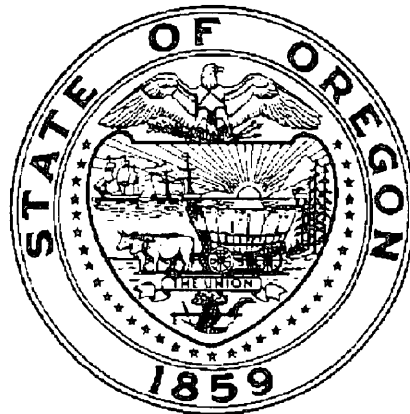


STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

MUTUAL OF ENUMCLAW INSURANCE COMPANY
ENUMCLAW, WASHINGTON

AS OF

DECEMBER 31, 2018

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**MUTUAL OF ENUMCLAW INSURANCE COMPANY
ENUMCLAW, WASHINGTON**

NAIC COMPANY CODE 14761

AS OF

DECEMBER 31, 2018

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SALUTATION

August 28, 2019

Honorable Cameron Smith, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

MUTUAL OF ENUMCLAW INSURANCE COMPANY
1460 Wells Street
Enumclaw, Washington, 98022
NAIC Company Code 14761

Hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, single-state, full-scope examination of Mutual of Enumclaw Insurance Company. The examination was conducted in conjunction with the examination of a subsidiary property and casualty insurer, Enumclaw Property and Casualty Insurance Company and a separate report of examination will be prepared for that entity. The last examination of this property and Casualty insurer was completed as of December 31, 2013. This examination covers the period of January 1, 2014, to December 31, 2018.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was originally incorporated in February, 1898, as the Farmers Mutual Insurance Company under the laws of the state of Washington. The Company was reincorporated on August 11, 1899, under the Mutual Insurance Law of 1899, to form an assessment plan. The Company was organized by, and run for the benefit of, its policyholder members with the purpose of insuring farm and village buildings and personal property against loss by fire and lightning. The name was changed to Mutual of Enumclaw Insurance Company in 1966.

In 2015, the Company reorganized itself pursuant to the provisions of ORS 731.363, ORS 732.015 – 732.175, and ORS 732.600 – 732.630 by doing the following: reincorporating as a domestic insurer, forming an Oregon mutual insurance holding company, converting from an Oregon mutual insurer into an incorporated Oregon stock insurer, and becoming a wholly owned subsidiary of the Oregon mutual insurance holding company. Mutual policyholders of the Company or any other subsidiary that issues mutual insurance policies, including Enumclaw Property & Casualty Insurance Company, were granted membership interests in the mutual insurance holding company. There are no plans to issue shares of the Company to the public, any director or officer of the mutual holding company, or to any other persons except for the granting of membership interests.

The Company now writes non-assessable policies, meaning that if the company has adverse losses or expenses, it cannot assess the policyholders to replenish surplus.

Capitalization

The Company is a for-profit stock insurer owned by Mutual of Enumclaw Insurance Holding Company, an Oregon non-profit corporation, however, no shares have been authorized or issued. Instead, the Company reported \$3,000,000 as the value of common capital stock funded from unassigned surplus. Additionally, the Company reported issuance of three surplus notes issued to non-affiliated entities, as follows:

<u>Purchaser</u>	<u>Issued</u>	<u>Principal</u>	<u>Rate</u>	<u>Maturity</u>
I Preferred Term Securities III, Ltd	10/29/2003	\$ 10,000,000	Floating rate	10/29/2033
I Preferred Term Securities III, Ltd	10/29/2003	10,000,000	Floating rate	10/29/2033
Federated Mutual Ins. Co.	4/29/2016	<u>20,000,000</u>	7.40%	4/29/2046
Total		<u>\$ 40,000,000</u>		

All notes are callable in whole or in part after five years at the Company’s option. Both the 2003 notes are hedged through a 10-year interest rate swap, with an effective rate of 7.30% and 7.20%, respectively. See Note 4 – Surplus Notes below for a description.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company did not declare or pay any dividend to its stockholder or make any distribution.

CORPORATE RECORDS

Board Minutes

In general, the review of Board meeting minutes of the Company indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum

as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

The Company's Bylaws authorize the Board to establish committees as it deems necessary. Further, the Company's Board has created committees that oversee and support the Mutual of Enumclaw Insurance Group; an Audit Committee, a Finance Committee, a Board Governance Committee, and an Investment Committee.

The minutes indicated the Board directly approves the CEO's compensation through its Compensation Committee and indirectly approves the compensation of senior executives through approval of an Annual Performance Compensation Plan. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Company's restated Articles of Incorporation were most recently amended on August 14, 2014, to reincorporate as an Oregon domestic for-profit stock insurance company. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on February 16, 2016, and were amended and restated to make minor changes associated with its conversion. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article III, state the affairs of the Company shall be managed by the Board of not less than seven (7) and not more than fourteen (14), the specific number to be set by resolution of

the Board. As of December 31, 2018, the Company was governed by an eight member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Anthony Lawrence Baruffi Seattle, Washington	Chief Investment Officer McMillen & Company	2014
Tadashi Andrew Fujimoto * Meridian, Idaho	Director & CEO AmeriBen/BEC Group	2007
Laurinda Mackenzie Portland, Oregon	Chief Executive Officer Anesthesiology Group	2015
Eric Paul Nelson Kent, Washington	President & CEO Mutual of Enumclaw Insurance Co.	2010
Donald Edward Powell Richland, Washington	Attorney & Partner Powell & Gunter	2008
Janey Lynn Repensek Seattle, Washington	Chief Operating & Financial Officer Seattle Opera	2007
Norman Joseph Smith Roseburg, Oregon	President & CEO The Ford Family Foundation	2015
David Merle Waldo Parma, Idaho	President Field-Waldo Insurance, Inc.	1994

*Chairman

The examiners noted David Merle Waldo was granted a term limit waiver by board resolution as allowed in the Bylaws.

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute. The Directors as a group had

experience in law, insurance, accounting and management, in accordance with the provisions of ORS 731.386.

Officers

Principal officers serving at December 31, 2018, were as follows:

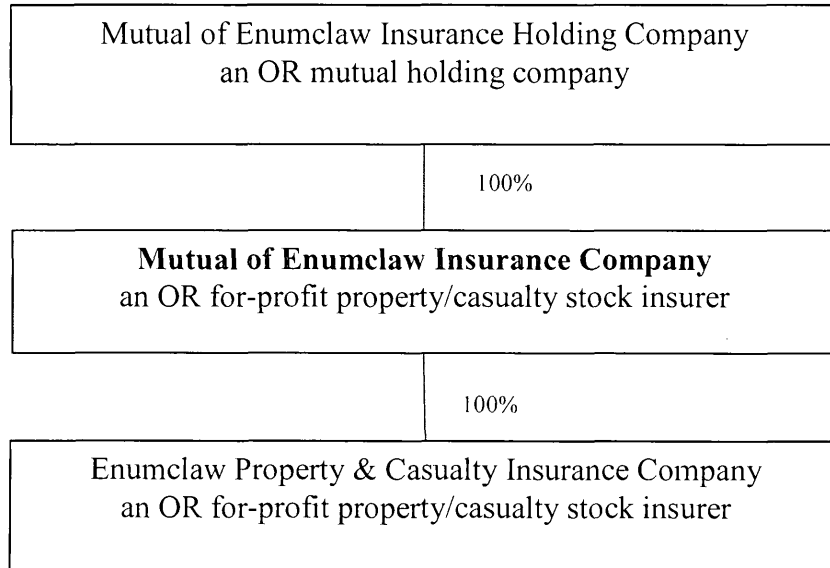
<u>Name</u>	<u>Title</u>
Eric Paul Nelson	President
Andrew Chen	Vice President & Treasurer
Alice Park Cameron	Vice President, Personal Underwriting
Cori Nicole Medrano	Vice President, Commercial Underwriting
Megan Anne Hall	Vice President, Product Management
Richard Frank Hawkins	Vice President, Marketing
Michele Jean Wyatt	Vice President, Claims
David Alan Wilson	Vice President Information Technology
Sandra Jean Williams	Vice President, Administration
Tadashi Andrew Fujimoto	Board Chair
Athan Michael Shinas	Secretary

Conflict of Interest

The Company's Board adopted a formal statement of policy concerning conflict of interest for all Directors, officers and responsible employees. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above is as follows:

Mutual of Enumclaw Insurance Holding Company is an Oregon domiciled mutual holding company. It was formed pursuant to the re-domestication from Washington to Oregon in 2015 and is the ultimate controlling entity. It owns 100% of the Company and would be the ultimate controlling entity.

Enumclaw Property and Casualty Insurance Company (EPC) is an Oregon domiciled for-profit multiple line P&C stock insurer that was incorporated on November 27, 2001, in the State of Washington. The Company owns 100% of the issued and outstanding shares.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company and its subsidiary:

Intercompany Quota Share Reinsurance Agreement

Effective January 1, 2013, an Intercompany Quota Share Reinsurance Agreement between the Company and EPC was entered into. Under the terms of the agreement, the Company assumes

100% of all EPC gross premiums, losses and expenses. The Company is also liable for its pro rata share of loss adjustment expenses, extra contractual obligations and losses in excess of policy limits. EPC is required to report within 30 days following the end of each month all premiums written and earned, ceding commissions, losses and LAE paid and incurred, salvage and subrogation, and the outstanding loss and LAE reserve and premiums unearned at the end of the month. Settlement of any outstanding balances in the intercompany accounts are due within 45 days following the end of each quarter.

With the two entities commonly managed and staffed, expenses will be allocated between the Company and EPC, taking into consideration factors such as premium volume, policy counts, underwriting profitability, or any other factor deemed significant. The Company allows EPC a ceding commission equivalent to the allocated expenses. The Agreement remains effective until terminated by either party, which requires 12 months' prior notice in writing.

Tax Allocation Agreement

Effective January 30, 2004, a Consolidated Federal Income Tax Sharing Agreement was entered into between the Company and EPC. The agreement requires the two entities to allocate federal income tax provisions on a separate company, reporting entity basis. Allocation is based on separate return calculations with current credit for net losses. Amounts are to be settled within 90 days of the filing of the consolidated income tax return, or within 90 days of the receipt of a refund, when a refund is due to the reporting entity's parent. The Agreement may be amended at any time for provisions relating to changes in Statement of Statutory Accounting Principles or for changes in state insurance laws and regulations.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. The insurance coverages are provided through insurance policies issued by unaffiliated carriers. Coverage protected just the company. The group as a whole is insured up to \$10,000,000 per occurrence, after a \$75,000 deductible per single loss, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage recommended by the NAIC.

Other insurance coverages in force at December 31, 2018, were found to be adequate, and are as follows:

Cyber and Cyber Excess Policy	Director's and officer's
Property	Automobile Liability
General Liability	Workers' compensation
Insurance company professional liability	

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the States of in Alaska, Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, and Washington. Direct premiums written in 2018 were:

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage</u>
Arizona	\$ 35,476,010	10.8%
Idaho	32,250,132	9.8%
Montana	4,280,060	1.3%
Oregon	61,271,878	18.7%
Utah	23,081,805	7.0%
Washington	<u>171,490,524</u>	<u>52.3%</u>
Total	<u>\$ 327,850,409</u>	<u>100.0%</u>

The following is a breakdown of the direct premiums written in 2018:

<u>Lines of Business</u>	<u>Premium</u>	<u>Percentage</u>
Fire	\$ 1,733,255	0.5%
Allied lines	1,439,943	0.4%
Farmowners multiple peril	34,491,487	10.5%
Homeowners multiple peril	62,147,874	18.9%
Commercial multiple peril	62,856,217	19.2%
Inland marine	3,536,036	1.1%
Earthquake	339,416	0.1%
Other liability - occurrence	10,886,569	3.3%
Other liability - claims-made	258,582	0.1%
Products liability - occurrence	144,665	0.0%
Private passenger auto liability	68,336,626	20.8%
Commercial auto liability	32,444,844	9.9%
Auto physical damage	46,299,082	14.1%
Burglary and theft	31,461	0.0%
Boiler and machinery	<u>2,904,352</u>	<u>0.5%</u>
Totals	<u>\$ 327,850,409</u>	<u>100.0%</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2014	666,731,799	363,808,362	302,923,437	11,263,408
2015	696,996,745	406,969,568	290,027,177	(11,587,075)
2016	745,340,168	419,009,473	326,330,695	9,920,101
2017	748,274,123	409,998,306	338,275,817	7,455,254
2018*	765,757,463	435,947,316	329,810,147	6,134,839

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were obtained from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Losses and LAE Incurred</u>	<u>(3) Other Underwriting Expenses Incurred</u>	<u>(2)+(3)/(1) Combined Ratio</u>
2014	339,550,834	231,136,426	113,551,678	101.5%
2015	362,930,142	281,153,181	117,670,405	109.9%
2016	379,598,079	265,883,657	122,067,758	102.2%
2017	388,754,496	281,422,017	125,080,295	104.6%
*2018	403,091,402	284,020,807	131,784,279	103.2%

*Per examination

A combined ratio of more than 100% would indicate an underwriting loss. The Company reported net underwriting losses in each of the past five years.

REINSURANCE

Assumption Agreement

An Intercompany Quota Share Reinsurance Agreement between the Company and EPC was described under intercompany agreements above.

Ceded

The Company uses external reinsurers to secure additional capacity in its capital and surplus level with two annual renewal dates of July 1st and January 1st to ensure maximum overlapping coverage. The property aggregate program has an annual renewal date of January 1st and covers wildfires and windstorms with higher maximum limits. The property program has an annual renewal date of July 1st and covers larger catastrophic events. The casualty program has an annual renewal date of July 1st and covers smaller claims with a required \$1 million retention. The terrorism aggregate program has an annual renewal date of July 1st covering events related to terrorism. This program was discontinued effective July 1, 2019. All treaties include Enumclaw Property & Casualty Insurance Company and are syndicated across multiple reinsurers of excellent financial strength.

The Company has a requirement to only work with reinsurers who are rated A or A+ by AM Best.

The reinsurance structure is as follows:

January 1, 2018 through December 31, 2018

- Property Catastrophe Aggregate Layer 1 – \$7.5 million in excess of \$10.0 million, with a \$1 million franchise deductible. Includes coverage for losses resulting from an act of terrorism.
- Property Catastrophe Aggregate Layer 2 – \$5.0 million in excess of \$17.5 million, with a \$1 million franchise deductible for all loss occurrences during the term of the contract. The maximum contribution to the ultimate net loss from any one-loss occurrence is \$7.5 million. Includes coverage for losses resulting from an act of terrorism.
- Property Catastrophe Aggregate Layer 3 – \$10.0 million in excess of \$22.5 million, with a \$1 million franchise deductible for all loss occurrences during the term of the contract. Includes coverage for losses resulting from an act of terrorism.
- Aggregate Stop Loss – \$15.0 million in excess of 67.0% accident year loss ratio. The reinsurer is liable for the amount by which the Company's aggregate Ultimate Net Loss occurring during the term of the contract exceeds 67% of the Company's gross net earned premium income during the contract term limited to \$15.0 million. Unallocated LAE is limited to no more than 7% of the Company's gross net earned premium income for the contract term.

July 1, 2018 through July 1, 2019

- Property Per risk – \$6.5 million in excess of \$1.0 million, with 5 free reinstatements. Reinsurer limited to \$13.0 million for each loss occurrence, and to \$39.0 million for any and all claims arising from all losses and risks occurring during the contract term.
- Property Occurrence (Risk/Catastrophe) – \$7.5 million in excess of \$7.5 million for any single occurrence. One free reinstatement and one at 100%. Coverage for losses, which result from an Act of Terrorism.
- Property Catastrophe – \$65.0 million in excess of \$15.0 million for each and every loss occurrence, and one free reinstatement at 100%. Coverage for losses, which result from an act of Terrorism.
- Terrorism Stand-Alone Aggregate Excess of Loss – \$10.0 million in excess of \$7.5 million in the aggregate for all losses during the contract term.
- Casualty Per Occurrence Layer 1 – \$6.0 million in excess of \$1.0 million, free and unlimited reinstatements. All terrorism losses including Nuclear, Chemical, Biological and Radiology events are covered up to \$18.0 million.
- Casualty Per Occurrence Layer 2 - \$13.0 million in excess of \$7.0 million, one reinstatement at 100%. Nuclear, Chemical, Biological and Radiology events are covered up to \$13.0 million. Reinsurer limited to \$26.0 million for all losses occurring during the term of the contract.

Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2018, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company has a system in place to account for unclaimed funds and the Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

STATUTORY DEPOSIT

As of the examination date, the Company maintained two U.S. Treasury Notes with a par value of \$1 million each on file with the Oregon Division of Financial Regulation. In addition, the Company reported one U.S. Treasury Bond with a par value of \$200,000 as a deposit held for the Nevada Department of Business and Industry and one U.S. Treasury Bond with a par value of \$315,000 held for the New Mexico Office of Superintendent of Insurance. The Oregon deposit was verified from the records of the Division of Financial Regulation. All other deposits were confirmed through Wells Fargo Bank.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were three comments and recommendations made from the prior examination performed by the Washington Office of the Insurance Commissioner. All have since been complied with. A follow-up review was not made for this company.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date that would have a material impact on the Company's solvency.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

- Statement of Assets
- Statement of Liabilities, Surplus, and Other Funds
- Statement of Income
- Reconciliation of Capital and Surplus Since the last Examination

MUTUAL OF ENUMCLAW INSURANCE COMPANY
ASSETS
As of December 31, 2018

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 490,997,409	\$ -	\$ 490,997,409	1
Common stocks	81,396,302	-	81,396,302	1
Mortgage loans on real estate: other than first liens	100,475	-	100,475	
Properties occupied by the company	5,278,111	-	5,278,111	2
Cash, cash equivalents and short-term investments	21,903,535	-	21,903,535	
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>599,675,832</u>	<u>\$ -</u>	<u>599,675,832</u>	
Investment income due and accrued	3,641,565	-	3,641,565	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	16,054,977	-	16,054,977	
Deferred premiums, agents' balances and installments not yet due	88,969,797	-	88,969,797	
Reinsurance				
Amounts recoverable from reinsurers	1,705,312	-	1,705,312	
Current FIT recoverable	592,499	-	592,499	
Net deferred tax assets	13,720,034	-	13,720,034	
EDP equipment and software	756,796	-	756,796	
Aggregate write-ins for other than invested assets	<u>40,640,651</u>	<u>-</u>	<u>40,640,651</u>	
Total Assets	<u>\$ 765,757,463</u>	<u>\$ -</u>	<u>\$ 765,757,463</u>	

MUTUAL OF ENUMCLAW INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2018

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 159,082,048	\$ -	\$ 159,082,048	3
Loss adjustment expenses	36,852,263	-	36,852,263	3
Commissions payable, contingent commissions and other similar charges	12,445,145	-	12,445,145	
Other expenses	19,886,243	-	19,886,243	
Taxes, licenses and fees (excl. FIT)	836,436	-	836,436	
Unearned premiums	199,808,312	-	199,808,312	
Advance premium	3,338,159	-	3,338,159	
Ceded reinsurance premium payable	2,886,539	-	2,886,539	
Funds held by company under reinsurance treaties	550,002	-	550,002	
Provision for reinsurance	3,743	-	3,743	
Payable to parent, subsidiaries and affiliates	128,423	-	128,423	
Payable for securities	130,003	-	130,003	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 435,947,316</u>	<u>\$ -</u>	<u>\$ 435,947,316</u>	
Common capital stock	\$ 3,000,000	\$ -	\$ 3,000,000	
Gross paid-in and contributed capital	-	-	-	
Surplus notes	40,000,000	-	40,000,000	4
Unassigned funds (surplus)	<u>286,810,147</u>	<u>-</u>	<u>286,810,147</u>	
Surplus as regards policyholders	<u>329,810,147</u>	<u>-</u>	<u>329,810,147</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 765,757,463</u>	<u>\$ -</u>	<u>\$ 765,757,463</u>	

MUTUAL OF ENUMCLAW INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2018

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ 403,091,402	\$ -	\$ 403,091,402	
Deductions				
Losses incurred	244,887,249	-	244,887,249	
Loss adjustment expenses incurred	39,133,558	-	39,133,558	
Other underwriting expenses	131,784,279	-	131,784,279	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>415,805,086</u>	<u>-</u>	<u>415,805,086</u>	
Net underwriting gain or (loss)	(12,713,684)	-	(12,713,684)	
Investment income				
Net investment income earned	11,834,904	-	11,834,904	
Net realized gains or (losses)	<u>6,778,418</u>	<u>-</u>	<u>6,778,418</u>	
Net investment gain or (loss)	18,613,322	-	18,613,322	
Other income				
Net gain or (loss) from agents' or premium balances charges off	(254,865)	-	(254,865)	
Finance and service charges not included in premiums	1,792,854	-	1,792,854	
Aggregate write-ins for miscellaneous income	<u>(2,808,202)</u>	<u>-</u>	<u>(2,808,202)</u>	
Total other income	<u>(1,270,212)</u>	<u>-</u>	<u>(1,270,212)</u>	
Net income before dividends to policyholders and income taxes	4,629,426	-	4,629,426	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>(1,505,413)</u>	<u>-</u>	<u>(1,505,413)</u>	
Net income	<u>\$ 6,134,839</u>	<u>\$ -</u>	<u>\$ 6,134,839</u>	

MUTUAL OF ENUMCLAW INSURANCE COMPANY
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$338,275,817</u>	<u>\$326,330,695</u>	<u>\$290,027,177</u>	<u>\$302,923,437</u>	<u>\$286,879,139</u>
Net income (loss)	6,134,839	7,455,254	9,920,101	(11,587,075)	11,263,408
Change in net unrealized capital gains or (losses)	(11,644,825)	3,992,750	2,112,776	(5,392,059)	(2,638,230)
Change in net deferred income tax	(297,575)	(6,686,783)	(820,981)	2,737,680	1,968,893
Change in non-admitted assets	(3,739,100)	2,474,255	5,545,566	3,786,149	6,988,286
Change in provision for reinsurance	15,539	(5,276)	381,867	(232,995)	(142,456)
Change in surplus notes	-	-	20,000,000	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	3,000,000	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	(3,000,000)	-
Distributions to parent (cash)	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>1,065,453</u>	<u>4,714,922</u>	<u>(835,812)</u>	<u>(2,207,960)</u>	<u>(1,395,603)</u>
Change in surplus as regards policyholders for the year	<u>(8,465,670)</u>	<u>11,945,122</u>	<u>36,303,518</u>	<u>(12,896,260)</u>	<u>16,044,298</u>
Surplus as regards policyholders, December 31, current year	<u>\$329,810,147</u>	<u>\$338,275,817</u>	<u>\$326,330,695</u>	<u>\$290,027,177</u>	<u>\$302,923,437</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2018, the Company's long-term bond investments were in US obligations, municipal obligations, US special revenue bonds and corporate issues. The Company did have a moderate exposure to mortgaged-backed and asset-backed securities. Most of MBS/ABS issues were investment rated, with a carrying book value of \$134.8 million, which comprised 27.2% of the total long-term bond portfolio and 25.5% of all invested assets.

Common stocks included corporate issues and the equity in Enumclaw Property & Casualty Insurance Company.

Short-term deposits consisted of two money market mutual funds held in the custodial account at Wells Fargo Bank.

A comparison of the major investments over the past five years shows the following:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2014 *	416,528,297	76,677,349	34,881,252	62.5%	11.5%	5.2%
2015	414,916,078	76,915,742	39,918,087	59.5%	11.0%	5.7%
2016	472,988,050	70,995,245	35,153,450	63.5%	9.5%	4.7%
2017	485,011,118	85,764,335	15,163,138	64.8%	11.5%	2.0%
2018 *	490,997,409	81,396,302	21,903,535	64.1%	10.6%	2.9%

* Balance per examination

As of December 31, 2018, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

Effective October 1, 2009 the Company entered into a custodial agreement with Wells Fargo Bank N.A. The agreement did not contain all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

I recommend the Company revise its custodial agreement with Wells Fargo Bank to include all of the relevant protections pursuant to the provisions of OAR 836-027-0200(4)(a) through (l).

Note 2 – Properties Occupied by the Company

Represents the book value of the Company's home office in Enumclaw, Washington, which includes both the remaining amortized cost of the building and the actual cost of the land.

Note 3 – Actuarial Reserves

A review of the unpaid loss and LAE reserves for the Company was performed by David Dahl, FCAS, MAAA, Property & Casualty actuary for the Oregon Division of Financial Regulation. The review included loss and LAE reserves for Enumclaw Property & Casualty Insurance Company, which is 100% assumed by the Company. As part of the review, Mr. Dahl examined the supporting statements prepared by the Company's opining actuary, Derik Freihaut, FCAS, MAAA, Principle and Consulting Actuary for Pinnacle Actuarial Resources, Inc.

Mr. Dahl's review was based on the data, methods and calculations used in the Actuarial Report supporting the Actuarial Opinion as of December 31, 2018; the data, methods, and calculations used by the Company to establish its loss and LAE liabilities; the Company's reserve position as measured by the appointed actuary's range; and independent actuarial tests as necessary. He also relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing. He determined the following:

	<u>My Estimate</u>	<u>Annual Statement</u>
Unpaid Losses	\$159,082,048	\$159,082,048
Unpaid Loss Adjustment Expenses	36,852,253	36,852,253

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2018 were reasonable. Mr. Dahl's total estimate concluded that total loss and LAE reserves were redundant by \$5,000 on a net basis, which was immaterial in relation to the Company's surplus position. He concurred that the reserves of the Company were reasonably stated as of December 31, 2018.

Note 4 – Surplus Notes

On October 29, 2003, the Company issued two separate surplus notes to I-Preferred Term Securities III, Ltd, a Cayman Islands company, for \$10 million each, for a total of \$20 million. Both surplus notes are due on October 29, 2033. The first one carries an interest rate of 3.95% plus LIBOR, and the second one 3.85% plus LIBOR. Any payment of principle or interest must be paid from unassigned surplus and is subject to approval by the Division of Financial Regulation.

On April 29, 2016, the Company issued a surplus notes to Federated Mutual Insurance Company, for \$20 million. The surplus note is due on April 29, 2046. The note carries a fixed interest rate of 7.40%. Any payment of principle or interest must be paid from unassigned surplus and is subject to approval by the Division of Financial Regulation.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments to the Company's surplus; however, the following is a summary of the recommendations made in this report of examination.

Page

- 24 I recommend the Company revise its Custodial Agreement with Wells Fargo Bank to include all of the relevant protections pursuant to the provisions of OAR 836-0200-027(4)(a) through (l).

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from \$286,879,139, as presented in the December 31, 2013, report of examination, to \$329,810,147, as shown in this report. The comparative assets and liabilities are:

	<u>2018</u>	<u>December 31,</u> <u>2013</u>	<u>Change</u>
Assets	\$ 765,757,463	\$ 634,775,572	\$130,981,891
Liabilities	<u>435,947,316</u>	<u>347,896,433</u>	<u>88,050,883</u>
Surplus	<u>\$ 329,810,147</u>	<u>\$ 286,879,139</u>	<u>\$ 42,931,008</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Tho Le, AFE, and Maanik C. Gupta, insurance examiners, and David Dahl, FCAS, MAAA, Property & Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination.

Respectfully submitted,



Mark A. Giffin, CFE
Senior Financial Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

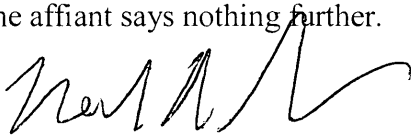
STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE, being duly sworn, states as follows:

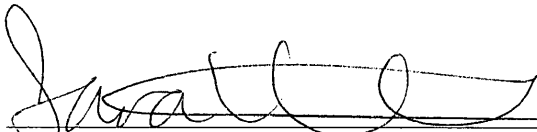
1. I have authority to represent the state of Oregon in the examination of Mutual of Enumclaw Insurance Company, Enumclaw, Washington.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Mutual of Enumclaw Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



 Mark A. Giffin, CFE
 Senior Financial Examiner
 Division of Financial Regulation
 Department of Consumer and Business Services
 State of Oregon

Subscribed and sworn to before me this 17 day of October, 2019.



Notary Public in and for the State of Oregon

My Commission Expires: 12/17/21

