STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

OF

MUTUAL OF ENUMCLAW INSURANCE COMPANY

ENUMCLAW, WASHINGTON

NAIC CODE 14761

December 31, 2009

Participating States:

Washington

SALUTATION

Seattle, Washington
March 16, 2011

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 Joseph Torti, III, Superintendent
Chair, NAIC Financial Condition (E) Committee
State of Rhode Island
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Building 69-2
Cranston, RI 02920

The Honorable Monica J. Lindeen, Commissioner
Secretary, NAIC Western Zone
Montana Office of the Commissioner of Securities and Insurance
840 Helena Avenue
Helena, MT 59601

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

Mutual of Enumclaw Insurance Company

of

Enumclaw, Washington

hereinafter referred to as “MOE” or the “Company” at the location of its home office, 1460 Wells Street, Enumclaw, Washington 98022. This report is respectfully submitted showing the financial condition and related corporate matters of MOE as of December 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Mutual of Enumclaw Insurance Company of Enumclaw, Washington. This report shows the financial condition and related corporate matters as of December 31, 2009.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

3-16-11

Date

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009 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 January 24, 2011.

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 2009 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 MOE'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 2009 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. Administrative Services Contract

According to the Administrative Services Contract effective January 25, 2001 between MOE and its wholly-owned subsidiary company, Enumclaw Property and Casualty Insurance Company (EPC), the administrative services provided by MOE to EPC are charged at a reasonable value. Additionally, the Company's 2009 NAIC Annual Statement, Notes to Financial Statements, Note 10F, states that MOE's compensation should be equal to the reasonable value of services provided to EPC.

However, RCW 48.31B.030(1)(a)(iii) requires that, "Expenses incurred and payments received must be allocated to the insurer in conformity with customary insurance accounting practices consistently applied." SSAP No. 70, paragraph 8, also requires shared expenses to be apportioned as if paid directly by the entity incurring the expenses, and where specific identification is not feasible, apportionment shall be based upon pertinent factors or ratios.

The Administrative Services Contract is linked with its Intercompany Quota Share Reinsurance Agreement with EPC by the monthly ceding commission rate, but this linkage was not mentioned in either agreement. The monthly ceding commission percentage rate, which the Company uses as its pertinent factors or ratios apportionment, is based on EPC's direct written premiums divided by the sum of both MOE's and EPC's combined direct written premiums for a specified month, with the Company establishing a minimum 5 percent ceding commission rate. This cost apportionment method was not mentioned in either the Administrative Services Contract or the Intercompany Quota Share Reinsurance Agreement.

Although the Company settles its administrative services monthly, the Administrative Services Contract did not specify a particular due date for settlement of administrative services; only that a written statement of amounts charged should be periodically rendered to EPC from MOE no less frequently than annually and settled within 30 days after receipt of such statement.

SSAP No. 25, paragraph 6, states that transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlements of amounts owed, with a specified due date, and amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) by:

- **i. Amending its Administrative Services Contract to include:**
  - **a. A description of its cost apportionment method as required by RCW 48.31B.030(1) and SSAP No. 70, paragraph 8.**
  - **b. Specific due dates for settlement of its administrative services as required by SSAP No. 25, paragraph 6.**
- **ii. Correctly describing the value of such related party services based on cost in its NAIC Annual Statement, Notes to Financial Statements, Note 10F.**

In addition, the Company is instructed to file all written intercompany agreements, including any related party agreements that are amended, with the OIC in compliance with RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b).

2. Intercompany Payables and Receivables

The beginning balance of intercompany payables and receivables between MOE and EPC as of January 1, 2009 were completely settled by July 31, 2009. The December 31, 2009 balance for intercompany payables and receivables between MOE and EPC were not settled as of the end of the 1st Quarter 2010.

The Administrative Services Contract between MOE and EPC did not specify a particular due date for settlement of administrative services; only that a written statement of amounts charged should be periodically rendered to EPC from MOE no less frequently than annually and settled within 30 days after receipt of such statement. The Intercompany Quota Share Reinsurance Agreement, which both MOE and EPC currently use in practice to settle their intercompany payables and receivables using the ceding commission rate, states that within 45 days following the end of the month the debtor party will remit to the creditor party any balance due.

The Company, however, cannot provide supporting documentation for specifically demonstrating its timely settlement of intercompany payables and receivables which would satisfy SSAP No. 25, paragraph 6, regarding timely settlements.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250 and WAC 284-07-050(2) by settling its intercompany payables and receivables balances in accordance with SSAP No. 25, paragraph 6, and to keep full and adequate accounts that support the settlement amounts in accordance with RCW 48.05.280.

3. Consolidated Federal Income Tax Sharing Agreement

According to the Consolidated Federal Income Tax Sharing Agreement signed on January 30, 2004 between MOE and EPC, the companies "agree to allocate federal income tax provisions on a separate company, reporting entity basis. Allocation is based upon separate return calculations with current credit for net losses." However, federal income tax is calculated on a combined income basis and the total tax bill is then allocated to the two companies.

Instead of using the appropriate federal corporate tax rate table and taking into account any deductions, credits, or refunds that may be applicable specifically to EPC's tax return calculation, EPC is charged a flat 35 percent tax rate on its pre-tax income; this amount is subtracted from the combined total tax calculation and the remainder of the tax bill is then allocated to MOE. The Consolidated Federal Income Tax Sharing Agreement does not mention using this flat 35 percent tax rate, nor does it explain how MOE will treat any tax return deductions, credits, or refunds that EPC generated.

The Company is instructed to comply with WAC 284-07-050(2), which requires adherence to the AP&P, specifically with SSAP No. 10, paragraphs 12(a), 12(b) and 13, which state that transactions between related parties will only be recognized if they are pursuant to a written income tax allocation agreement and such transactions are in compliance with SSAP No. 25. Furthermore, RCW 48.31B.030(1)(a) requires 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, by complying with its Consolidated Federal Income Tax Sharing Agreement and allocate the consolidated tax bill on a separate company, reporting entity basis.

4. **Investments in Foreign Securities**

MOE reported on its 2009 NAIC Annual Statement, Schedule D – Part 1, two bonds that were issued in Mexico and denominated in U.S. dollars. The NAIC Securities Valuation Office (SVO) rated the sovereign debt for Mexico as SVO 2. Foreign investments in jurisdictions rated as SVO 2 are not in compliance with RCW 48.13.180(2). An examination adjustment of $2,587,230 was made to non-admit both foreign securities. (See Notes to the Financial Statements No. 1.)

The Company is instructed to comply with RCW 48.13.180(2) by non-admitting its foreign investments when the investments are made in the sovereign debt of foreign jurisdictions that are not rated SVO 1.

5. **Premiums Ceded Inadvertently to Reinsurers**

The Company inadvertently ceded $1.86 million to its reinsurers for auto collision coverage that the Company specifically excluded from its reinsurance contracts for the 2008-2009 and 2009-2010 treaty years. Of the $1.86 million ceded over the two treaty years, it was estimated that $1,352,804 was for the 18-month period ending December 31, 2009. The Company understated its net written premiums by the ceded auto collision premium amount. Additionally, there were no losses ceded on auto collision by the Company during those two treaty years, and MOE is currently seeking refunds for the overpayment error. (See Notes to the Financial Statements No. 2.)

The Company is instructed to report as a receivable the amount for its overpaid ceded auto collision premium that will be refunded from the Company's reinsurers by following and complying with RCW 48.05.250 and WAC 284-07-050(2); and to regularly monitor and evaluate the effectiveness of its reinsurance program.

6. **Understatement of Premiums Receivable and Unearned Premiums**

MOE did not record premiums written during the final three business days of 2009 because of limitations in its legacy computer system. While this facilitates timely financial reporting and is consistent with prior years' practices during the examination period, it resulted in the reporting of $3.1 million less in premiums receivable and related unearned premiums than would have been reported as of December 31, 2009. The impact was not material on MOE's income and surplus and no examination adjustment was necessary.

MOE 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 Annual Statement Instructions and the AP&P by recognizing its premiums in the year they are written.

7. **Forms B and D Holding Company Filings**

Throughout the examination period, the Company did not disclose its Consolidated Federal Income Tax Sharing Agreement between MOE and EPC, effective January 30, 2004, in Form B, Item 5(h), as required by WAC 284-18-920.

Also, in its Form B filings as of May 15, 2009 and May 15, 2010, for Item 5(f), the Company referred to its Intercompany Quota Share Reinsurance Agreement effective as of 2002, when in fact, the Company had subsequently revised its Intercompany Quota Share Reinsurance Agreement, which became effective June 1, 2007.

In addition, no Form D was filed either for the Consolidated Federal Income Tax Sharing Agreement effective January 30, 2004, or for the Intercompany Quota Share Reinsurance Agreement effective June 1, 2007, as required by WAC 284-18-940.

The Company is instructed to comply with RCW 48.05.250, RCW 48.31B.025(2) and WAC 284-18-920 by correctly disclosing, in its Form B Holding Company filings, its Consolidated Federal Income Tax Sharing Agreement effective January 30, 2004, its Intercompany Quota Share Reinsurance Agreement effective June 1, 2007, and any other intercompany agreements in force. In addition, the Company is instructed to file intercompany agreements with the OIC in compliance with RCW 48.31B.025(1) and WAC 284-18-940, Form D, Prior Notice of A Transaction.

8. **Custodial Agreement**

MOE responded in its 2009 NAIC Annual Statement, General Interrogatories, Question 26.01, that its custodial agreement with Wells Fargo complied with the FCEH. However, the Wells Fargo custodial agreement did not contain several provisions as required by the FCEH and RCW 48.13.480. RCW 48.05.250 requires a company to file a true statement of its financial condition, transactions, and affairs.

The Company is instructed to execute a revised or amended custodial agreement that complies with the FCEH and RCW 48.13.480. The Company is also 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).

9. **Annual Appointment of the Qualified Opining Actuary**

According to the NAIC Annual Statement Instructions, the qualified actuary signing the Statement of Actuarial Opinion (SAO) must be annually appointed by the Company's Board of Trustees (BOT), or by a Board Committee, by December 31 of each year. The examiners' review of MOE's BOT and its Committees' meeting minutes for the examination period indicates that no annual appointment of the qualified actuary was made during the examination period.

The Company is instructed to comply with RCW 48.05.383 by having the Company's Board of Trustees annually appoint its qualified actuary pursuant to the NAIC Annual Statement Instructions.

10. Missing Required Reinsurance Terms

Both the Intercompany Quota Share Agreement between MOE and EPC and the Equipment Breakdown Coverage 100 percent Quota Share Reinsurance Treaty between Factory Mutual Insurance Company and MOE did not stipulate that it constitutes the entire contract, as required by SSAP No. 62, paragraph 8.

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

11. NAIC Annual Statement Errors, Omissions, and Misclassifications

Several instances were discovered in which the Company's filing of the 2009 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the 2009 NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in this instruction were material to the financial statements and no examination adjustments were necessary:

(1) In its 2009 NAIC Annual Statement, the Company incorrectly classified Federal Home Loan Bank (FHLB) investments as a U.S. Government agency that was reported on Line 1.21 of the Summary Investment Schedule. According to the 2009 NAIC Annual Statement Instructions, FHLB investments should have been classified as U.S. Government sponsored agency investments and reported on Line 1.22 of the Summary Investment Schedule.

(2) In its 2009 NAIC Annual Statement, under General Interrogatories, Part 1 - Common Interrogatories, General, the Company responded "No" to Question 2.1 regarding whether any changes were made to the Company's Articles of Incorporation and Bylaws during 2009. MOE filed with the OIC an "Amended and Restated Articles of Incorporation" effective as of January 30, 2009. The Company should have responded "Yes" to Question 2.1.

(3) In its 2009 NAIC Annual Statement, Notes to Financial Statements, Note 9, Item F.2, the Company failed to include the disclosure relating to the enforceable right to recoup federal income taxes or net losses carried forward.

The Company is instructed to comply with RCW 48.05.073 and RCW 48.05.250 by filing its financial statements in the general form and context approved by the NAIC and with WAC 284-07-050(2)(a), which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History

MOE was originally incorporated in February 1898 under the laws of the state of Washington. The Company was reincorporated August 11, 1899 under the Mutual Insurance Law of 1899, which allowed incorporation under an assessment plan. The Company was organized by, and was 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 first change to the original Articles of Incorporation in 1943 broadened the definition of property risks covered to reflect a more urban living environment. Changes continued periodically with the current Certificate of Authority allowing for property, casualty, surety, marine and transportation business.

In 1948, the assessment liability feature was removed from MOE's policies and the advance premium plan was instituted as allowed by RCW 48.09.270. The Company has continued to maintain the minimum surplus required by this law to write non-assessable policies.

The Company's name was changed to Mutual of Enumclaw Insurance Company in 1966 by amendment to Article II of the Articles of Incorporation. On June 30, 1994, the Company sold its wholly-owned subsidiary, Enumclaw Life Insurance Company.

On November 27, 2001, the Company incorporated Enumclaw Property and Casualty Insurance Company, a Washington domestic stock insurance company.

Capitalization

The Company is a mutual insurer owned by its member policyholders, and it does not issue any common or preferred capital stock. MOE's capitalization consists of its policyholders' surplus and two, $10 million surplus notes with a 30 year term. Total capital and surplus as of December 31, 2009 was $226,293,236.

Territory and Plan of Operations

The Company is licensed to transact business in Arizona, Idaho, Nevada, Oregon, Utah, and Washington. MOE writes predominately personal lines business which is approximately 66 percent of net premiums written. The majority of its risks are located in Washington, Oregon and Idaho. The personal lines of business consist of automobile, homeowners and dwelling fire coverages provided to a preferred client base. Commercial lines products represent approximately 34 percent of net written premiums and include small commercial multiple peril, commercial auto, businessowners, farmowners and general liability. The Company has eighteen claims offices and more than 250 independent agencies and brokers.

Growth of Company

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

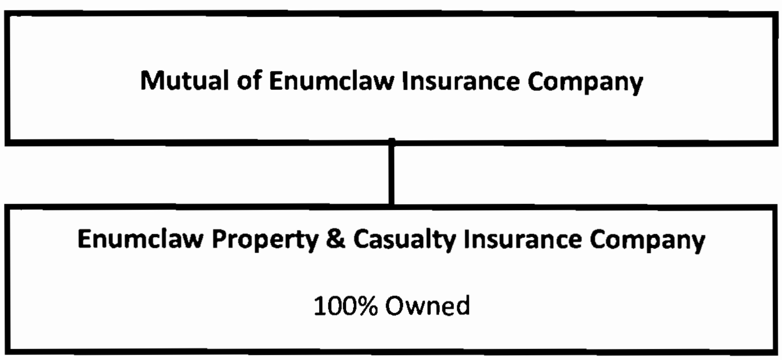
Year	Admitted Assets	Liabilities	Capital & Surplus
2009	$571,231,163	$344,937,927	$226,293,236
2008	539,681,915	334,939,013	204,742,902
2007	554,259,331	343,360,224	210,899,107
2006	528,540,125	336,312,300	192,227,825
2005	515,092,260	329,714,305	185,377,955

Year	Premiums Earned	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income
2009	$315,384,390	($ 9,879,466)	$ 25,717,517	$21,447,945
2008	307,135,402	8,759,289	1,972,859	9,662,016
2007	296,457,747	4,722,161	19,747,562	19,897,551
2006	283,439,939	(861,461)	18,075,989	16,249,421
2005	277,732,517	15,154,149	15,318,098	22,732,196

Affiliated Companies

EPC was incorporated in Washington State in November 2001 as a wholly-owned subsidiary of the Company. According to the Company, EPC was established to facilitate new marketing opportunities in both personal and commercial lines of insurance.

The following organizational chart is taken from the Company's filed 2009 NAIC Annual Statement:



Intercompany Agreements

As of December 31, 2009, the Company had the following intercompany agreements in force, with their effective date:

Administrative Services Contract	January 25, 2001
Intercompany Quota Share Reinsurance Agreement	June 1, 2007
Consolidated Federal Income Tax Sharing Agreement	January 30, 2004

MANAGEMENT AND CONTROL

Board of Trustees

Trustees as of December 31, 2009:

Bernadene Dochnahl	Board Chairperson
Tadashi A. Fujimoto	
Thomas P. Garland	
Robert C. Guile	
Donald E. Powell	
Jane L. Repensek	
Gerald P. Schmidt	
Frederick M. Schunter	
David M. Waldo	
James R. Wulff	

Officers

Officers as of December 31, 2009:

Gerald P. Schmidt	President
Bradley G. Gipson	Treasurer and Vice President, Finance
Frederick M. Schunter	Secretary
Eric P. Nelson	Senior Vice President
David A. Wilson	Vice President, Information Technology
Bryan K. Stanwood	Vice President, Underwriting
Jeannie M. Fleming	Vice President, Claims
Richard D. Hundven	Vice President, Services
Rena K. Bilodeau	Vice President, Human Resources
Robert C. Horn	Vice President, Marketing

Conflict of Interest

The Company annually requires all employees, trustees, and officers to complete a conflict of interest statement. The procedure includes reading the Washington State Statute, RCW 48.07.130, and returning a signed Statement of Disclosure to the Company. Signed conflict of interest statements are reviewed by the Company and its BOT annually for conflicting situations. No exceptions were noted during our review.

Fidelity Bond and Other Insurance

The Company has fidelity insurance that meets and exceeds the NAIC recommended minimum coverage levels. Additionally, MOE has coverages for Directors and Officers (D&O), employment practices, fiduciary, property, automobile, general liability, and umbrella.

Officers', Employees', and Agents' Welfare and Pension Plans

MOE offers its regular full-time employees medical, dental and vision coverage; disability insurance; life insurance and accidental death and dismemberment (AD&D) coverage; and an opportunity to participate in the 401(k) salary deferral plan. Long term care insurance is also offered. Both full-time and part-time employees in good standing are eligible to participate in the profit sharing plan. MOE has a defined benefit pension plan for those employees who met certain eligibility requirements, but since April 1, 2006, this plan is frozen to new participants and accrued benefits are frozen for participants whose age plus years of service with the Company is less than 60.

CORPORATE RECORDS

Our review of the minutes of the BOT indicated that the minutes supported the transactions of the Company and the actions taken by its officers. All BOT meetings were conducted with a quorum present.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Year	Loss Reserves	LAE Reserves
2009	$138,884,880	$40,038,510
2008	141,821,038	39,555,782
2007	150,453,333	42,356,860
2006	151,168,666	47,298,416
2005	146,267,518	44,218,480

As shown above, the reserves carried by the Company for its loss and loss adjustment expense (LAE) liabilities were $138,884,880 and $40,038,510, respectively, as of December 31, 2009. The reserves were reviewed by the property and casualty actuarial staff employed by the OIC.

The Company provided loss and loss adjustment expense development data by line of business as of December 31, 2009. Company personnel provided additional information to the OIC actuarial staff by electronic mail and in face-to-face meetings. OIC actuarial staff also reviewed an actuarial report prepared by Ernst & Young LLP (E&Y), the Company's actuarial consulting firm, in support of the Company's 2009 Statement of Actuarial Opinion.

The OIC actuarial staff's estimates indicate that the reserves for loss and LAE as of December 31, 2009, on a net basis, are within a reasonable range of estimates. Therefore, the loss and LAE reserves are accepted as reported in the Company's 2009 NAIC Annual Statement.

REINSURANCE

MOE participates in quota share, catastrophe and excess of loss treaties. The Company also has a boiler and machinery quota share treaty. Each of these treaties is spread across an extensive portfolio of reinsurers, limiting any concentrated assumed risk.

Reinsurance agreements were found to be in compliance with Washington state reinsurance statutes with the exception of two treaties which did not include the entire contract clause (see Instruction No. 10). All reinsurers are either authorized to do business in Washington State or the Company holds an approved letter of credit. All reinsurance agreements are properly classified in Schedule F of the 2009 Annual Statement. Generally, the Company has controls in place to adequately monitor its reinsurance program including the financial condition of the reinsurers. (See Instruction No. 5.)

MOE utilizes the services of a reinsurance intermediary, Willis Re, to solicit, negotiate, and place reinsurance cessions on its behalf.

The Company also assumes 100% of all net business written by EPC and allows a ceding commission sufficient to cover all underwriting and acquisition expenses of EPC.

STATUTORY DEPOSITS

MOE maintained the following statutory deposits as of December 31, 2009:

State	Type	Book Value	Fair Value
Nevada	Bond	$ 202,175	$ 205,376
Oregon	Bond	326,828	354,221
Washington	Bond	4,219,796	4,204,220
Total		**$4,748,799**	**$4,763,817**

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Ernst & Young LLP (E&Y) and 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 Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Plan and Organize
- Acquire and Implement
- Deliver and Support
- Monitor and Evaluate

The IT systems and controls were evaluated to gain an understanding of general IT control risks and assess the effectiveness of these controls. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels.

SUBSEQUENT EVENTS

On January 30, 2010, Gerald Schmidt retired as President of the Company. The Company's Senior Vice President, Eric Nelson, was named President by the Board of Trustees and assumed all duties as the President of MOE effective January 30, 2010.

On October 25, 2010, the Company announced its decision to acquire an insurance organization domiciled in Nevada by signing an agreement to purchase all outstanding common capital stock of Chicago-Vegas Holding Company, Inc., the parent of Nevada General Insurance Company and Auto Insurance America Insurance Agency. The acquisition will give MOE additional business in Arizona, New Mexico and Nevada and potentially allows MOE to offer additional product lines.

There were no other material events impacting the Company between the examination date and the last day of fieldwork, January 24, 2011.

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 Mutual of Enumclaw Insurance Company as of December 31, 2009:

Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Five Year Reconciliation of Surplus
Analysis of Changes in Financial Statements Resulting from the Examination

Mutual of Enumclaw Insurance Company
Assets, Liabilities, Surplus and Other Funds
December 31, 2009

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Assets				
Bonds	$410,536,205	($2,587,230)	$407,948,975	1
Stocks:				
Preferred stocks	6,754,196		6,754,196	
Common stocks	30,965,654		30,965,654	4
Mortgage loans on real estate (Schedule B):				
First liens	56,465		56,465	
Real estate (Schedule A):				
Properties occupied by the company	5,217,763		5,217,763	
Cash and short-term investments	20,588,789		20,588,789	4
Subtotal, cash and invested assets	474,119,072	(2,587,230)	471,531,842	
Investment income due and accrued	4,399,304		4,399,304	
Premiums and considerations:				
Uncollected premiums and agents' balances in course of collections	10,163,676		10,163,676	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	60,887,552	3,100,000	63,987,552	3
Amount recoverable from reinsurers	1,822,796		1,822,796	
Other amounts receivable under reinsurance contracts	0	1,352,804	1,352,804	2
Current federal and foreign income tax recoverable and interest thereon	935,908		935,908	
Net deferred tax asset	14,445,113		14,445,113	
Electronic data processing equipment and software	2,834,480		2,834,480	
Aggregate write-ins for other than invested assets	1,623,262		1,623,262	
Total Assets	$571,231,163	$1,865,574	$573,096,737	
Liabilities, Surplus and Other Funds				
Losses	$138,884,880	$0	$138,884,880	
Loss adjustment expenses	40,038,510		40,038,510	
Commissions payable, contingent commissions and other similar charges	8,282,364		8,282,364	
Other expenses	9,250,064		9,250,064	
Taxes, licenses and other fees (excluding federal and foreign income taxes)	778,879		778,879	
Unearned premiums	142,058,742	3,100,000	145,158,742	3
Advance premium	3,447,046		3,447,046	
Ceded reinsurance premiums payable	1,623,208		1,623,208	
Provision for reinsurance	463,506		463,506	
Payable to parents, subsidiaries and affiliates	110,728		110,728	
Total Liabilities	344,937,927	3,100,000	348,037,927	
Surplus Notes	20,000,000		20,000,000	
Unassigned funds (surplus)	206,293,236	(1,234,426)	205,058,810	1 & 2
Surplus as regards policyholders	226,293,236	(1,234,426)	225,058,810	
Total Liabilities, Surplus and Other Funds	$571,231,163	$1,865,574	$573,096,737	

Mutual of Enumclaw Insurance Company
Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2009

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Underwriting Income				
Premiums earned	$315,384,390	$929,282	$316,313,672	2
Deductions				
Losses incurred	177,995,895		177,995,895	
Loss adjustment expenses incurred	40,056,995		40,056,995	
Other underwriting expenses incurred	107,210,966		107,210,966	
Total underwriting deductions	325,263,856	0	325,263,856	
Net underwriting gain or (loss)	**(9,879,466)**	**929,282**	**(8,950,184)**	
Investment income				
Net investment income earned	19,302,058		19,302,058	
Net realized capital gains or (losses)	6,415,459		6,415,459	
Net investment gain or (loss)	**25,717,517**	**0**	**25,717,517**	
Other income				
Net gain (loss) from agents' or premiums balances charged off	(259,332)		(259,332)	
Finance and service charges not included in premiums	3,343,373		3,343,373	
Aggregate write-ins for miscellaneous income	(4,214)		(4,214)	
Total other income	**3,079,827**	**0**	**3,079,827**	
Net income, after dividends to policyholders and capital gains tax but before federal and foreign income taxes	18,917,878	929,282	19,847,160	
Federal and foreign income taxes incurred	(2,530,067)		(2,530,067)	
Net income	**$21,447,945**	**$929,282**	**$22,377,227**	
Capital and Surplus Account				
Surplus as regards policyholders, December 31 prior year	**$204,742,903**	**$0**	**$204,742,903**	
Gains and (losses) in surplus				
Net income	21,447,945	929,282	22,377,227	
Change in net unrealized capital gains or (losses)	1,218,920		1,218,920	
Changes in net deferred income tax	(4,453,512)		(4,453,512)	
Change in nonadmitted assets	3,468,761	(2,587,230)	881,531	1
Change in provision for reinsurance	(131,781)		(131,781)	
Aggregate write-ins for gains and losses in surplus	0	423,522	423,522	2
Change in surplus as regards policyholders for the year	**21,550,333**	**(1,234,426)**	**20,315,907**	
Surplus as regards policyholders, December 31 current year	**$226,293,236**	**($1,234,426)**	**$225,058,810**	

Mutual of Enumclaw Insurance Company
Five Year Reconciliation of Surplus
For the Years Ended December 31,

	2009	2008	2007	2006	2005
Capital and Surplus, December 31, previous year	**$204,742,903**	**$210,899,107**	**$192,227,825**	**$185,377,954**	**$161,473,062**
Net income or (loss)	21,447,945	9,662,016	19,897,551	16,249,421	22,732,196
Net unrealized capital gains or (losses)	1,218,920	(2,852,414)	622,243	789,621	457,067
Changes in net deferred income tax	(4,453,512)	3,585,507	2,892,270	(2,019,619)	(225,070)
Changes in nonadmitted assets	3,468,761	(17,705,692)	(4,368,456)	(7,273,491)	(820,300)
Changes in provision for reinsurance	(131,781)	1,154,379	(808,649)	(114,900)	1,589,178
Aggregate write-ins for gains and losses in surplus	0	0	436,323	(781,161)	171,821
Changes in surplus as regards policyholders for the year	21,550,333	(6,156,204)	18,671,282	6,849,871	23,904,892
Capital and Surplus, December 31, current year	**$226,293,236**	**$204,742,903**	**$210,899,107**	**$192,227,825**	**$185,377,954**

Mutual of Enumclaw Insurance Company
Analysis of Changes in Financial Statements Resulting from the Examination
December 31, 2009

	Balance Per Company	Balance Per Examination	Notes	Increase (Decrease) in Surplus	Total
Capital and Surplus, December 31, 2009 - per Annual Statement					$226,293,236
Assets					
Bonds	$410,536,205	$407,948,975	1	($2,587,230)	
Other amounts receivable under reinsurance contracts	$0	1,352,804	2	1,352,804	
Change in surplus					($1,234,426)
Capital and Surplus, December 31, 2009 - per Examination					$225,058,810

NOTES TO THE FINANCIAL STATEMENTS

Examination adjustments to the Company's financial statements are as follows:

1. Bonds (Schedule D)

Reduce bonds by $2,587,230, which represents the total for two bonds that were issued in Mexico and denominated in U.S. dollars. An insurer cannot invest in obligations and securities of foreign entities if its foreign jurisdiction does not have a NAIC Securities Valuation Office (SVO) sovereign debt rating of SVO 1. As of December 31, 2009, Mexico had a SVO 2 sovereign debt rating. (See Instruction No. 4.)

2. Other Amounts Receivable Under Reinsurance Contracts

Increase this admitted asset balance sheet line item by an estimated $1.35 million for the 18-month period ending December 31, 2009 from the approximately $1.86 million ceded to the Company's reinsurers for auto collision coverage that the Company specifically excluded from its reinsurance contracts for the 2008-2009 and 2009-2010 reinsurance contract treaty years.

The Company needs to make the following adjustment in order to address the impact of the incorrect reinsurance payments of $1,352,804 that were made by MOE through December 31, 2009:

- Increase premiums earned by $929,282 in order to address the impact of incorrect payments that were made in 2009
- Increase "Aggregate write-ins for gains and losses in surplus" by $423,522 in order to address the impact of incorrect payments that were made in 2008
- Increase "Other amounts receivable under reinsurance contracts" by $1,352,804 in order to record the receivable from reinsurers for current and prior years

The remaining payments of $505,761 were made in 2010 and have no impact on the 2009 financial statements. (See Instruction No. 5.)

3. Deferred Premiums Receivable and Unearned Premiums

Increase both deferred premiums receivable and unearned premiums by $3.1 million, as MOE did not record its premiums written during the final three business days of 2009 as a result of the Company closing its year-end books early for business written through its Legacy computer system. (See Instruction No. 6.)

4. Special Consent

The Company holds a special consent, issued by the state of Washington, with an effective date of June 30, 2009, and subsequently renewed effective January 1, 2010, that allows the Company to own and purchase mutual funds if certain statutory requirements have been met. MOE is allowed to acquire and hold a single entity's NAIC non-exempt listed mutual funds totaling not more than four percent of MOE's assets. As of December 31, 2009, MOE's mutual fund investments represented 3.1 percent of its admitted assets. One of MOE's mutual fund investments exceeded the one percent of assets limitation that would have been imposed by RCW 48.13.240(3) without the special consent.

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

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Mutual of Enumclaw 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; James Antush, Actuarial Analyst; Dan Forsman, Actuarial Analyst; Randy E. Fong, AFE, Examiner-in-Charge; Edsel R. Dino, Financial Examiner; Euli Rath, CPA, Financial Examiner; Katy Bardsley, Financial Examiner; and Zairina Othman, 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,

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

AFFIDAVIT

STATE OF WASHINGTON }
} ss
COUNTY OF KING }

Tarik Subbagh, CPA, 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 Mutual of Enumclaw Insurance 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.

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

Subscribed and sworn to before me this 16th day of March, 2011.

Notary Public in and for the
State of Washington

COLLEEN JANSEN
COMMISSION EXPIRES
NOTARY
PUBLIC
5-17-12
STATE OF WASHINGTON