	7,078,873	4,804,225
Loss adjustment expenses incurred	18,793,236	11,862,633	1,056,687	5,873,916
Servicing company fees	10,104,539	9,901,453	203,086	-
Producer commissions, net	63,121,382	12,826,387	3,281,576	47,013,419
Taxes and fees	16,969,917	3,726,220	475,061	12,768,636
Processing and other fees	2,474,175	2,459,175	15,000	-
Other underwriting expenses	19,356,166	11,333,029	1,377,275	6,645,862
Depopulation expense	8,511,894	8,511,894	-	-
Line of credit fees and note issuance costs	6,150,887	3,447,521	222,526	2,480,840
Net interest expense	139,660,745	22,784,090	1,153,317	115,723,338
Other expenses/(income)	512,377	149,450	449,641	(86,714)
Total expenses	368,442,439	157,905,875	15,313,042	195,223,522
Income before income taxes	385,323,153	80,387,693	15,816,508	289,118,952
INCOME TAX BENEFIT	87,710,540	146,152,141	14,336,705	(72,778,306)
Net income	$473,033,693	$226,539,834	$ 30,153,213	$216,340,646