



TO : Members of Alliance Mutual Insurance Company  
FROM : Robert A. White, CIC, ARM, AAI, ARe  
President and CEO  
DATE : March 30, 2007  
SUBJECT : President's Report to the Members

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As I looked back on the three and one-half years I have had the privilege to lead Alliance Mutual, I was reminded of the famous quote by the sixth century B.C. Greek philosopher Heraclitus that "*Nothing endures but change*". Even though we are now living in the 21st century A.D., this simple truth that was evident to Heraclitus 2600 years ago remains true today.

While "change" has always been a constant in life and business, the pace and scope of the changes that have affected the insurance industry over the past ten years have never been greater. Beginning with the impact that the internet and advances in technology have had on how all consumers and businesses operate, the insurance industry has been tremendously impacted by the significant affect that the terrorist attacks on September 11th and the unprecedented scope of natural disaster events in 2004 and 2005 have had on the world's insurance and reinsurance markets. As a result of these major issues, "change" has become the watchword for what was once considered a stable and quite frankly boring industry.

Over the last three years, Alliance Mutual, like many small insurance companies, has initiated numerous changes designed to position the company to provide our current and future members with competitive and efficient insurance products and services. Alliance Mutual has made significant investments in people, technology and infrastructure to respond to the changes that have impacted the insurance industry and to address issues critical to the company's success.

While Alliance Mutual has successfully addressed the past regulatory and governance issues the Company has faced, has attracted and retained a competent staff, has nearly completed a grueling overhaul of its entire automation systems, and has developed the Company's first ever short term strategic plan, the changes made during these last three years have simply been the beginning of an ongoing process that must continue if Alliance Mutual is to remain a financially strong and secure company to meet the insurance needs of our members. Alliance Mutual must continue to look ahead to identify and anticipate future changes and take the appropriate actions today to be prepared for these changes and to meet the needs of our members.

In recognition of this need to constantly anticipate future changes, Alliance Mutual has established a set of core values and goals and a core vision for the company that will form the bedrock on which necessary decisions can be made. These "core" values, goals and vision will form the basis on which Alliance Mutual will operate for its members.

#### Core Values:

Alliance Mutual Insurance Company will operate in an ethical, fair and socially responsible manner with the specific intent to provide insurance and insurance related products and services for the benefit of its members, investors, and the citizens within its area of operation through a financially secure and growing organization.

#### Core Goals:

To accomplish its mission, Alliance Mutual Insurance Company will:

- Increase the surplus of the company by maximizing financial results;
- Provide fair, equitable, and professional underwriting, policy services, claims, and customer services for members, agents, third parties, and employees;
- Develop and provide insurance and insurance related products and services desired or required by members, agents, and third parties;
- Participate in legislative, regulatory, and trade association activities and processes that will promote, support, benefit, or enhance the mission of the company;
- Hire and retain highly qualified employees who believe in the company's mission and adhere to the company's policies and procedures;
- Select professional and ethical business partners to provide desired or required services to the company, members, agents, employees, and third parties;
- Comply with all regulatory and legal requirements;
- Provide transparency to regulators, members, investors, agents, and the public for all financial, regulatory and operational activities; and
- Support the mission of non-profit and civic organizations that provide services within the company's areas of operation consistent with the mission of the company.

#### Core Vision:

By working toward its mission and goals, Alliance Mutual Insurance Company will seek to engage diverse people and organizations to bring the best available collective strength and creativity to bear on the work of providing a secure and growing financial organization and operating in an ethical, fair and responsible manner. Alliance Mutual Insurance Company will be pro-active in its efforts to achieve its financial and operational objectives, and will serve as a catalyst in building a member focused mutual insurance company environment within its areas of operation. To accomplish this vision, Alliance Mutual Insurance Company will build a strong and vital network of employees, agents, members, and business partners to carry out the work of the organization.

In conjunction with these core items, Alliance Mutual has identified five critical success factors that are necessary to accomplish its strategic plans.

Critical Success Factors:

- Increase the commitment and involvement of the Board of Directors, management, employees, and agents in the strategic and business planning process and to the goals developed.
- Build the organization's internal capacity to achieve its goals and to successfully accomplish its mission.
- Maximize the financial resources of the company to increase the company's surplus so that the company's members, agents, and the public will be served more efficiently and effectively.
- Improve Alliance Mutual Insurance Company's name recognition with and promote the strategic goals to the members, agents, businesses and the public within the company's area of operation.
- Determine a balance between Alliance Mutual Insurance Company's goals and the implementation of appropriate actions to move toward real solutions.

On behalf of the management and staff of Alliance Mutual, I would like to thank the members and investors for their support and cooperation as Alliance Mutual and the insurance industry have dealt with the numerous changes that have taken place over the past few years. Addressing change is always a difficult task, but John Schaar, Professor Emeritus at the University of California Santa Cruz, stated:

*"The future is not a result of choices among alternative paths offered by the present, but a place that is created...The paths are not to be found, but made, and the activity of making them, changes both the maker and the destination."*