STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

OF

Grange Insurance Association
Seattle, Washington

NAIC CODE 22101
DECEMBER 31, 2006

Order No. 08-61
Grange Insurance Association
Exhibit A

'articipating States:
Washington

SALUTATION

Seattle, Washington
May 12, 2008

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
Chair, NAIC Financial Condition (E) Committee
PO Box 1157
Richmond, VA 23218

The Honorable Morris Chavez, Superintendent
New Mexico Insurance Division
NAIC Secretary, Western Zone
PO Drawer 1269
Santa Fe, NM 87504-1269

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Grange Insurance Association

of

Seattle, Washington

Hereinafter referred to as "GIA," the "Association," or the "Company" at the location of its home office, 200 Cedar Street, Seattle, Washington 98121-1223. This report is respectfully submitted showing the condition of the Association as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Grange Insurance Association of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2006.

Patrick H. McNaughton
Chief Examiner

5-12-08
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2006 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. **Rocky Mountain Fire and Casualty Company (RMFCC) Surplus Notes**
   On September 30, 2006, the Mayflower Corporation (Mayflower), a subsidiary of the Company, declared a stock dividend of all of its shares in RMFCC to the Company. The Company admitted its investment in RMFCC at the statutory equity value of $19.4 million. However, $9.1 million of the equity value was comprised of surplus notes issued by RMFCC. Under paragraphs 20 and 22 of SSAP No. 88, the investment in surplus notes should have been accounted for separately in accordance with SSAP No. 41. The carrying value of RMFCC should have been reduced by $9.1 million, to $10.3 million, to eliminate the surplus notes from the reported value. The offset to this reduction in common stock is $9.1 million addition to Other Invested assets.

   The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the respective state statutes, the NAIC AP&P and the NAIC Annual Statement Instructions which include the proper and accurate reporting of Surplus Notes in the NAIC Annual Statement. (See Note 1 to the Financial Statements.)

2. **Reinsurance Entire Contract Clause**
SSAP No. 62, Property and Casualty Reinsurance, paragraph 8(c), requires that in order to take a credit or a deduction from liabilities for reinsurance recoverable, the agreement shall constitute the entire contract between the parties and must provide no guarantee of profit from the reinsurer to the ceding entity. This is accomplished by having an entire contract clause in the reinsurance contract. The Property Catastrophe Excess of Loss Reinsurance Contract dated July 1, 2006, by and between the Company and RMFCC and the reinsurers specifically identified in the agreement, does not contain this required clause.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC AP&P which requires all reinsurance contracts have the required clauses in accordance with SSAP No. 62.

3. **Annual Statement Errors and Omissions**
The examination team discovered several instances in which the Company's 2006 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the 2006 NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in the instruction were material to the financial statements and no examination adjustments were necessary.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the AP&P and the 2006 NAIC Annual Statement Instructions. The following exceptions were noted in our examination:

a. **Intercompany Expense Sharing Agreement**
According to the 2006 NAIC Annual Statement Instructions, Notes to Financial Statements Note 10.F, disclosures shall include, "A description of material management or service contract and cost-sharing agreements involving the reporting entity and any related party."

After reviewing the related party disclosures in the Company's 2006 NAIC Annual Statement, Notes to Financial Statements, Note 10, to verify that the necessary disclosures required by SSAP No. 25 (paragraphs 17-18) have been properly reported, the examiners noted that the Company referenced "cost allocation agreements with affiliates." However, Note 10.F did not describe the Intercompany Expense Sharing Agreement entered November 1, 2003 between the Company and its affiliates, RMFCC and Mayflower.

b. **Money Market Mutual Fund Classification**
On Schedule DA, Part 1, the Company categorized all listed mutual funds as "Class One Money Market Mutual Funds". Since all of the mutual funds listed are U.S. government exempt funds, the proper categorization is "Exempt Money Market Mutual Funds".

COMMENTS AND RECOMMENDATIONS

NONE

COMPANY PROFILE

Company History
The Association began April 4, 1894 as a fraternal fire association, domiciled in the state of Washington, with the name Washington Fire Relief Association. The Association's Certificate of Authority to act as an insurer was issued on February 26, 1912. On August 6, 1931, the Association incorporated. In 1933, the Association ceased premium operations on the assessment basis and changed to a legal reserve basis. The Association's name was changed in 1936 to the Grange Fire Insurance Association and again in 1943 to its present name, Grange Insurance Association.

Capitalization
As of December 31, 2006, GIA had not issued any common capital stock or preferred capital stock since the Company is a mutual fraternal benefit society pursuant to Chapter 48.09 RCW.

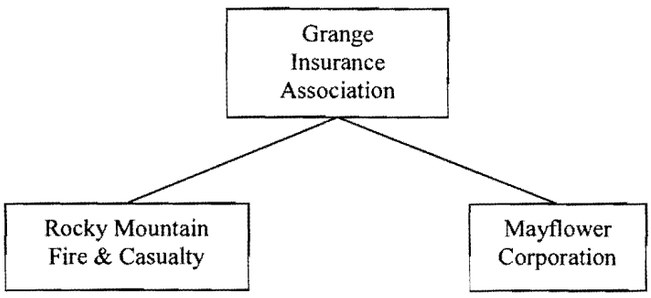
Territory and Plan of Operation
GIA is authorized to do business in California, Colorado, Idaho, Montana, Nebraska, Oregon, Washington, and Wyoming. GIA's authorized lines of business are property, marine, transportation, general casualty and surety.

Growth of Company

Year	Admitted Assets	Liabilities	Capital & Surplus
2006	$207,197,721	$110,028,833	$97,168,888
2005	196,639,538	113,080,823	83,558,715
2004	174,564,921	102,750,419	71,814,502
2003	168,926,199	103,970,604	64,955,595
2002	166,369,774	100,869,125	65,500,649

Year	Premiums Earned	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income
2006	$107,207,216	$6,045,056	$7,878,031	$10,218,506
2005	107,445,726	3,393,175	5,387,518	5,736,510
2004	104,652,853	2,445,210	5,311,106	6,551,444
2003	101,794,843	(9,461,061)	6,642,343	(2,226,805)
2002	101,154,087	(14,803,014)	8,675,668	(4,648,730)

Affiliated Companies



The Association is a member of a holding company system regulated pursuant to Chapter 48.31B RCW. The Association is required to file holding company statements under RCW 48.31B.25(1)(c), RCW 48.31B.025(3), WAC 284-18-390 and WAC 284-18-400. Within the holding company structure, GIA controls through direct stock ownership the affiliates listed below:

Mayflower Corporation
Mayflower Corporation, an insurance holding company, was created by the management of the Association and was incorporated under the laws of the state of Washington on November 6, 1956. All 1,000 shares of its authorized common stock are wholly-owned by GIA.

Rocky Mountain Fire and Casualty Company
Rocky Mountain Fire and Casualty Company was formed on April 2, 1959, through the process of assimilating the assets, liabilities, and insurance obligations of a similarly named company, the Rocky Mountain Fire Insurance Company located in Great Falls, Montana, along with the insurance operation of the Seattle, Washington company called Mayflower Insurance Exchange. RMFCC writes property and casualty insurance primarily for the general public who are not members of the Order of Patrons of Husbandry (Grange members).

GIA made surplus contributions to RMFCC in the amounts of $1,500,000 in 1980, $2,500,000 in 1988, $2,400,000 in 1990, and $2,700,000 in 1993. RMFCC issued surplus contribution notes to GIA in return. On June 26, 2002, GIA made a capital contribution of $8.37 million to RMFCC.

In 2006, ownership of RMFCC was transferred from Mayflower to GIA. GIA owns 99.9% of the outstanding common stock shares of RMFCC.

Intercompany Contracts
The affiliates have the following intercompany agreements:

- Consolidated Federal Income Tax Liability Allocation Agreement between GIA, RMFCC and Mayflower.
- Intercompany Expense Sharing Agreement between GIA, RMFCC and Mayflower.
- Multiple Line Excess of Loss Reinsurance Agreement No. 1 between GIA and RMFCC.

MANAGEMENT AND CONTROL

Members (Patrons of Husbandry)
Article III, paragraph 1, of the Articles of Incorporation, provides that the purpose of the Association is to engage generally in the insurance business as a fraternal mutual insurer, insuring only the risks of those members in good standing of the Patrons of Husbandry, commonly called the "Grange". Article I, Section 2, of the Association's Bylaws, as amended June 14, 1976, also provides that insurance by the Association shall be confined to members of the Patrons of Husbandry.

Board of Directors (BOD)
Article II, Section I, of the Bylaws, vests the management of the property and business of the Association in a Board of Directors. The number of directors shall not be in excess of thirteen (13) in number or less than seven (7) in number.

The officers of the Association are chosen by the BOD, and are comprised of the chairman of the board, a vice chairman of the board, a president/chief executive officer, one (1) or more vice presidents, a corporate secretary, and a treasurer. The same individual may hold at the same time any two (2) offices except those of chairman of the board and of vice chairman of the board. Only the chairman of the board and one (1) vice chairman of the board shall be elected from among the members of the BOD.

The following directors were elected to serve the Association as of December 31, 2006:

Darelld G. Larrigan	Chairman of the Board
D. Thomas McKern	Vice Chairman of the Board
Larry D. Tanneberg	Director
Frederick P. Church	Director
Arthur R. Peterson	Director
Randall A. Lewis	Director
Donald A. Steffen	Director
Myrtle J. Reed	Director
Rosemary K. Hansen	Director
Benjamin D. Metzler	Director

Ronald G. Miller	Director
Robert L. Shea	Director

Officers
The principal executive officer of the Association is Ryan M. Dudley, President and Chief Executive Officer. Mr. Dudley has been with the GIA for more than fourteen (14) years.

The following officers were elected to serve the Association as of December 31, 2006:

Ryan M. Dudley	President and Chief Executive Officer
David E. Suver	Corporate Secretary
Sean I. McGourty	Chief Financial Officer and Treasurer
Ralph W. Carlile	Chief Information Officer and Vice President, Information Technology
Stephen L. Kolk	Vice President, Actuarial Services
Rudy F. Werle	Vice President, Claims
Mary K. Dawson	Vice President, Underwriting
Richard E. Oram	Vice President, Human Resources and Administrative Services

Conflict of Interest
The Association has an established procedure for disclosure to its BOD of any affiliation on the part of its officers, directors and key employees that is in conflict with their official duties. The corporate secretary, chief executive officer, and chairman of the board review the conflict of interest statements annually for conflicting situations and take appropriate action thereupon. No exceptions were noted.

Fidelity Bond and Other Insurance
The Association and its affiliate companies are the named insureds on various insurance policies including property and general liability loss, difference in conditions, commercial excess umbrella liability, excess liability, workers' compensation and employers' liability, fidelity, fiduciary liability, errors and omissions and directors and officers' liability coverage. The Association's fidelity coverage of $2,000,000 meets the suggested NAIC minimum coverage.

Officer's, Employees', and Agents' Welfare and Pension Plans
GIA has a non-contributory agents' retirement plan covering certain retired agents. As of December 31, 2006, the Company accrued expense and liabilities in accordance with actuarially determined amounts.

Employee Pension Plans
Employees of the Company are covered under an employee savings 401(k) plan and profit sharing plan (the Defined Contribution Plan) upon employment. For the 401(k) component of the plan, employees may voluntarily contribute up to 75% of their annual salary (subject to annual limitations), with the Company contributing a 100% match of employee contributions up to 3%, and a 50% match of employee contributions between 3% and 5%. There is no vesting period related to the Company's contributions.

The Company also sponsors a non-contributory Defined Benefit pension plan covering substantially all employees. The Defined Benefit was frozen effective February 29, 2004. The employees will not receive any service credit for employment after that date. The plan reached fully-funded status as of December 31, 2007.

The Company also provides retirement benefits to certain retired agents under a written agreement (the Agent's Plan). To be eligible for these benefits, which are based on an agent's commission base, an agent must have been under an agent agreement that provided for the benefits, have at least 20 years of service as an agent of the Company, be completely retired from the insurance business, and meet certain other requirements as stated in the Agents' Plan. The Company last offered the Agents' Plan to new agents in November 1991.

In 2002, GIA offered a post retirement medical and life insurance plan to employees and directors. Medical eligibility required retirement on or after age 55 with 10 years of service or disabled after ten years of service. The medical plan covered the retiree, spouse, and dependents. Employees who retired after January 31, 2004, and all current employees, are no longer eligible for post-retirement benefits.

CORPORATE RECORDS

The Company's Board of Directors managed the property and business of the Company and was actively involved in the Company's affairs. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes. Appointments and elections of officers, reinsurance contracts, bank agreements, and other contracts were also noted in the BOD's minutes.

The Bylaws were changed during the examination period. These changes related to the titles of chairman, vice chairman of the BOD and president/chief executive officer.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Year	Loss Reserves	LAE Reserves
2006	$44,394,256	$7,541,431
2005	43,673,655	7,708,152
2004	37,724,275	7,662,697
2003	44,294,358	6,943,159
2002	37,883,396	6,149,913

As shown above, the reserves carried by the Company for these liabilities were $44,394,256 and $7,541,431, respectively, as of December 31, 2006. These reserves were reviewed by the casualty

actuarial staff employed by the OIC. The Company provided loss and loss adjustment expense development data by accident year and line of business, through December 31, 2006. The OIC actuarial staff obtained additional information through interviews with Company employees. They also reviewed an actuarial report prepared by Milliman, Inc., the Company's actuarial consulting firm. In addition, Milliman, Inc. provided supplemental information pertaining to the actuarial data base.

The OIC actuarial staff's estimates indicate that the Company's reserves for losses and loss adjustment expenses, on a net basis, are within a range of reasonable estimates. Therefore, the Company's loss and loss adjustment expense reserves are accepted as they appear in the Company's 2006 NAIC Annual Statement.

REINSURANCE

GIA participates in quota share and excess loss treaties. These treaties are spread across a portfolio of authorized reinsurers. The Company assumes business from its subsidiary, RMFCC, through a multiple line excess of loss reinsurance agreement.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes. The reinsurers are either authorized to do business in Washington State or the Company holds an approved letter of credit. They are all properly classified in Schedule F of the 2006 NAIC Annual Statement. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers.

GIA utilizes the services of a reinsurance intermediary, Guy Carpenter & Company, Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. Guy Carpenter & Company, Inc., is an international reinsurance intermediary owned by Marsh & McLennan and licensed by Washington State.

STATUTORY DEPOSITS

Deposits shown on Schedule E Part 3- Special Deposits

State	Type	Book Value	Fair Value
Washington	Bond	$2,548,338	$2,552,905
Oregon	Bond	299,168	288,843
California	Bond	111,110	111,105

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis. The Company is audited annually by the certified public accounting firm of Ernst &

Young. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

Management of GIA is sufficiently knowledgeable of information systems (IS) issues and provides direction and oversight through its IS Steering Committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. The IS Department maintains written policies and procedures for the system development life cycle, systems design standards, programming standards and the document standards. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company has sufficient internal controls in place to monitor system activity and processes.

GIA has a formal, written disaster recovery plan for the restoration of the information system and a formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC guidelines.

SUBSEQUENT EVENTS

Bylaws were amended in March 2007 and approved by OIC in June 2007. The changes included the prevention of agents or members who are in a high position in the Patrons of Husbandry from participating as directors. The changes also allow for disciplinary action to be taken against a director in case of ethics violations. The Articles of Incorporation were also amended by the members and were submitted to the OIC and approved.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report comments and recommendations were satisfactorily addressed.

FINANCIAL STATEMENTS

The following examination financial statements show the financial conditions of the Grange Insurance Association as of December 31, 2006:

Assets and Liabilities
Statement of Income and Capital and Surplus Account
Reconciliation of Surplus for the Period Since the last Examination
Analysis of Changes in Financial Statements Resulting from the Examination

Grange Insurance Association
Assets, Liabilities, Surplus and Other Funds
December 31, 2006

Assets	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Bonds	$124,515,636		$124,515,636	
Stocks:				
Preferred stocks	1,298,840		1,298,840	
Common stocks	42,212,327	($9,100,000)	33,112,327	1
Real Estate				
Properties occupied by the company	5,875,099		5,875,099	
Cash and short-term investments	10,719,205		10,719,205	
Other invested assets	0	9,100,000	9,100,000	1
Receivable for securities	613,000		613,000	
Subtotal, cash and invested assets	**185,234,107**	**0**	**185,234,107**	
Uncollected premiums and agents' balances in course of collection	13,984,646		13,984,646	
Reinsurance recoverables on loss and loss adjustment expense payments	9,601		9,601	
Federal and foreign income tax recoverable and interest thereon	993,793		993,793	
Electronic data processing equipment and software	424,636		424,636	
Interest, dividends and real estate income due and accrued	1,371,225		1,371,225	
Net deferred tax asset	4,762,133		4,762,133	
Receivable from parent, subsidiaries and affiliates	417,581		417,581	
Total Assets	**$207,197,721**	**$0**	**$207,197,721**	
Liabilities, Surplus and other Funds				
Losses	$44,394,256	$0	$44,394,256	
Reinsurance payable on paid loss and loss adjustment expenses	(920)		(920)	
Loss adjustment expenses	7,541,432		7,541,432	
Commissions payable, contingent commissions and other similar charges	2,111,206		2,111,206	
Other expenses	3,022,850		3,022,850	
Taxes, licenses and fees (excluding federal and foreign income taxes)	369,406		369,406	
Unearned premiums	41,963,059		41,963,059	
Advanced premium	1,693,757		1,693,757	
Ceded reinsurance premiums payable	350,135		350,135	
Amounts withheld or retained for account of others	360,494		360,494	
Provision for reinsurance	112		112	
Payable to securities	897		897	
Aggregate write-ins for liabilities	8,222,149		8,222,149	
Total Liabilities	**110,028,833**	**0**	**110,028,833**	
Unassigned funds (surplus)	97,168,888		97,168,888	
Surplus as regards policyholders	**97,168,888**		**97,168,888**	
Total Liabilities, Surplus and other Funds	**$207,197,721**	**$0**	**$207,197,721**	

Grange Insurance Association
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2006

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Underwriting Income				
Premiums earned	$107,207,216	$0	$107,207,216	
Deductions				
Losses incurred	58,023,054		58,023,054	
Loss expenses incurred	9,147,862		9,147,862	
Other underwriting expenses incurred	33,991,243		33,991,243	
Total underwriting deductions	101,162,159		101,162,159	
Net underwriting gain or (loss)	**6,045,056**	**0**	**6,045,056**	
Investment Income				
Net investment income earned	7,020,013		7,020,013	
Net realized capital gains or (losses)	858,018		858,018	
Net investment gain or (loss)	**7,878,031**	**0**	**7,878,031**	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	(182,580)		(182,580)	
Finance and service charges not included in premiums	879,284		879,284	
Aggregate write-ins for miscellaneous income	(16,189)		(16,189)	
Total other income	**680,514**	**0**	**680,514**	
Net income, after dividends to policyholders but before federal and foreign income taxes	14,603,602		14,603,602	
Federal and foreign income taxes incurred	4,385,096		4,385,096	
Net income	**$10,218,506**	**$0**	**$10,218,506**	
Capital and Surplus Account				
Surplus as regards policyholders, December 31 prior year	$82,048,664	$0	$82,048,664	
Gains and (Losses) in Surplus				
Net income	10,218,506		10,218,506	
Net unrealized capital gains or (losses)	2,704,999	(9,100,000)	(6,395,001)	1
Change in net deferred income tax	(2,219,058)		(2,219,058)	
Change in nonadmitted assets	2,221,207	9,100,000	11,321,207	1
Change in provision for reinsurance	(112)		(112)	
Aggregate write-ins for gains and losses in surplus	2,194,682		2,194,682	
Change in surplus as regards policyholders for the year	**15,120,224**	**0**	**15,120,224**	
Surplus as regards policyholders, December 31 current year	**$97,168,888**	**$0**	**$97,168,888**	

Grange Insurance Association
Reconciliation of Surplus for the Period since Last Examination
For the Year Ended December 31, 2006

	2002	2003	2004	2005	2006
Surplus as regards to policyholders, December 31, previous year	$ 80,030,819	$ 65,500,649	$ 64,955,595	$ 71,814,502	$ 82,048,664
Net income	(4,648,730)	(2,226,805)	6,551,444	5,736,510	10,218,506
Net unrealized capital gains or (losses)	(7,917,451)	1,324,825	1,707,990	4,255,434	(6,395,001)
Change in net deferred income tax	6,564,916	(554,564)	(211,510)	53,081	(2,219,058)
Change in nonadmitted assets	(8,082,484)	803,391	1,627,041	(485,755)	11,321,207
Change in provision for reinsurance	(38,693)	108,099	(49,418)	49,418	(112)
Aggregate write-ins for gains and losses in surplus	(407,728)	0	(2,766,640)	625,473	2,194,682
Change in surplus as regards policyholders for the year	(14,530,169)	(545,054)	6,858,906	10,234,163	15,120,224
Surplus as regards policyholders, December 31, current year	$ 65,500,649	$ 64,955,595	$ 71,814,502	$ 82,048,664	$ 97,168,888

Grange Insurance Association
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2006

	PER COMPANY	PER EXAMINATION	NOTES	INCREASE (DECREASE) IN SURPLUS	TOTAL
Capital and Surplus, 12/31/2006 Per Annual Statement					$97,168,888
Stocks:					
Common stocks	42,212,327	33,112,327	1	(9,100,000)	
Other invested assets	0	9,100,000	1	9,100,000	
Change in surplus					**0**
Capital and Surplus, 12/31/2006 Per Examination					**$97,168,888**

NOTES TO THE FINANCIAL STATEMENTS

1. Surplus Note Correction

The Company incorrectly included a $9.1 million surplus note issued by RMFCC, a subsidiary, in the carrying value of its investment in RMFCC. The Company also reported the surplus note as a non-admitted asset on the Aggregate write-ins for other than invested assets line. In accordance with paragraphs 20 and 22 of SSAP No. 88 (Investments in Subsidiaries, Controlled and Affiliated Entities), surplus notes should be accounted for as a separate investment, in accordance with SSAP No. 41 (Surplus Notes). Based upon SSAP No. 41, paragraph 10, this surplus note is an admitted asset, and should be reported as an other invested asset. (See Instruction No. 1)

The Company has no special consents, permitted practices, or orders from the state of Washington.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Grange Insurance Association during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Albert Karau, Jr., CPA, AFE, FLMI, Financial Examiner; James Antush, Actuarial Analyst; Edsel R. Dino, Financial Examiner, and Randy E. Fong, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Jerry L. Epler, CPA/ABV, CFE
Examiner in Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
} **ss**
COUNTY OF KING }

Jerry L. Epler, CPA/ABV, CFE, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Grange Insurance Association was performed in a manner consistent with the standards and procedures required or prescribed by the Office of the Insurance Commissioner of the State of Washington and the National Association of Insurance Commissioners (NAIC).

Jerry L. Epler, CPA/ABV, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 12th day of May 2008.

Notary Public in and for the
State of Washington.