



TO : Members of Alliance Mutual Insurance Company  
FROM : Bob White, CIC, ARM, AAI, ARe  
President and CEO  
DATE : March 27, 2009  
SUBJECT : President's Report to Members

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In the past two annual reports to the Members, I discussed the need to deal with and overcome the constant change that impacts our business environment and the continual business and personal challenges we face. These comments were certainly put to the test in 2008 as Alliance Mutual faced a combination of sudden and severe changes and challenges including the turmoil in and the near collapse of the financial markets.

In response to the changes that began to occur in 2008 within the financial markets, Alliance Mutual initiated a shift in the company's investment mix by reducing the company's non-privately held equity holdings. With the deterioration in the equity and financial markets in late 2008 and based on Alliance Mutual's belief that these markets would not recover this loss in value for an extended period of time, the company made several changes to its investment strategy designed to minimize the impact of the drop in the equity markets on the company's statutory surplus and to eliminate future surplus volatility associated with the weakened equity markets.

This decision by Alliance Mutual was taken after serious deliberations by the company's Board of Directors, and in hind sight was proven to be the correct move as the company's statutory surplus was protected from further deterioration as the equity markets experienced additional reductions in value. While Alliance Mutual was unable to totally avoid the negative impact on earnings resulting from the financial crisis, the actions taken by the company did prevent a further erosion of the company's net income and statutory surplus that would have continued into 2009 related to the ongoing drop in the equity markets.

In spite of the issues resulting from the financial crisis, I am pleased to advise the members that Alliance Mutual's balance sheet is solid and well positioned to take advantage of positive changes in the investment markets. Alliance Mutual will continue to monitor the fixed income markets for secure opportunities that would offer the company the ability to improve investment yield. While the company does wish to maximize investment returns, Alliance Mutual's Board of Directors believes that the preservation of the company's statutory surplus during these turbulent financial times is the first objective.

In addition to the financial crisis, Alliance Mutual experienced two other significant events in 2008 that negatively affected 2008 financial results and will have an ongoing impact on 2009 and 2010 financial results. The first event was the conversion of Alamance Farmers Mutual Insurance Company from a county farm mutual charter to a statewide charter in October 2008.

Prior to Alamance Farmers Mutual's charter conversion, Alliance Mutual had underwritten the casualty perils for Alamance Farmers Mutual's homeowner and farmowner policyholders. With this charter conversion, Alamance Farmers Mutual now has the ability to underwrite the same casualty perils underwritten by Alliance Mutual, and as a result, Alamance Farmers Mutual began moving policies from Alliance Mutual to their company last October resulting in a significant loss of written premium revenue and members in 2008.

The second event was associated with this charter conversion by Alamance Farmers Mutual. Following the charter conversion by Alamance Farmers Mutual, Alliance Mutual was notified by eight of the nine other county farm mutual companies with whom Alliance Mutual also provided casualty perils that they would begin moving their casualty business to Alamance Farmers Mutual effective January 1, 2009.

While Alliance Mutual wishes all of these companies success with these business decisions, these events did negatively affect Alliance Mutual's financial results in 2008 and they will have a significant negative financial impact on Alliance Mutual in 2009 and 2010 as Alliance Mutual attempts to absorb the 16.7% loss of written premium revenue and 60% drop in members related to these decisions.

Based on these events, Alliance Mutual's Board of Directors made the decision in November 2008 that the company must streamline its operational structure to reduce operating expenses and to focus on those lines of business that have the potential to generate profitable results for the company. Based on this decision, Alliance Mutual moved forward with two agreements that will accomplish these goals set by the Board of Directors.

First, Alliance Mutual entered into a renewal rights agreement with the GMAC Insurance Companies for Alliance Mutual's Personal Auto line of business. This agreement was submitted to and approved by the North Carolina Department of Insurance in December 2008.

Under the renewal rights agreement with the GMAC Insurance Companies, GMAC began to offer renewal policies to Alliance Mutual's personal auto policyholders effective March 1, 2009. As a specialist in automobile insurance, GMAC offers Alliance Mutual's personal auto policyholders more coverage and pricing options than those offered by Alliance Mutual. Alliance Mutual will continue to service the very small number of Personal Auto policies written by Alliance Mutual until the final Personal Auto policy expires in August 2009.

Second, Alliance Mutual signed an agent agreement with The Colonial Group, a regional managing general agent located in Greensboro, which will allow Alliance Mutual to benefit from The Colonial Group's large market presence in North Carolina and from The Colonial Group's advanced automation systems and processing capability.

Under this agreement with The Colonial Group, Alliance Mutual began outsourcing the company's primary marketing and processing operations to The Colonial Group effective March 1, 2009. In addition, The Colonial Group has designed and is in the process of implementing Alliance Mutual's underwriting criteria into The Colonial Group's web based automation systems that will allow The Colonial Group's extensive agent network to quote, bind and submit business via the automated underwriting intelligence provided by The Colonial Group.

With these two operational changes, Alliance Mutual is projecting a 20.8% reduction in non-commission operational expenses in 2009 and an additional 10.8% reduction in non-commission operational expenses in 2010. This large expense reduction combined with the revenue growth expected over the next five years related to the expanded marketing strengths provided by The Colonial Group will significantly improve Alliance Mutual's operational results and will ultimately allow the company to overcome the large loss of revenue resulting from the loss of the dual masthead business previously written in conjunction with the county farm mutual companies.

I would like to express my thanks to Alliance Mutual's employees for their efforts and their loyalty to the company during the past year. These employees have been in the trenches facing the many challenges affecting Alliance Mutual, and they have remained steadfast and continued to perform their duties in an exemplary fashion.

In closing, I would like to assure the members that I am confident the plan of action that has been initiated by the Board of Directors will, in time, prove to be the correct course and will, in time, reverse the financial slide Alliance Mutual has recently experienced. However, I want to also express a note of caution as this turn around will not come quickly and Alliance Mutual will continue to face obstacles that must be overcome before success is achieved.

There is a Jewish proverb about overcoming adversity that says: *I ask not for a lighter burden, but for broader shoulders.* One person may not have shoulders broad enough to handle some burdens, but if we all put our shoulders together to spread and share the load we can handle burdens beyond what any of us can individually carry.