

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER**



**FINANCIAL EXAMINATION
OF
RED SHIELD INSURANCE COMPANY
SEATTLE, WA**

**NAIC CODE 41580
December 31, 2008**

**Participating States:
Washington**

Order No. 10-93
Red Shield Insurance Company
Exhibit A

SALUTATION

Seattle, Washington

June 10, 2010

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
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23218

The Honorable Christina Urias, Director
Secretary, NAIC Western Zone
Arizona Department of Insurance
2910 North 44th St., Suite 2140
Phoenix, AZ 85018-7256

Dear Commissioners and Director:

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

Red Shield Insurance Company

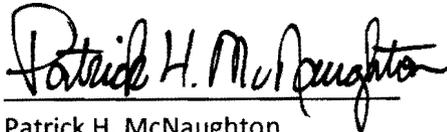
of

Seattle, Washington

hereinafter referred to as "RSIC," or the "Company" at the location of its home office, 7245 West Marginal Way SW, Seattle, WA 98106. This report is respectfully submitted showing the condition of RSIC as of December 31, 2008.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Red Shield Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2008.



Patrick H. McNaughton
Chief Examiner

6-10-2010

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of fieldwork on May 13, 2010.

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 section 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.

This examination was performed in compliance with the 2008 NAIC Financial Condition Examiners Handbook which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess RSIC's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk, and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2008 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 outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. Intercompany Service Agreement

Rainier Insurance Company (RIC), an affiliate company, does not have employees and operates using RSIC staff to manage its affairs. The Company's written Agreement Reflecting Activities of Red Shield Insurance Company on Behalf of Rainier Insurance Company (the Agreement) is not compliant with RCW 48.31B.030(1)(a)(iii) or with SSAP No. 70, paragraph 8, which requires expenses incurred and payment received to be allocated in conformity with customary insurance accounting practices consistently applied and should be apportioned as if paid directly by the entity incurring the

expenses. RIC incorrectly reimburses RSIC for the cost of the provided services through the reinsurance contract between RSIC and RIC in the commission rate structure. The services provided should not be expensed nor settled through the reinsurance contract. In addition, the cost settlement through the commission rate structure is not calculated at cost as required by SSAP No. 70, paragraph 8. The Agreement also does not include a specified due date for timely settlement of amounts owed as required by SSAP No. 25, paragraph 6.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, specifically SSAP No. 70, paragraph 8, which requires expenses under the terms of a service and cost-allocation agreement to be apportioned to the entities incurring the expense as if the expense had been paid solely by the incurring entity, and RCW 48.31B.030(1)(a) which require the terms of the agreement to be fair and reasonable and must be allocated to the affiliated companies in conformity with customary insurance accounting practices consistently applied. The Company also is instructed to amend the Agreement to include due dates for the settlement of intercompany balances as required by SSAP No. 25, paragraph 6, and to file the amended Agreement pursuant to RCW 48.31B.025(2)(c)(v).

2. Reinsurance Agreements

Four quota share reinsurance agreements between the Company and RIC did not include the following required terms as outlined in SSAP No. 62, paragraph 8:

- Recoveries are due the ceding entity without delay
- Each agreement constitutes the entire contract
- Providing for reports of premiums and payment of losses no less frequently than annually

In addition, the Company's Property Catastrophe Excess of Loss Reinsurance Agreement with Swiss Reinsurance America Corporation did not include the "agreement constitutes the entire contract" clause.

The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the AP&P and SSAP No. 62, paragraph 8, by including all the required terms in the reinsurance agreements.

3. Custodial Agreement

The Company responded in its 2008 NAIC Annual Statement, General Interrogatories 26.01, that its custodial agreement with Bank of America (BoA) complied with the FCEH. However, the BoA custodial agreement did not contain several provisions as required by the FCEH. RCW 48.05.250 requires a company to file a true statement of its financial condition, transaction, and affairs.

The Company is instructed to comply with RCW 48.05.250 by filing a true statement of its financial condition, transactions and affairs and to follow the NAIC Annual Statement Instructions and the

AP&P, as required by WAC 284-07-050(2). The Company is also instructed to execute a revised or amended custodial agreement that complies with the FCEH.

4. Securities Held by Investment Brokers

RSIC utilizes various brokers for its investment transactions, which include Smith Barney and Mesirow Financial. The Company acquired, via its investment brokers, a Federal Home Loan Bank (FHLB) bond, a corporate bond, and common stock shares for three separate companies, as noted in the various investment schedules in its 2008 NAIC Annual Statement. BoA's U.S. Trust is RSIC's designated custodian for its investment securities. BoA's U.S. Trust custodian statement as of December 31, 2008 did not include the FHLB bond, corporate bond, and the common stock shares for three separate companies, as these investments were held in RSIC's account with the respective investment brokers. RSIC, however, did not have a written custodial agreement in place with its investment brokers and therefore is not in compliance with RCW 48.13.480.

The Company is instructed to comply with RCW 48.13.480 by executing a written custodial agreement with its investment brokers that complies with the FCEH for investments held in the Company's account with the respective investment brokers.

5. NAIC Annual Statement Errors and Misclassifications

There were several instances noted in which the Company's 2008 NAIC Annual Statement did not conform to the AP&P and the 2008 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 made.

The following exceptions were noted in our examination:

a. Cash Equivalents as Short-Term Investments

In the Company's 2008 NAIC Annual Statement, Schedule DA-Part 1, RSIC listed 18 commercial papers with maturity dates of less than three months from the acquisition date. According to SSAP No. 2, paragraphs 3 and 10, and the 2008 NAIC Annual Statement Instructions for Schedule E, Part 2-Cash Equivalents, investments with original maturities of three months or less from the acquisition date qualify as cash equivalents.

b. Installment Premiums

The Company classified \$1.2 million of installment premiums as "Uncollected premiums and agents' balances in the course of collection" in its 2008 NAIC Annual Statement. However, the \$1.2 million should have been reported as "Deferred premiums, agents' balances and installments booked but deferred and not yet due."

Also, RSIC reported \$158,402 as "Remittances and items not allocated" in its 2008 NAIC Annual Statement. However, \$138,034 of the \$158,402 balance was advance premiums and should have been reported as "Advance premium" on the Company's 2008 NAIC Annual Statement.

c. Bond Amortization

The Company used the straight-line method rather than the effective interest method for bond amortization of short-term investments, as required by SSAP No. 26, paragraph 6, on its 2008 NAIC Annual Statement filings, Schedule DA, Part 1.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) by filing its 2008 NAIC Annual Statement in accordance with the AP&P and the 2008 NAIC Annual Statement Instructions.

COMMENTS AND RECOMMENDATIONS

1. Business Continuity Plan (BCP)

The business continuity plan for the RSIC Portland, Oregon office has not been tested. The Company's IS Department has tested the backup tapes for integrity, but that is not a test of the entire BCP. The BCP also does not address the Company's office in Seattle, Washington.

The BCP, which is specifically for the Company's Portland, Oregon office, has not been tested. It is recommended that the plan be tested annually. The results of the test should be used to update the plan accordingly. It is also recommended that a similar BCP be written for RSIC's Seattle, Washington office.

2. Written Investment Policy

The investment strategy as discussed by members of the RSIC Board of Directors (BOD) and the actual investments are approved by the ultimate owner of the Company. However, it was noted that the Company does not have a written investment policy which supports and documents management's investment decision-making and continuity.

It is recommended the Company implement a written investment policy and have it formally approved by the BOD.

COMPANY PROFILE

Company History

The Company was incorporated on February 9, 1979, as a stock multiple line property and casualty insurer in the state of Washington. Additionally, the Company holds a certificate from the United States Department of Labor under the Longshore and Harbor Worker's Compensation Act (USL&H). The Company specializes in underwriting general liability, residual dwelling, inland and ocean marine, as well as USL&H Worker's Compensation and Liability for stevedoring operations.

Capitalization

As of December 31, 2008, the Company had 20,000 shares of common stock authorized, of which 13,000 shares are outstanding with a par value of \$125 per share totaling \$1,625,000. Total capital and surplus as of December 31, 2008 was \$20,514,342.

All issued and outstanding shares of stock of the Company are wholly owned by Maritime Service Company, which is wholly owned by Rothschild International Corporation, a corporation with Clayton R. Jones as majority owner.

Territory and Plan of Operations

The Company's original Certificate of Authority was issued by the OIC on February 28, 1979, to transact the business of disability, property, marine and transportation, vehicle, general casualty, and surety. The Company was licensed to operate in the following states as of December 31, 2008:

Arizona	California	Colorado
Idaho	Montana	Oregon
Utah	Washington	

Policies are written on a non-assessable basis using the Insurance Services Office forms. The Company's workers' compensation policy is written with high deductibles. The USL&H and related liability business is produced on a direct basis and the remaining lines of business are produced by more than 350 independent agents. Currently, 83% of its total premium volume is derived through its independent agency network. The Company writes the majority of its business in the states of Washington and Oregon. The Company appoints agents and brokers directly for the sale of its products. Commissions are paid directly to agents and brokers.

Growth of Company

The Company's growth, as reported in its filed NAIC Annual Statements, is illustrated below:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2008	\$40,952,386	\$20,438,044	\$20,514,342
2007	41,357,716	20,227,089	21,130,627
2006	42,299,886	20,235,557	22,064,329
2005	40,299,841	18,257,720	22,024,121
2004	39,435,703	17,439,689	21,996,014

<u>Year</u>	<u>Premiums Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2008	\$9,082,510	\$727,701	\$ 724,443	\$ 960,257
2007	8,854,678	27,127	1,585,709	1,113,640
2006	8,584,087	406,593	1,243,263	1,098,767
2005	7,783,297	429,996	956,423	950,248
2004	8,228,368	212,772	788,132	681,219

Affiliated Companies

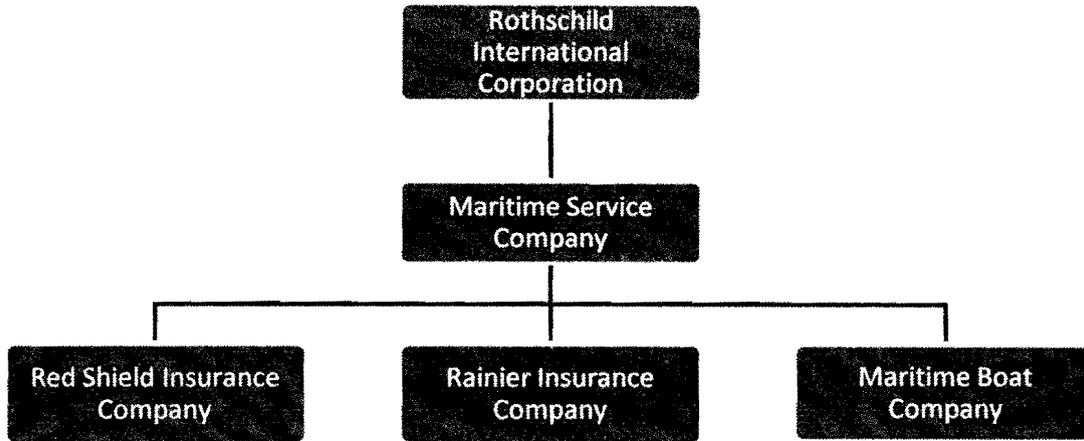
The Company is 100% owned by its parent, Maritime Service Company. Maritime Service Company, in turn, is 100% owned by Rothschild International Corporation. Rothschild International Corporation is owned by Clayton R. Jones and his family.

Rothschild International Corporation is owned by Clayton R. Jones and his family. Rothschild International Corporation is the upstream holding company which owns 100% of the stock of the Maritime Service Company. The ultimate controlling person, by virtue of majority ownership of the common stock, is Clayton R. Jones, Executive/Investor.

Maritime Service Company (MSC) owns 100% of the stock of Red Shield Insurance Company, Rainier Insurance Company, and Maritime Boat Company, a non-insurer subsidiary.

Rainier Insurance Company, RSIC's affiliated insurance company, is an Arizona domiciled insurer.

The following organization chart is taken from RSIC's filed 2008 NAIC Annual Statement:



Note: All subsidiaries are 100% owned by indicated parent. All companies are Washington corporations with the exception of RIC, which is domiciled in Arizona.

Intercompany Agreements

Intercompany agreements in force as of December 31, 2008:

Four quota share reinsurance agreements between RSIC and RIC and the Agreement Reflecting Activities of Red Shield Insurance Company on behalf of Rainier Insurance Company, used for allocation of operational expenses performed by RSIC for RIC.

MANAGEMENT AND CONTROL

Board of Directors

Directors as of December 31, 2008:

Frank J. Amato	Chair
Clayton R. Jones	
Clayton R. Jones III	
Christopher F. Jones	
Edward D. Fournier	
John P. Visich	

Officers

Officers as of December 31, 2008:

Clayton R. Jones III	President
Clayton R. Jones	Senior Vice President
Alvin W. Dorow	Senior Vice President
Christopher F. Jones	Secretary
John P. Visich	Treasurer
Edward D. Fournier	Vice President
William J. Groves	Vice President
Joseph I. Manning	Vice President

Conflict of Interest

The Company has a policy statement and questionnaire for the disclosure of conflict of interest and requires all directors, officers, and key employees to sign the statement annually. The signed statements are reviewed annually by the BOD for conflicts. No conflicts were noted in our review.

Fidelity Bond and Other Insurance

The Company has fidelity insurance that meets the NAIC recommended minimum coverage levels. Additionally, RSIC has property, auto, and general liability coverage.

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.

The Company's Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOD and committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

<u>Year</u>	<u>Loss Reserves</u>	<u>LAE Reserves</u>
2008	\$5,778,676	\$2,261,187
2007	6,237,484	1,878,700
2006	5,995,897	1,862,742
2005	5,504,863	1,570,998
2004	5,857,338	1,515,326

As shown above, the reserves carried by the Company for its loss and loss adjustment expense (LAE) liabilities were \$5,778,676 and \$2,261,187, respectively, as of December 31, 2008. These reserves were reviewed by the property and casualty actuarial staff employed by the OIC. Through its consulting actuarial firm, PricewaterhouseCoopers (PwC), the Company provided loss and LAE development data by accident year and by line of business. The OIC actuarial staff obtained additional information by interviewing several Company employees. They also reviewed an actuarial report prepared by PwC in support of the 2008 Statement of Actuarial Opinion.

The OIC actuarial staff's estimates indicate that the reserves for losses and LAE combined, on a net basis, are within a range of reasonable estimates. Therefore, these reserves are accepted as reported in the Company's 2008 NAIC Annual Statement.

REINSURANCE

RSIC participates in quota share, excess of loss, and catastrophe agreements with various reinsurers. The Company has three agreements in which it cedes business under a quota share agreement with an affiliate, RIC, which is an unauthorized reinsurer in Washington State. RSIC uses funds withheld as collateral for these treaties. RSIC also assumes business under a quota share agreement with RIC. All other reinsurers are authorized in Washington.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes except for the four quota share agreements with RIC and the Property Catastrophe Excess Loss Reinsurance Agreement with Swiss Reinsurance America Corporation (Swiss Re). The RIC and Swiss Re agreements did not contain all reinsurance requirements as outlined in SSAP No. 62, paragraph 8. (See Instruction No. 3.)

The agreements are all properly classified in Schedule F of the Company's 2008 NAIC Annual Statement. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers.

STATUTORY DEPOSITS

RSIC maintained the following statutory deposits as of December 31, 2008:

<u>State</u>	<u>Type</u>	<u>Book Value</u>	<u>Fair Value</u>
California	Certificate of Deposit	\$ 100,000	\$ 100,000
Oregon	Bond	414,736	428,000
Washington	Bond	1,991,832	2,224,380
Total		<u>\$2,506,568</u>	<u>\$2,752,380</u>

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company was audited annually by the certified public accounting firm of Ernst & Young, LLP (E&Y). 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 phases of the examination and no exceptions were noted.

Management of the Company has sufficient knowledge 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, system 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; backup 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.

The Company 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 for the Portland, OR office, including financial functions, telecommunication services, and data processing services, in the event of a disruption of normal business activities, as recommended by the NAIC. The business continuity plan has not been tested and the Seattle, WA office was not included in the plan. (see Comment and Recommendation No. 1)

SUBSEQUENT EVENTS

There were no material events impacting the Company between the examination date and the last day of our fieldwork May 13, 2010

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions and recommendations were corrected and satisfactorily addressed.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Red Shield Insurance Company as of December 31, 2008:

Assets, Liabilities, Surplus and Other Funds

Statement of Income and Capital and Surplus Account

Reconciliation of Surplus for the Period since the Last Examination

Red Shield Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2008

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Bonds	\$16,834,893	\$0	\$16,834,893
Stocks:			
Preferred stocks	832,617		832,617
Common stocks	2,132,845		2,132,845
Mortgage loans on real estate (Schedule B):			
First liens	661,049		661,049
Cash and short-term investments	<u>17,484,652</u>		<u>17,484,652</u>
Subtotal, cash and invested assets	<u>37,946,056</u>	<u>0</u>	<u>37,946,056</u>
Investment income due and accrued	52,033		52,033
Uncollected premiums and agents' balances in course of collections	1,981,685		1,981,685
Current federal and foreign income tax recoverable and interest thereon	456,574		456,574
Net deferred tax asset	467,259		467,259
Electronic data processing equipment and software	18,663		18,663
Receivables from parent, subsidiaries and affiliates	<u>30,116</u>		<u>30,116</u>
Total Assets	<u>\$40,952,386</u>	<u>\$0</u>	<u>\$40,952,386</u>
 Liabilities, Surplus and Other Funds			
Losses	\$5,778,676	\$0	\$5,778,676
Reinsurance payable on paid loss and loss adjustment expense	15,383		15,383
Loss adjustment expenses	2,261,187		2,261,187
Commissions payable, contingent commissions and other similar charges	105,829		105,829
Other expenses	206,144		206,144
Taxes, licenses and other fees (excluding federal and foreign income taxes)	74,536		74,536
Unearned premiums	4,649,787		4,649,787
Ceded reinsurance premiums payable	397,188		397,188
Funds held under reinsurance treaties	6,790,912		6,790,912
Remittance and items not allocated	<u>158,402</u>		<u>158,402</u>
Total Liabilities	<u>20,438,044</u>	<u>0</u>	<u>20,438,044</u>
Common capital stock	1,625,000		1,625,000
Unassigned funds (surplus)	<u>18,889,342</u>		<u>18,889,342</u>
Surplus as regards policyholders	<u>20,514,342</u>	<u>0</u>	<u>20,514,342</u>
Total Liabilities, Surplus and Other Funds	<u>\$40,952,386</u>	<u>\$0</u>	<u>\$40,952,386</u>

Red Shield Insurance Company
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2008

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Underwriting Income			
Premiums earned	\$9,082,510	\$0	\$9,082,510
Deductions			
Losses incurred	1,584,892		1,584,892
Loss adjustment expenses incurred	1,624,101		1,624,101
Other underwriting expenses incurred	5,145,816		5,145,816
Total underwriting deductions	<u>8,354,809</u>		<u>8,354,809</u>
Net underwriting gain or (loss)	<u>727,701</u>	<u>0</u>	<u>727,701</u>
Investment income			
Net investment income earned	1,231,539		1,231,539
Net realized capital gains or (losses)	(507,096)		(507,096)
Net investment gain or (loss)	<u>724,443</u>	<u>0</u>	<u>724,443</u>
Other income			
Finance and service charges not included in premiums	168,539		168,539
Total other income	<u>168,539</u>	<u>0</u>	<u>168,539</u>
Net income, after dividends to policyholders but before federal and foreign income taxes	1,620,683		1,620,683
Federal and foreign income taxes incurred	660,426		660,426
Net income	<u>\$960,257</u>	<u>\$0</u>	<u>\$960,257</u>
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	<u>\$21,130,627</u>	<u>\$0</u>	<u>\$21,130,627</u>
Gains and (losses) in surplus			
Net income	960,257		960,257
Change in net unrealized capital gains or (losses)	(651,931)		(651,931)
Changes in net deferred income tax	338,682		338,682
Change in nonadmitted assets	(263,293)		(263,293)
Dividends to stockholders	(1,000,000)		(1,000,000)
Change in surplus as regards policyholders for the year	<u>(616,285)</u>	<u>0</u>	<u>(616,285)</u>
Surplus as regards policyholders, December 31 current year	<u>\$20,514,342</u>	<u>\$0</u>	<u>\$20,514,342</u>

Red Shield Insurance Company
Five Year Reconciliation of Surplus
For the Years Ended December 31,

	2008	2007	2006	2005	2004
Capital and Surplus, December 31, previous year	<u>\$21,130,627</u>	<u>\$22,064,329</u>	<u>\$22,024,121</u>	<u>\$21,996,014</u>	<u>\$21,387,578</u>
Net income or (loss)	960,257	1,113,640	1,098,767	950,248	681,219
Net unrealized capital gains or (losses)	(651,931)	(90,343)	188,179	(25,855)	109,816
Changes in net deferred income tax	338,682	44,673	(26,563)	133,133	(47,564)
Changes in nonadmitted assets	(263,293)	(1,672)	29,825	2,581	82,965
Changes in provision for reinsurance	0	0	0	218,000	(218,000)
Dividends to stockholders	(1,000,000)	(2,000,000)	(1,250,000)	(1,250,000)	0
Changes in surplus as regards policyholders for the year	<u>(616,285)</u>	<u>(933,702)</u>	<u>40,208</u>	<u>28,107</u>	<u>608,436</u>
Capital and Surplus, December 31, current year	<u><u>\$20,514,342</u></u>	<u><u>\$21,130,627</u></u>	<u><u>\$22,064,329</u></u>	<u><u>\$22,024,121</u></u>	<u><u>\$21,996,014</u></u>

NOTES TO THE FINANCIAL STATEMENTS

The Company obtained a special consent order issued by the state of Washington with an effective date of January 1, 2008 to allow the Company to own and purchase mutual funds if certain requirements have been met.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Red Shield Insurance Company and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; 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; Eric Slavich, Actuarial Analyst; Randy E. Fong, AFE, Examiner-in-Charge; Edsel R. Dino, Financial Examiner; and Richard V. Bologna, 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,

A handwritten signature in black ink, appearing to read 'Tarik Subbagh', is written over a horizontal line. The signature is stylized and cursive.

Tarik Subbagh, CPA, CFE
Property and Casualty Field Supervising Examiner
State of Washington

