



TO : Members of Alliance Mutual Insurance Company
FROM : Robert A. White, CIC, ARM, AAI, ARe
President and CEO
DATE : March 28, 2008
SUBJECT : President's Report to the Members

In last year's President's message I discussed with the members the impact of change on Alliance Mutual and the overall insurance industry. As part of that message I outlined for the members a set of core values and goals and a core vision for the company that formed the bedrock on which necessary decisions would be made and Alliance Mutual would operate for its members. This core vision and these core values and goals proved to be an important and effective guide as Alliance Mutual dealt with numerous challenges during 2007.

As I reflected on the numerous and very serious challenges impacting the overall economy and the insurance industry during the last year, I realized that, while 2007 was indeed a challenging year for Alliance Mutual, we as individuals and as businesses must expect and prepare for the fact that such challenges are always going to exist and most likely escalate as our economy becomes more global and as we face the ever increasing pressure to improve ourselves and our businesses for the benefit of our customers and to stay ahead of our competition.

With these thoughts in mind, I am focusing my President's message this year on facing challenges. In reviewing the definition of the word challenge in the Merriam-Webster dictionary, the definition that leapt from the page, or the computer screen as it happened to be, was "...to arouse or stimulate especially by presenting with difficulties...".

The reason this definition caused such a profound reaction from me was the poignant way it pointed out the paradox that so often exists when we are faced with a challenge. If asked to identify a challenge, most people will immediately think of the external issue, problem or obstacle they are facing. However, as identified in the definition above, it is not the external stimulus that is the challenge. The real challenge is the internal struggle we must face to meet and overcome these external difficulties by rising above our fears, our comfort level, and our natural reactions which might otherwise prevent us from being successful.

2007 presented Alliance Mutual with numerous opportunities to face these internal struggles, and I am proud of the way our staff and management team rose to meet these challenges. Through a great deal of hard work and effort several positive trends were generated during the year validating that the company is making positive forward progress. These positive trends reflected the company's continuing success in controlling expenses, in underwriting and risk selection and in investment management, and they included a:

1. 4.8% increase in net written premiums over year end 2006 results;
2. 8.4% decrease in the company's net incurred premium loss ratio to 42.4%;
3. 10.8% reduction in net incurred losses and loss adjustment expenses over 2006 results;
4. 1.2% drop in underwriting expenses over year end 2006 results;
5. 6.4% improvement in net underwriting income over year end 2006 results; and
6. 22.8% rise in net investment income earned, excluding one time capital gains, over year end 2006 results.

Despite these positive trends, Alliance Mutual did not reach its net income or surplus growth goals in 2007. Higher than normal losses during the first quarter of 2007, which generated an underwriting loss for the first quarter of just under one-half million dollars, created an early financial deficit that we were unable to overcome.

As with any business operation today, Alliance Mutual will continue to face challenges and competition that will require the very best from our employees. I commend the way our staff has risen to meet the challenges associated with operating our seventeen different product lines and with serving the over 23,000 policyholder members who have entrusted Alliance Mutual with their insurance coverage.

Speaking for the management team at Alliance Mutual, I would like to express my appreciation to our members for the loyalty and support they have shown to Alliance Mutual. The managers, officers and staff of Alliance Mutual are looking forward to continuing the progress the company has made towards meeting our core values and goals and to rising to the challenges that are yet to come.