

ALABAMA INSURANCE UNDERWRITING ASSOCIATION

FINANCIAL STATEMENTS

OCTOBER 31, 2004

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FINANCIAL STATEMENTS

OCTOBER 31, 2004

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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, 2004, and the related statements of operations and members' equity for the three months and 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.

Leeser & Elder, P.C.
Certified Public Accountants

MEMBER:
American Institute of Certified Public Accountants
AICPA Division of CPA Firms
Alabama Society of Certified Public Accountants

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY
As of October 31, 2004

EXHIBIT 1

Description	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Admitted Assets
ASSETS				
Investments	19,667			19,667
Cash	29,161,082			29,161,082
Assessment Receivable	4,464		4,464	
Interest accrued	109			109
Furniture and equipment - net of depreciation	34,917		34,917	
Data processing equipment - net of depreciation	5,046			5,046
Programming - net of amortization	64,369		64,369	
Section 444 Deposit (I.R.S.)	200,698			200,698
Prepaid Reinsurance Premium	118,637			118,637
Intangible Pension Asset	82,842			82,842
Total Assets	29,691,831	0	103,750	29,588,081
LIABILITIES AND EQUITY				
Reserves for:				
Unpaid losses (include IBNR)				17,819,354
Reins. Recoverable-unpaid losses				(2,587,476)
Unpaid loss adjustment expenses				1,220,340
Reins. Recoverable-unpaid loss. exp.				(194,756)
Unearned premiums				3,071,721
Premium taxes				17,836
Total Reserves				19,347,019
Payables for:				
Accounts payable				0
Amounts withheld for A/C of others				4,957
Accrued Pension Obligation				140,883
Premiums Refundable				123,921
Premiums received in advance				151,273
Ceded Reinsurance Payable				157,221
Total Payables				578,255
Members' Equity				9,662,807
Total Liabilities and Equity				29,588,081

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
STATEMENT OF OPERATIONS AND MEMBERS' EQUITY
Quarter Ended October 31, 2004

EXHIBIT 2

<u>DESCRIPTION</u>	<u>Quarter 08/01/2004 - 10/31/2004</u>	<u>Year-To-Date 11/01/2003 - 10/31/2004</u>
UNDERWRITING INCOME:		
Premiums Earned	164,956	3,454,471
DEDUCTIONS:		
Losses Incurred	18,543,127	18,565,658
Loss expenses incurred	1,445,288	1,453,581
Operating expenses incurred *	417,275	1,450,121
Total deductions	<u>20,405,690</u>	<u>21,469,360</u>
Net Underwriting Gain or (Loss)	<u>(20,240,734)</u>	<u>(18,014,889)</u>
OTHER INCOME (EXPENSE):		
Net investment income	59,980	223,322
Realized Gains (Losses)	(9,764)	(31,218)
Other Income	60	84
Service fees	3,880	13,920
Total other income (expense)	<u>54,156</u>	<u>206,108</u>
Net Income or (Loss)	<u>(20,186,578)</u>	<u>(17,808,781)</u>
EQUITY ACCOUNT:		
Members' equity (prior period)	10,329,718	13,304,509
Net income or (loss)	(20,186,578)	(17,808,781)
Change in assets not admitted	(3,393)	(29,647)
Assessments or (distributions)	19,523,060	14,196,726
Net change in equity	<u>(666,911)</u>	<u>(3,641,702)</u>
Members' Equity (current period)	<u>9,662,807</u>	<u>9,662,807</u>
* Includes SAP No. 8 Adjustment Allocated as Follows:		
10/31/01	0	
10/31/02	47,890	
10/31/03	23,473	
10/31/04	(19,902)	
Accumulated Amount	<u>51,461</u>	

SUPPLEMENTARY INFORMATION

ALABAMA INSURANCE UNDERWRITING ASSOCIATION

MEMBERS' EQUITY

Quarter Ended October 31, 2004

EXHIBIT 3A

Quarter 08/01/2004 - 10/31/2004

Year-to-Date 11/01/2003 - 10/31/2004

Description	Policy Year					Policy Year					Total	
	2004	2003	2002	2001	2000	2004	2003	2002	2001	2000		
INCOME RECEIVED:												
Premiums Written	1,171,054	(5,072)	0	0	0	1,165,982	5,495,991	(124,951)	0	0	0	5,371,040
Reinsurance Premium Ceded	(581,038)	0	0	0	0	(581,038)	(1,846,484)	0	0	0	0	(1,846,484)
Net Premiums Written	590,016	(5,072)	0	0	0	584,944	3,649,507	(124,951)	0	0	0	3,524,556
Interest Received	114,965	0	0	0	0	114,965	223,212	29,134	0	0	0	252,346
Realized Gains	(9,764)	0	0	0	0	(9,764)	(31,218)	0	0	0	0	(31,218)
Other Income	60	0	0	0	0	60	78	0	0	0	6	84
Service Fees	3,880	0	0	0	0	3,880	13,920	0	0	0	0	13,920
Gain on sale of non admitted asset	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	699,157	(5,072)	0	0	0	694,085	3,855,499	(95,817)	0	0	6	3,759,688
EXPENSES PAID:												
Losses	3,424,915	253	0	0	0	3,425,168	3,432,559	18,550	0	0	0	3,451,109
Reins. Recovered-Losses Paid	0	0	0	0	0	0	0	0	0	0	0	0
Loss Adjustment Expenses	427,109	450	0	0	0	427,559	427,109	550	0	13,596	0	441,255
Reins. Recovered-Loss Exp. Paid	0	0	0	0	0	0	0	0	0	0	0	0
Commissions	117,088	(507)	0	0	0	116,581	549,555	(12,495)	0	0	0	537,060
Operating Expenses	181,254	23,473	47,890	0	0	252,617	637,402	29,210	47,890	0	0	714,502
Premium Taxes	102,843	0	0	0	0	102,843	181,502	22,938	0	0	0	204,440
Total Expenses Paid	4,253,209	23,669	47,890	0	0	4,324,768	5,228,127	58,753	47,890	13,596	0	5,348,366
Net Cash Change	(3,554,052)	(28,741)	(47,890)	0	0	(3,630,683)	(1,372,628)	(154,570)	(47,890)	(13,596)	6	(1,588,678)
REINSURANCE RECOVERABLE:												
<i>DEDUCT (PRIOR PERIOD)</i>												
Reins. Recoverable-Losses Paid	0	0	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	0	0
<i>ADD (CURRENT PERIOD)</i>												
Reins. Recoverable-Losses Paid	0	0	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	0	0
Net Change	0	0	0	0	0	0	0	0	0	0	0	0
RESERVES:												
<i>DEDUCT (CURRENT PERIOD)</i>												
Unpaid Losses (include IBNR)	15,231,878	0	0	0	0	15,231,878	15,231,878	0	0	0	0	15,231,878
Reins. Recoverable-Unpaid Losses	0	0	0	0	0	0	0	0	0	0	0	0
Unpaid Loss Adj. Expenses	1,025,584	0	0	0	0	1,025,584	1,025,584	0	0	0	0	1,025,584
Operating Expenses	4,957	0	0	0	0	4,957	4,957	0	0	0	0	4,957
Unearned Premiums	3,071,722	0	0	0	0	3,071,722	3,071,722	0	0	0	0	3,071,722
Premium Taxes	17,836	0	0	0	0	17,836	17,836	0	0	0	0	17,836
<i>ADD (PRIOR PERIOD)</i>												
Unpaid Losses (include IBNR)	83,266	30,653	0	0	0	113,919	0	115,329	2,000	0	0	117,329
Reins. Recoverable-Unpaid Losses	0	0	0	0	0	0	0	0	0	0	0	0
Unpaid Loss Adj. Expenses	5,746	2,109	0	0	0	7,855	0	7,189	300	5,769	0	13,258
Operating Expenses	585	0	0	0	0	585	0	5,737	0	0	0	5,737
Unearned Premiums	2,471,399	180,335	0	0	0	2,651,734	0	3,001,637	0	0	0	3,001,637
Premium Taxes	76,974	0	0	0	0	76,974	0	22,938	0	0	0	22,938
Net Reserve Change	(16,714,007)	213,097	0	0	0	(16,500,910)	(19,351,977)	3,152,830	2,300	5,769	0	(16,191,078)
OTHER CHANGES:												
<i>DEDUCT (PRIOR PERIOD)</i>												
Interest Accrued	55,094	0	0	0	0	55,094	0	29,134	0	0	0	29,134
Assets Not Admitted	(100,357)	0	0	0	0	(100,357)	0	(74,103)	0	0	0	(74,103)
<i>ADD (CURRENT PERIOD)</i>												
Interest Accrued	109	0	0	0	0	109	109	0	0	0	0	109
Assets Not Admitted	(103,750)	0	0	0	0	(103,750)	(103,750)	0	0	0	0	(103,750)
Net Other Changes	(58,378)	0	0	0	0	(58,378)	(103,641)	44,969	0	0	0	(58,672)
Assessments or (Distributions)	19,523,060	0	0	0	0	19,523,060	19,523,060	0	0	0	(5,326,334)	14,196,726
Change in Members' Equity	(803,377)	184,356	(47,890)	0	0	(666,911)	(1,305,186)	3,043,229	(45,590)	(7,827)	(5,326,328)	(3,641,702)

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
MEMBERS' EQUITY FOR UNSETTLED YEARS
 Inception to Quarter Ended October 31, 2004

Exhibit 3B

Description	2004	2003	Policy Year 2002	2001	2000	Total
INCOME RECEIVED:						
Premiums Written	5,495,991	5,447,644	5,857,576	5,781,115	6,079,094	28,661,420
Reinsurance Premiums Ceded	(1,846,484)	(1,357,565)	(1,123,700)	0	0	(4,327,749)
Net Premiums Written	3,649,507	4,090,079	4,733,876	5,781,115	6,079,094	24,333,671
Interest Received	223,212	181,535	222,538	611,181	646,437	1,884,903
Realized Gains	(31,218)	11,602	0	0	0	(19,616)
Other Income	78	8	(173)	1,670	6	1,589
Service Fees	13,920	11,820	10,735	5,225	5,850	47,550
Gain on sale of non admitted asset	0	2,253	0	0	0	2,253
Total Income	3,855,499	4,297,297	4,966,976	6,399,191	6,731,387	26,250,350
EXPENSES PAID:						
Losses	3,432,559	47,245	430,049	140,750	88,941	4,139,544
Reins. Recovered-Losses Paid	0	0	0	0	0	0
Loss Adjustment Expenses	427,109	1,325	83,458	56,619	50,551	619,062
Reins. Recovered-Loss Exp. Paid	0	0	0	0	0	0
Commissions	549,555	544,459	582,008	574,865	604,672	2,855,559
Operating Expenses	637,402	568,840	590,389	548,876	442,471	2,787,978
Premium Taxes	181,502	188,406	130,161	208,021	218,418	926,508
Total Expenses Paid	5,228,127	1,350,275	1,816,065	1,529,131	1,405,053	11,328,651
Net Cash Change	(1,372,628)	2,947,022	3,150,911	4,870,060	5,326,334	14,921,699
REINSURANCE RECOVERABLE:						
ADD (Current Period)						
Reins. Recoverable-Losses Paid	0	0	0	0	0	0
Reins. Recoverable-Loss Exp. Paid	0	0	0	0	0	0
Net Change	0	0	0	0	0	0
RESERVES:						
DEDUCT (CURRENT PERIOD)						
Unpaid Losses (include IBNR)	15,231,878	0	0	0	0	15,231,878
Reins. Recoverable-Unpaid Losses	0	0	0	0	0	0
Unpaid Loss Adjustment Expenses	1,025,584	0	0	0	0	1,025,584
Operating Expenses	4,957	0	0	0	0	4,957
Unearned Premiums	3,071,722	0	0	0	0	3,071,722
Premium Taxes	17,836	0	0	0	0	17,836
Total Reserves	19,351,977	0	0	0	0	19,351,977
OTHER CHANGES:						
ADD						
Interest Accrued	109	0	0	0	0	109
Assets Not Admitted	(103,750)	0	0	0	0	(103,750)
Total Other Changes	(103,641)	0	0	0	0	(103,641)
Assessments or (Distributions)	19,523,060	0	0	0	(5,326,334)	14,196,726
Net Members' Equity	(1,305,186)	2,947,022	3,150,911	4,870,060	0	9,662,807

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
STATISTICAL REPORT OF PREMIUMS
Quarter Ended October 31, 2004

EXHIBIT 4A

Description	Quarter 08/01/2004 - 10/31/2004					Year-to-Date 11/01/2003 - 10/31/2004					Total	
	2004	2003	2002	Policy Year		2004	2003	2002	Policy Year			
PREMIUMS WRITTEN:												
Fire	162,543	(725)	0	0	0	161,818	735,232	(16,032)	0	0	0	719,200
E.C. & VMM	1,008,511	(4,347)	0	0	0	1,004,164	4,760,759	(108,919)	0	0	0	4,651,840
Reinsurance Premium Ceded	(591,039)	0	0	0	0	(591,039)	(1,846,484)	0	0	0	0	(1,846,484)
Total	590,016	(5,072)	0	0	0	584,944	3,649,507	(124,951)	0	0	0	3,524,556
UNEARNED PREMIUMS:												
(PRIOR PERIOD)												
Fire	365,360	25,169	0	0	0	390,529	0	403,432	0	0	0	403,432
E.C. & VMM	2,422,401	155,166	0	0	0	2,577,567	0	2,598,205	0	0	0	2,598,205
Reinsurance Unearned Ceded	(316,362)	0	0	0	0	(316,362)	0	0	0	0	0	0
Total	2,471,399	180,335	0	0	0	2,651,734	0	3,001,637	0	0	0	3,001,637
UNEARNED PREMIUMS:												
(CURRENT PERIOD)												
Fire	408,782	0	0	0	0	408,782	408,782	0	0	0	0	408,782
E.C. & VMM	2,662,940	0	0	0	0	2,662,940	2,662,940	0	0	0	0	2,662,940
Reinsurance Unearned Ceded	0	0	0	0	0	0	0	0	0	0	0	0
Total	3,071,722	0	0	0	0	3,071,722	3,071,722	0	0	0	0	3,071,722
EARNED PREMIUMS:												
Fire	119,121	24,444	0	0	0	143,565	326,450	387,400	0	0	0	713,850
E.C. & VMM	767,972	150,819	0	0	0	918,791	2,097,819	2,489,286	0	0	0	4,587,105
Reinsurance Earned Ceded	(897,400)	0	0	0	0	(897,400)	(1,846,484)	0	0	0	0	(1,846,484)
Total	(10,307)	175,263	0	0	0	164,956	577,785	2,876,686	0	0	0	3,454,471

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
STATISTICAL REPORT OF LOSSES
 Quarter Ended October 31, 2004

EXHIBIT 4B

Description	Quarter 08/01/2004 - 10/31/2004						Year-to-Date 11/01/2003 - 10/31/2004					
	Policy Year						Policy Year					
	2004	2003	2002	2001	2000	Total	2004	2003	2002	2001	2000	Total
PAID LOSSES:												
Fire	4816	253	0	0	0	5,069	11,875	13,551	0	0	0	25,426
E.C. & VMM	3420099	0	0	0	0	3,420,099	3,420,684	4,999	0	0	0	3,425,683
Total	3,424,915	253	0	0	0	3,425,168	3,432,559	18,550	0	0	0	3,451,109
OUTSTANDING LOSSES (CURRENT PERIOD)*												
Fire	13,905	0	0	0	0	13,905	13,905	0	0	0	0	13,905
E.C. & VMM	17,805,449	0	0	0	0	17,805,449	17,805,449	0	0	0	0	17,805,449
Reinsurance Recoverable	(2,587,476)	0	0	0	0	(2,587,476)	(2,587,476)	0	0	0	0	(2,587,476)
Total	15,231,878	0	0	0	0	15,231,878	15,231,878	0	0	0	0	15,231,878
OUTSTANDING LOSSES (PRIOR PERIOD)*												
Fire	13147	4,738	0	0	0	17,885	0	24,171	0	0	0	24,171
E.C. & VMM	70119	25,915	0	0	0	96,034	0	91,158	2,000	0	0	93,158
Total	83,266	30,653	0	0	0	113,919	0	115,329	2,000	0	0	117,329
INCURRED LOSSES:												
Fire	5,574	(4,485)	0	0	0	1,089	25,780	(10,620)	0	0	0	15,160
E.C. & VMM	18,567,953	(25,915)	0	0	0	18,542,038	18,638,657	(86,159)	(2,000)	0	0	18,550,498
Total	18,573,527	(30,400)	0	0	0	18,543,127	18,664,437	(96,779)	(2,000)	0	0	18,565,658
IBNR (CURRENT PERIOD)												
Fire	13,905	0	0	0	0	13,905	13,905	0	0	0	0	13,905
E.C. & VMM	300,417	0	0	0	0	300,417	300,417	0	0	0	0	300,417
Total	314,322	0	0	0	0	314,322	314,322	0	0	0	0	314,322
IBNR (PRIOR PERIOD)												
Fire	10647	4,238	0	0	0	14,885	0	18,671	0	0	0	18,671
E.C. & VMM	70119	25,915	0	0	0	96,034	0	91,158	0	0	0	91,158
Total	80,766	30,153	0	0	0	110,919	0	109,829	0	0	0	109,829

*Includes IBNR

ALABAMA INSURANCE UNDERWRITING ASSOCIATION
STATISTICAL REPORT OF LOSS ADJUSTMENT EXPENSES
 Quarter Ended October 31, 2004

EXHIBIT 4C

Description	Quarter 08/01/2004 - 10/31/2004						Year-to-Date 11/01/2003 - 10/31/2004					
	Policy Year						Policy Year					
	2004	2003	2002	2001	2000	Total	2004	2003	2002	2001	2000	Total
LOSS EXPENSES PAID:												
Fire	0	450	0	0	0	450	0	450	0	0	0	450
E.C. & VMM	427,109	0	0	0	0	427,109	427,109	100	0	13,596	0	440,805
Total	427,109	450	0	0	0	427,559	427,109	550	0	13,596	0	441,255
UNPAID LOSS EXPENSES (CURRENT PERIOD)*												
Fire	834	0	0	0	0	834	834	0	0	0	0	834
E.C. & VMM	1,219,506	0	0	0	0	1,219,506	1,219,506	0	0	0	0	1,219,506
Reinsurance Recoverable	(194,756)	0	0	0	0	(194,756)	(194,756)	0	0	0	0	(194,756)
Total	1,025,584	0	0	0	0	1,025,584	1,025,584	0	0	0	0	1,025,584
UNPAID LOSS EXPENSES (PRIOR PERIOD)*												
Fire	1539	554	0	0	0	2,093	0	1,720	0	0	0	1,720
E.C. & VMM	4207	1,555	0	0	0	5,762	0	5,469	300	5,769	0	11,538
Total	5,746	2,109	0	0	0	7,855	0	7,189	300	5,769	0	13,258
INCURRED LOSS EXPENSES:												
Fire	(705)	(104)	0	0	0	(809)	834	(1,270)	0	0	0	(436)
E.C. & VMM	1,447,652	(1,555)	0	0	0	1,446,097	1,451,859	(5,369)	(300)	7,827	0	1,454,017
Total	1,446,947	(1,659)	0	0	0	1,445,288	1,452,693	(6,639)	(300)	7,827	0	1,453,581

*Includes IBNR