

ALABAMA INSURANCE UNDERWRITING ASSOCIATION

FINANCIAL STATEMENTS

OCTOBER 31, 2007

ALABAMA INSURANCE UNDERWRITING ASSOCIATION

FINANCIAL STATEMENTS

OCTOBER 31, 2007

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March 13, 2008

Alabama Insurance Underwriting Association  
315 E. Laurel Ave., Ste. 216D  
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We have compiled the accompanying statement of assets, liabilities and members' equity of Alabama Insurance Underwriting Association as of October 31, 2007, and the related statements of operations and members' equity for the twelve months then ended, and the accompanying supplementary information, which is presented only for supplementary analysis purposes, in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements, and supplementary information, information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all the disclosures ordinarily included in financial statements. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Association's financial condition. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*O'Sullivan Creel, LLP*

Certified Public Accountants

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**  
**STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY**  
As of October 31, 2007

**EXHIBIT 1**

<b>Description</b>	<b>Ledger Assets</b>	<b>Non-Ledger Assets</b>	<b>Assets Not Admitted</b>	<b>Admitted Assets</b>
<b>ASSETS</b>				
Cash	19,045,060			19,045,060
Interest accrued	0			0
Furniture and equipment - net of depreciation	56,036		56,036	
Data processing equipment - net of depreciation	21,438			21,438
Programming - net of amortization	10,683		10,683	
Section 444 Deposit (I.R.S.)	159,627			159,627
Prepaid Reinsurance Premium	1,250,001			1,250,001
Intangible Pension Asset	52,122			52,122
Total Assets	<u>20,594,967</u>	<u>0</u>	<u>66,719</u>	<u>20,528,248</u>
<b>LIABILITIES AND EQUITY</b>				
Reserves for:				
Unpaid losses (include IBNR)				603,749
Reins. Recoverable-unpaid losses				0
Unpaid loss adjustment expenses				38,159
Reins. Recoverable-unpaid loss. exp.				0
Unearned premiums				13,290,400
Premium taxes				85,200
Total Reserves				<u>14,017,508</u>
<b>Payables for:</b>				
Accounts payable				73,916
Amounts withheld for A/C of others				32,947
Accrued Pension Obligation				0
Distributions Payable Members				0
Premiums Refundable				0
Premiums received in advance				817,869
Ceded Reinsurance Payable				0
Total Payables				<u>924,732</u>
Members' Equity				<u>5,586,008</u>
Total Liabilities and Equity				<u>20,528,248</u>

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**  
**STATEMENT OF OPERATIONS AND MEMBERS' EQUITY**  
Quarter Ended October 31, 2007

EXHIBIT 2

<b>DESCRIPTION</b>	<b>Quarter 8/01/2007 - 10/31/2007</b>	<b>Year-To-Date 11/01/2006 - 10/31/2007</b>
<b>UNDERWRITING INCOME:</b>		
Premiums Earned	(1,865,987)	10,270,598
<b>DEDUCTIONS:</b>		
Losses incurred	151,770	888,774
Loss expenses incurred	10,690	36,884
Operating expenses incurred	1,094,384	4,522,374
Total deductions	1,256,844	5,448,032
Net Underwriting Gain or (Loss)	(3,122,831)	4,822,566
<b>OTHER INCOME (EXPENSE):</b>		
Net investment income	192,589	677,305
Realized Gains (Losses)	0	623
Other Income	143	3,670
Service fees	53,291	187,836
Total other income (expense)	246,023	869,434
Net Income or (Loss)	(2,876,808)	5,692,000
<b>EQUITY ACCOUNT:</b>		
Members' equity (prior period)	8,454,363	(101,499)
Net income or (loss)	(2,876,808)	5,692,000
Change in assets not admitted	8,453	(4,493)
Assessments or (distributions)	0	0
Net change in equity	(2,868,355)	5,687,507
Members' Equity (current period)	5,586,008	5,586,008

**SUPPLEMENTARY INFORMATION**

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**

MEMBERS' EQUITY

Quarter Ended October 31, 2007

EXHIBIT 3A

Quarter 8/01/2007 - 10/31/2007

Year-to-Date 11/01/2006 - 10/31/2007

Description	Policy Year					Policy Year				
	2007	2006	2005	2004	Total	2007	2006	2005	2004	Total
<b>INCOME RECEIVED:</b>										
Premiums Written	5,629,099	(40,215)	0	0	5,588,884	23,904,916	(485,120)	0	0	23,419,796
Reinsurance Premium Ceded	(3,750,000)	0	0	(7,241)	(3,757,241)	(10,799,284)	0	0	(7,241)	(10,806,525)
Net Premiums Written	1,879,099	(40,215)	0	(7,241)	1,831,643	13,105,632	(485,120)	0	(7,241)	12,613,271
Interest Received	192,589	0	0	0	192,589	677,305	0	0	0	677,305
Realized Gains	0	0	0	0	0	0	0	0	0	0
Other Income	143	0	0	0	143	3,670	0	0	0	3,670
Service Fees	53,291	0	0	0	53,291	187,836	0	0	0	187,836
Gain on sale of non admitted asset	0	0	0	0	0	623	0	0	0	623
<b>Total Income</b>	<b>2,125,122</b>	<b>(40,215)</b>	<b>0</b>	<b>(7,241)</b>	<b>2,077,666</b>	<b>13,975,066</b>	<b>(485,120)</b>	<b>0</b>	<b>(7,241)</b>	<b>13,482,705</b>
<b>EXPENSES PAID:</b>										
Losses	18,001	19,907	39,401	(94,673)	(17,364)	18,769	511,984	648,728	30,258	1,209,739
Loss Adjustment Expenses	0	0	3,529	(4,883)	(1,354)	0	4,800	40,508	17,391	62,699
Commissions	473,196	(3,380)	0	0	469,816	2,270,757	(47,608)	0	0	2,223,149
Operating Expenses	298,075	0	0	0	298,075	1,344,087	6,473	0	0	1,350,560
Premium Taxes	529,614	0	0	0	529,614	763,075	113,109	0	0	876,184
<b>Total Expenses Paid</b>	<b>1,318,886</b>	<b>16,527</b>	<b>42,930</b>	<b>(99,556)</b>	<b>1,278,787</b>	<b>4,396,688</b>	<b>588,758</b>	<b>689,236</b>	<b>47,649</b>	<b>5,722,331</b>
<b>Net Cash Change</b>	<b>806,236</b>	<b>(56,742)</b>	<b>(42,930)</b>	<b>92,315</b>	<b>798,879</b>	<b>9,578,378</b>	<b>(1,073,878)</b>	<b>(689,236)</b>	<b>(54,890)</b>	<b>7,760,374</b>
<b>REINSURANCE RECOVERABLE:</b>										
<i>DEDUCT (PRIOR PERIOD)</i>										
Reins. Recoverable-Losses Paid	0	0	0	0	0	0	0	0	0	0
Reins. Recoverable-Loss Exp. Paid	0	0	0	0	0	0	0	0	0	0
<i>ADD (CURRENT PERIOD)</i>										
Reins. Recoverable-Losses Paid	0	0	0	0	0	0	0	0	0	0
Reins. Recoverable-Loss Exp. Paid	0	0	0	0	0	0	0	0	0	0
<b>Net Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>RESERVES:</b>										
<i>DEDUCT (CURRENT PERIOD)</i>										
Unpaid Losses (include IBNR)	488,356	0	107,068	8,325	603,749	488,356	0	107,068	8,325	603,749
Reins. Recoverable-Unpaid Losses	0	0	0	0	0	0	0	0	0	0
Unpaid Loss Adj. Expenses	29,505	0	8,030	624	38,159	29,505	0	8,030	624	38,159
Operating Expenses	106,863	0	0	0	106,863	106,863	0	0	0	106,863
Unearned Premiums	13,290,400	0	0	0	13,290,400	13,290,400	0	0	0	13,290,400
Premium Taxes	85,200	0	0	0	85,200	85,200	0	0	0	85,200
<i>ADD (PRIOR PERIOD)</i>										
Unpaid Losses (include IBNR)	321,017	113,598	0	0	434,615	0	359,880	472,017	92,817	924,714
Reins. Recoverable-Unpaid Losses	0	0	0	0	0	0	0	0	0	0
Unpaid Loss Adj. Expenses	19,291	6,824	0	0	26,115	0	21,612	35,402	6,960	63,974
Operating Expenses	4,231	0	0	0	4,231	0	6,473	0	0	6,473
Unearned Premiums	9,036,210	556,560	0	0	9,592,770	0	10,947,727	0	0	10,947,727
Premium Taxes	390,953	0	0	0	390,953	0	113,109	0	0	113,109
<b>Net Reserve Change</b>	<b>(4,228,622)</b>	<b>676,982</b>	<b>(115,098)</b>	<b>(8,949)</b>	<b>(3,675,687)</b>	<b>(14,000,324)</b>	<b>11,448,801</b>	<b>392,321</b>	<b>90,828</b>	<b>(2,068,374)</b>
<b>OTHER CHANGES:</b>										
<i>DEDUCT (PRIOR PERIOD)</i>										
Interest Accrued	0	0	0	0	0	0	0	0	0	0
Assets Not Admitted	(75,172)	0	0	0	(75,172)	0	(62,226)	0	0	(62,226)
<i>ADD (CURRENT PERIOD)</i>										
Interest Accrued	0	0	0	0	0	0	0	0	0	0
Assets Not Admitted	(66,719)	0	0	0	(66,719)	(66,719)	0	0	0	(66,719)
Net Other Changes	8,453	0	0	0	8,453	(66,719)	62,226	0	0	(4,493)
Assessments or (Distributions)	0	0	0	0	0	0	0	0	0	0
<b>Change in Members' Equity</b>	<b>(3,413,933)</b>	<b>620,240</b>	<b>(158,028)</b>	<b>83,366</b>	<b>(2,868,355)</b>	<b>(4,488,665)</b>	<b>10,437,149</b>	<b>(296,915)</b>	<b>35,938</b>	<b>5,687,507</b>

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION****MEMBERS' EQUITY FOR UNSETTLED YEARS**

Inception to Quarter Ended October 31, 2007

Exhibit 3B

Description	Policy Year				Total
	2007	2006	2005	2004	
<b>INCOME RECEIVED:</b>					
Premiums Written	23,904,916	17,328,303	6,309,269	5,411,236	52,953,724
Reinsurance Premiums Ceded	(10,799,284)	(4,500,230)	(1,882,296)	(2,030,922)	(19,212,732)
Net Premiums Written	13,105,632	12,828,073	4,426,973	3,380,314	33,740,992
Interest Received	677,305	307,607	212,181	223,321	1,420,414
Realized Gains	0	0	(86)	(31,218)	(31,304)
Other Income	3,670	40	4,403	78	8,191
Service Fees	187,836	175,703	29,034	13,920	406,493
Gain on sale of non admitted asset	623	(203)	0	0	420
Total Income	13,975,066	13,311,220	4,672,505	3,586,415	35,545,206
<b>EXPENSES PAID:</b>					
Losses	18,769	930,913	12,082,056	18,670,657	31,702,395
Loss Adjustment Expenses	0	17,029	1,143,712	1,457,224	2,617,965
Commissions	2,270,757	1,744,247	630,929	540,534	5,186,467
Operating Expenses	1,344,087	1,036,093	998,911	642,359	4,021,450
Premium Taxes	763,075	624,158	176,320	199,338	1,762,891
Total Expenses Paid	4,396,688	4,352,440	15,031,928	21,510,112	45,291,168
Net Cash Change	9,578,378	8,958,780	(10,359,423)	(17,923,697)	(9,745,962)
<b>REINSURANCE RECOVERABLE:</b>					
ADD (Current Period)					
Reins. Recoverable-Losses Paid	0	0	0	0	0
Reins. Recoverable-Loss Exp. Paid	0	0	0	0	0
Net Change	0	0	0	0	0
<b>RESERVES:</b>					
DEDUCT (CURRENT PERIOD)					
Unpaid Losses (include IBNR)	488,356	0	107,068	8,325	603,749
Reins. Recoverable-Unpaid Losses	0	0	0	0	0
Unpaid Loss Adjustment Expenses	29,505	0	8,030	624	38,159
Operating Expenses	106,863	0	0	0	106,863
Unearned Premiums	13,290,400	0	0	0	13,290,400
Premium Taxes	85,200	0	0	0	85,200
Total Reserves	14,000,324	0	115,098	8,949	14,124,371
<b>OTHER CHANGES:</b>					
ADD					
Interest Accrued	0	0	0	0	0
Assets Not Admitted	(66,719)	0	0	0	(66,719)
Total Other Changes	(66,719)	0	0	0	(66,719)
Assessments or (Distributions)	0	0	10,000,000	19,523,060	29,523,060
Net Members' Equity	(4,488,665)	8,958,780	(474,521)	1,590,414	5,586,008



**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**  
**STATISTICAL REPORT OF PREMIUMS**  
Quarter Ended October 31, 2007

EXHIBIT 4A

Description	Quarter 8/01/2007 - 10/31/2007					Year-to-Date 11/01/2006 - 10/31/2007				
	2007	2006	2005	2004	Total	2007	2006	2005	2004	Total
<b>PREMIUMS WRITTEN:</b>										
Fire	509,994	(604)	0	0	509,390	1,809,151	(32,466)	0	0	1,776,685
E.C. & VMM	5,119,105	(39,611)	0	0	5,079,494	22,095,765	(452,654)	0	0	21,643,111
Reinsurance Premium Ceded E.C.	(3,750,000)	0	0	(7,241)	(3,757,241)	(10,799,284)	0	0	(7,241)	(10,806,525)
Total	1,879,099	(40,215)	0	(7,241)	1,831,643	13,105,632	(485,120)	0	(7,241)	12,613,271
<b>UNEARNED PREMIUMS:</b>										
(PRIOR PERIOD)										
Fire	776,643	48,099	0	0	824,742	0	1,017,075	0	0	1,017,075
E.C. & VMM	10,021,888	508,461	0	0	10,530,349	0	9,930,652	0	0	9,930,652
Reinsurance Unearned Ceded E.C.	(1,762,321)	0	0	0	(1,762,321)	0	0	0	0	0
Total	9,036,210	556,560	0	0	9,592,770	0	10,947,727	0	0	10,947,727
<b>UNEARNED PREMIUMS:</b>										
(CURRENT PERIOD)										
Fire	951,745	0	0	0	951,745	951,745	0	0	0	951,745
E.C. & VMM	12,338,655	0	0	0	12,338,655	12,338,655	0	0	0	12,338,655
Reinsurance Unearned Ceded E.C.	0	0	0	0	0	0	0	0	0	0
Total	13,290,400	0	0	0	13,290,400	13,290,400	0	0	0	13,290,400
<b>EARNED PREMIUMS:</b>										
Fire	334,892	47,495	0	0	382,387	857,406	984,609	0	0	1,842,015
E.C. & VMM	2,802,338	468,850	0	0	3,271,188	9,757,110	9,477,998	0	0	19,235,108
Reinsurance Earned Ceded E.C.	(5,512,321)	0	0	(7,241)	(5,519,562)	(10,799,284)	0	0	(7,241)	(10,806,525)
Total	(2,375,091)	516,345	0	(7,241)	(1,865,987)	(184,768)	10,462,607	0	(7,241)	10,270,598

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**  
**STATISTICAL REPORT OF LOSSES**  
**Quarter Ended October 31, 2007**

EXHIBIT 4B

Description	Quarter 8/01/2007 - 10/31/2007					Year-to-Date 11/01/2006 - 10/31/2007				
	2007	2006	2005	2004	Total	2007	2006	2005	2004	Total
<b>PAID LOSSES:</b>										
Fire	16,721	16,888	0	0	33,609	17,489	490,549	0	0	508,038
E.C. & VMM	1,280	3,019	39,401	(3,312)	40,388	1,280	21,435	648,728	121,619	793,062
Reinsurance Recovery E.C.	0	0	0	(91,361)	(91,361)	0	0	0	(91,361)	(91,361)
Total	18,001	19,907	39,401	(94,673)	(17,364)	18,769	511,984	648,728	30,258	1,209,739
<b>OUTSTANDING LOSSES (CURRENT PERIOD)*</b>										
Fire	36,164	0	107,068	8,325	151,557	36,164	0	107,068	8,325	151,557
E.C. & VMM	452,192	0	0	0	452,192	452,192	0	0	0	452,192
Reinsurance Recoverable E.C.	0	0	0	0	0	0	0	0	0	0
Total	488,356	0	107,068	8,325	603,749	488,356	0	107,068	8,325	603,749
<b>OUTSTANDING LOSSES (PRIOR PERIOD)*</b>										
Fire	22882	9,062	0	0	31,944	0	30,671	0	0	30,671
E.C. & VMM	298135	104,536	0	0	402,671	0	329,209	472,017	92,817	894,043
Reinsurance Recoverable E.C.	0	0	0	0	0	0	0	0	0	0
Total	321,017	113,598	0	0	434,615	0	359,880	472,017	92,817	924,714
<b>INCURRED LOSSES:</b>										
Fire	30,003	7,826	107,068	8,325	153,222	53,653	459,878	107,068	8,325	628,924
E.C. & VMM	155,337	(101,517)	39,401	(94,673)	(1,452)	453,472	(307,774)	176,711	(62,559)	259,850
Total	185,340	(93,691)	146,469	(86,348)	151,770	507,125	152,104	283,779	(54,234)	888,774
<b>IBNR (CURRENT PERIOD)</b>										
Fire	33,795	0	0	0	33,795	33,795	0	0	0	33,795
E.C. & VMM	441,034	0	0	0	441,034	441,034	0	0	0	441,034
Total	474,829	0	0	0	474,829	474,829	0	0	0	474,829
<b>IBNR (PRIOR PERIOD)</b>										
Fire	22,882	9,062	0	0	31,944	0	29,420	0	0	29,420
E.C. & VMM	296,135	104,036	0	0	400,171	0	329,209	0	0	329,209
Total	319,017	113,098	0	0	432,115	0	358,629	0	0	358,629

\*Includes IBNR

**ALABAMA INSURANCE UNDERWRITING ASSOCIATION**  
**STATISTICAL REPORT OF LOSS ADJUSTMENT EXPENSES**  
Quarter Ended October 31, 2007

EXHIBIT 4C

Description	Quarter 8/01/2007 - 10/31/2007					Year-to-Date 11/01/2006 - 10/31/2007				
	2007	2006	2005	2004	Total	2007	2006	2005	2004	Total
<b>LOSS EXPENSES PAID:</b>										
Fire	0	0	0	0	0	0	4,800	0	0	4,800
E.C. & VMM	0	0	3,529	1,690	5,219	0	0	40,508	23,964	64,472
Reinsurance Recovery E.C.	0	0	0	(6,573)	(6,573)	0	0	0	(6,573)	(6,573)
Total	0	0	3,529	(4,883)	(1,354)	0	4,800	40,508	17,391	62,699
<b>UNPAID LOSS EXPENSES (CURRENT PERIOD)*</b>										
Fire	2,206	0	0	0	2,206	2,206	0	0	0	2,206
E.C. & VMM	27,299	0	8,030	624	35,953	27,299	0	8,030	624	35,953
Reinsurance Recoverable E.C.	0	0	0	0	0	0	0	0	0	0
Total	29,505	0	8,030	624	38,159	29,505	0	8,030	624	38,159
<b>UNPAID LOSS EXPENSES (PRIOR PERIOD)*</b>										
Fire	1,373	544	0	0	1,917	0	1,859	0	0	1,859
E.C. & VMM	17,918	6,280	0	0	24,198	0	19,753	35,402	6,960	62,115
Reinsurance Recoverable E.C.	0	0	0	0	0	0	0	0	0	0
Total	19,291	6,824	0	0	26,115	0	21,612	35,402	6,960	63,974
<b>INCURRED LOSS EXPENSES:</b>										
Fire	833	(544)	0	0	289	2,206	2,941	0	0	5,147
E.C. & VMM	9,381	(6,280)	11,559	(4,259)	10,401	27,299	(19,753)	13,136	11,055	31,737
Total	10,214	(6,824)	11,559	(4,259)	10,690	29,505	(16,812)	13,136	11,055	36,884

\*Includes IBNR