STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of

Rocky Mountain Fire and Casualty Company
Seattle, Washington

NAIC CODE 22128
DECEMBER 31, 2006

Order No. 08-62
Rocky Mountain Fire and
Casualty Company
Exhibit A

Participating 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

Rocky Mountain Fire and Casualty Company

of

Seattle, Washington

hereinafter referred to as "RMFCC" 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 Company as of December 31, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Rocky Mountain Fire and Casualty Company 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 2006 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. **Board Member Conflict of Interest**
   A director of the Board of Directors was also an appointed agent for RMFCC and received commissions totaling $17,697 in 2006. RCW 48.07.130(1) states, in part, no person having any authority in the investment or disposition of the funds of a domestic insurer and no officer or director of an insurer shall accept or be the beneficiary of any fee, brokerage, gift, commission, or other emolument because of any sale of insurance.

   The Company is instructed to comply with RCW 48.07.130(1) by ensuring that members of its Board of Directors are not in conflict by being the recipient of any fee, brokerage, gift, commission, or other emolument because of any sale of insurance.

2. **Reinsurance Entire Contract Clause**
   The Statement of Statutory Accounting Principles (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.

Administered by a reinsurance intermediary, the Property Catastrophe Excess of Loss Reinsurance Contract dated July 1, 2006, by and between RMFCC and its parent, Grange Insurance Association (GIA), 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 NAIC 2006 Annual Statement did not conform to the NAIC AP&P 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 NAIC AP&P and the 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 for Notes to Financial Statements Note 10.F, the 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) were properly reported, the examiners noted that the Company referenced "cost allocation agreements with affiliates." Note 10.F, however, did not describe the Intercompany Expense Sharing Agreement entered November 1, 2003 between the Company and its parent, GIA and affiliated company, Mayflower Corporation (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 should be "Exempt Money Market Mutual Funds".

COMMENTS AND RECOMMENDATIONS

NONE

COMPANY PROFILE

Company History
In 1956, GIA purchased the management contract of Mayflower Insurance Exchange of Seattle, Washington, and subsequently, on November 6, 1956, formed a wholly-owned subsidiary company named Mayflower Corporation to act as the attorney-in-fact to manage the insurance operations for the exchange.

In 1958, Mayflower acquired a majority (approximately 80% percent) of the outstanding stock of Rocky Mountain Fire Insurance Company of Great Falls, Montana. Effective April 2, 1959, Mayflower Corporation formed a new Washington insurance company called Rocky Mountain Fire & Casualty Company and on July 1, 1959, the previously acquired Montana insurance company was merged on a share-for-share basis into RMFCC.

Capitalization
The par value of the common stock is $247 per share with 12,190 shares authorized and issued.

GIA made surplus contributions to the Company 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. In return, the Company issued Surplus Contribution Notes to GIA.

In 2002, after receiving approval from the BOD and OIC, GIA contributed $8,370,000 of capital to its wholly-owned subsidiary, Mayflower Corporation. Mayflower Corporation then contributed the $8,370,000 of capital to RMFCC.

No dividends were declared or paid to stockholders during the period covered by the examination.

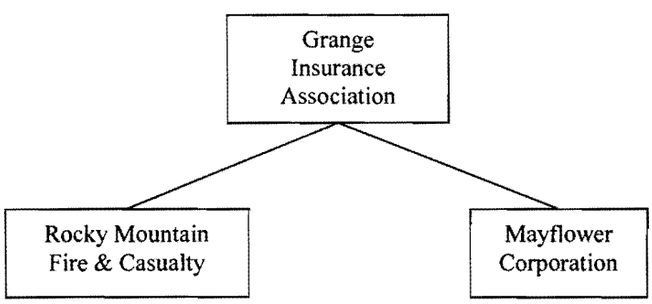
Territory and Plan of Operation
RMFCC is authorized to do business in California, Colorado, Idaho, Montana, Oregon, Washington, and Wyoming. During the examination period, insurance contracts in-force were for personal coverage of homeowners, fire/dwelling, auto, boat, inland marine, and umbrella. RMFCC is no longer writing policies for commercial business. Commercial business is now written through RMFCC's parent, GIA. RMFCC's authorized lines of business are property, marine, transportation, general casualty and surety.

Growth of Company

Year	Admitted Assets	Liabilities	Capital & Surplus
2006	$35,327,672	$15,947,328	$19,380,344
2005	34,003,064	16,251,617	17,751,447
2004	31,497,554	16,721,684	14,775,870
2003	38,063,745	23,066,535	14,997,210
2002	45,124,103	28,011,713	17,112,390

Year	Premiums Earned	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income
2006	$15,014,436	$743,151	$1,422,372	$1,632,946
2005	15,611,733	(1,140,233)	1,308,186	2,371,771
2004	18,820,481	(2,405,715)	1,432,437	(405,511)
2003	28,999,507	(3,253,197)	1,741,157	(1,405,864)
2002	30,826,704	(7,499,530)	1,963,896	(4,184,721)

Affiliated Companies



RMFCC and its affiliates are members of a holding company system regulated pursuant to Chapter 48.31B RCW. The affiliate companies are required to file holding company statements under RCW 48.31B.025(1)(c), RCW 48.31B.025(3), WAC 284-18-390 and WAC 284-18-400. Within the holding company structure, RMFCC is controlled through direct stock ownership.

The affiliated companies are:

Grange Insurance Association
Grange Insurance Association was organized on April 19, 1894 and has the authority to transact insurance business as a fraternal mutual insurer for the purpose of insuring only the risks of members of Patrons of Husbandry (Grange members). GIA owns all 1,000 shares of the

authorized common stock of Mayflower Corporation, and 12,182.75 shares, or 99.9%, of the authorized common stock of RMFCC.

Mayflower Corporation
Mayflower Corporation, an insurance holding company, was created by the management of GIA 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. On April 2, 1959, Mayflower created a new property and casualty stock insurance company called Rocky Mountain Fire & Casualty Company. As of September 30, 2006, Mayflower transferred 99.9% of the outstanding common stock shares of RMFCC it owned to GIA.

Intercompany Contracts
The affiliates have the following agreements:

- Consolidated Federal Income Tax Liability Agreement between GIA, RMFCC and Mayflower, effective January 1, 1995.
- Intercompany Expense Sharing Agreement between GIA, RMFCC and Mayflower, effective November 1, 2003.
- Multiple Line Excess of Loss Reinsurance Agreement No. 1 between RMFCC and GIA, effective February 28, 1995.

MANAGEMENT AND CONTROL

Ownership
GIA owns controlling interest of 12,182.75 shares of RMFCC, 7.25 shares are owned by various minority holders as of December 31, 2006.

Board of Directors (BOD)
The Bylaws state that the Board of Directors shall select an executive committee consisting of the chairman, vice chairman of the BOD and three directors who shall have the full power to act for the BOD between meetings, except as the BOD may otherwise direct. The BOD may designate other permanent or temporary committees and delegate thereto such powers as deemed necessary.

The Company has the following committees: audit, compensation, investment, and rate.

The officers of the Company shall be elected by the BOD and shall consist of the chairman, vice chairman, a president/chief executive officer, a secretary, and a treasurer. The same individual may hold at the same time any two offices except for those of chairman and vice chairman. Only the chairman and vice chairman shall be elected from among the members of the BOD.

The following Directors were elected to serve the Company 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 Company is Ryan M. Dudley, President and Chief Executive Officer. Mr. Dudley has been with the Company for more than fourteen (14) years. The following Officers were elected to serve the Company 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

RMFCC has an established procedure for disclosure to its BOD of any affiliation on the part of its officers, directors and key employees which is in conflict with their official duties. The corporate secretary, executive vice president, and president review the Conflict of Interest Statements annually for conflicting situations and take appropriate action thereupon. (See Instruction No. 1)

Fidelity Bond and Other Insurance

RMFCC 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 fidelity coverage of $2,000,000 meets the suggested NAIC minimum coverage.

Officer's, Employees', and Agents' Welfare and Pension Plans
All the Company's employees are employees of its parent GIA and covered under GIA's 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 contribution 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 documented in the minutes. Appointments and elections of officers, reinsurance contracts, bank agreements, and other contracts were also disclosed in the BOD's minutes.

It was noted during our review that the Articles of Incorporation were amended once in 1999 to increase the par value of the common stock from $165 to $247. The Bylaws were changed during the examination period. These changes related to the titles of chairman, vice chairman of the Board of Directors and president/chief executive officer.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Year	Loss Reserves	LAE Reserves
2006	$7,966,613	$1,030,066
2005	8,791,585	1,214,176
2004	8,882,496	1,525,350
2003	11,707,913	1,499,440
2002	10,914,317	1,536,527

As noted above, the reserves carried by the Company for these liabilities were $7,966,613 and $1,030,066, 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's 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's actuarial staff estimates 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 Annual Statement.

REINSURANCE

RMFCC participates in quota share and excess loss treaties. These treaties are spread across a portfolio of authorized reinsurers. In addition, RMFCC cedes reinsurance to its parent, GIA, 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 have 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 adequately monitor its reinsurance program including the financial condition of the reinsurers.

RMFCC utilizes the services of a reinsurance intermediary, Guy Carpenter & Company, Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. Guy Carpenter and Company, Inc. is an international reinsurance intermediary owned by Marsh & McLennan and is licensed by OIC. (See Instruction No. 2)

STATUTORY DEPOSITS

Deposits shown on Schedule E Part 3- Special Deposits

State	Type	Book Value	Fair Value
Washington	Bond	$2,053,174	$2,069,974
Oregon	Bond	301,272	302,109

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.

The Company's management is sufficiently knowledgeable of its 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 Company's 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.

The Company has a formal, written disaster recovery plan for the restoration of its information systems 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

None

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 Rocky Mountain Fire and Casualty Company 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

Rocky Mountain Fire and Casualty Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2006

Assets	Balance Per Company	Examination Adjustments	Balance Per Examination
Bonds	$27,789,553	$0	$27,789,553
Cash and short-term investments	4,767,084		4,767,084
Subtotal, cash and invested assets	**32,556,637**	**0**	**32,556,637**
Uncollected premiums and agents' balances in course of collection	1,861,930		1,861,930
Reinsurance recoverables on loss and loss adjustment expense payments	(920)		(920)
Net deferred tax asset	549,888		549,888
Guaranty funds receivable or on deposit	4,097		4,097
Interest, dividends and real estate income due and accrued	356,040		356,040
Total Assets	**$35,327,672**	**$0**	**$35,327,672**
Liabilities, Surplus and other Funds			
Losses	$7,966,613	$0	$7,966,613
Loss adjustment expenses	1,030,066		1,030,066
Commissions payable, contingent commissions and other similar charges	284,052		284,052
Other expenses	296,147		296,147
Taxes, licenses and fees (excluding federal and foreign income taxes)	48,974		48,974
Federal and foreign income taxes	777,755		777,755
Unearned premiums	4,824,895		4,824,895
Advanced premium	216,549		216,549
Ceded reinsurance premiums payable	140,151		140,151
Amounts withheld or retained for account of others	50,491		50,491
Payable to parent, subsidiaries and affiliates	311,635		311,635
Total Liabilities	**15,947,328**	**0**	**15,947,328**
Common capital stock	3,010,930		3,010,930
Surplus notes	9,100,000		9,100,000
Gross paid in and contributed surplus	8,370,000		8,370,000
Unassigned funds (surplus)	(1,100,586)		(1,100,586)
Surplus as regards policyholders	**19,380,344**	**0**	**19,380,344**
Total Liabilities, Surplus and other Funds	**$35,327,672**	**$0**	**$35,327,672**

Rocky Mountain Fire and Casualty Company
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2006

	Balance Per Company	Examination Adjustments	Balance Per Examination
Underwriting Income			
Premiums earned	$15,014,436	$0	$15,014,436
Deductions			
Losses incurred	8,249,726		8,249,726
Loss expenses incurred	1,790,814		1,790,814
Other underwriting expenses incurred	4,230,745		4,230,745
Total underwriting deductions	14,271,285		14,271,285
Net underwriting gain or (loss)	**743,151**	**0**	**743,151**
Investment Income			
Net investment income earned	1,427,194		1,427,194
Net realized capital gains or (losses)	(4,822)		(4,822)
Net investment gain or (loss)	**1,422,372**	**0**	**1,422,372**
Other Income			
Net gain or (loss) from agents' or premium balances charged off	(23,567)		(23,567)
Finance and service charges not included in	158,561		158,561
Aggregate write-ins for miscellaneous income	2,005		2,005
Total other income	**136,999**	**0**	**136,999**
Net income, after dividends to policyholders but before federal and foreign income taxes	2,302,521		2,302,521
Federal and foreign income taxes incurred	669,575		669,575
Net income	**$1,632,946**	**$0**	**$1,632,946**
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	$17,751,447	$0	$17,751,447
Gains and (Losses) in Surplus			
Net income	1,632,946		1,632,946
Change in net deferred income tax	16,962		16,962
Change in nonadmitted assets	(21,011)		(21,011)
Dividends to stockholders (cash)	0		0
Change in surplus as regards policyholders for the year	**1,628,897**	**0**	**1,628,897**
Surplus as regards policyholders, December 31 current year	**$19,380,344**	**$0**	**$19,380,344**

Rocky Mountain Fire and Casualty Company
Reconciliation of Surplus for the Period since Last Examination
For the Year Ended December 31, 2006

	2002	2003	2004	2005	2006
Surplus as regards policyholders, December 31, previous year	$12,494,376	$17,112,390	$14,997,210	$14,775,870	$17,751,447
Net income	(4,184,721)	(1,405,864)	(405,511)	2,371,771	1,632,946
Change in net deferred income tax	739,056	361,938	37,628	(1,312,582)	16,962
Change in nonadmitted assets	(287,027)	(1,071,255)	146,544	1,916,388	(21,011)
Paid in Capital	8,370,000	0	0	0	0
Aggregate write-ins for gains and losses in	(19,294)	0	0	0	0
Change in surplus as regards policyholders for the year	4,618,014	(2,115,181)	(221,340)	2,975,577	1,628,897
Surplus as regards policyholders, December 31, current year	$17,112,390	$14,997,210	$14,775,870	$17,751,447	$19,380,344

NOTES TO THE FINANCIAL STATEMENTS

The company has no special consents, permitted practices or orders from the state of Washington and there were no examination adjustments.

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 Rocky Mountain Fire and Casualty Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner 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