STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION
OF
ENUMCLAW PROPERTY AND CASUALTY INSURANCE COMPANY
ENUMCLAW, WASHINGTON
NAIC CODE 11232
December 31, 2013

Order No. 15-58
Enumclaw Property and Casualty Insurance Company
Exhibit A
Dear Commissioner Kreidler:

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

Enumclaw Property and Casualty Insurance Company

of

Enumclaw, Washington

hereinafter referred to as “EPC,” or the “Company” at the location of its home office, 1460 Wells Street, Enumclaw, WA 98022. This report is respectfully submitted showing the financial condition and related corporate matters of EPC as of December 31, 2013.
I hereby certify I have read the attached Report of the Financial Examination of Enumclaw Property and Casualty Insurance Company of Enumclaw, Washington. This report shows the financial condition and related corporate matters as of December 31, 2013.

Patrick H. McNaughton
Chief Examiner

3-13-15
Date
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SCOPe Of THE ExAMINATION

This examination covers the period January 1, 2010 through December 31, 2013 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 22, 2015.

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 2013 NAIC FCEH 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 the Company's overall potential risks both currently and on an on-going basis, to allow the examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

This examination was classified as a coordinated lead state examination. Washington was designated the lead state of the coordinated examination and examiners from the states of Nevada, Oregon, and Washington participated and assessed the financial condition and corporate affairs of the Company.

INSTRUCTIONS

The examiners reviewed the Company's filed 2013 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).

1. Investment Policy Statement (IPS)

EPC's IPS was not approved annually by its Board of Directors (BOD) as required by RCW 48.13.051.

The Company is instructed to comply with RCW 48.13.051 by having its BOD review and approve the Company's IPS at least annually.
COMMENTS AND RECOMMENDATIONS

None

COMPANY PROFILE

Company History
The Company was incorporated on November 27, 2001 as a stock, multiple line, property and casualty insurer in the state of Washington. The Company commenced business in the state of Washington on January 25, 2002.

Capitalization
As of December 31, 2013, the Company had 600,000 shares of common stock authorized, of which 300,000 shares are outstanding with a par value of $10 per share totaling $3 million. EPC's capitalization includes the outstanding common stock shares, gross paid in and contributed surplus of $3.1 million, and $1.7 million in unassigned funds. Total capital and surplus as of December 31, 2013 was $7,760,210.

All issued and outstanding shares of stock of the Company are wholly owned by its parent, Mutual of Enumclaw Insurance Company (MOE).

Territory and Plan of Operations
The Company is licensed to transact business in Arizona, Idaho, Nevada, Oregon, Utah, and Washington. EPC writes predominantly personal lines business, with 51.1 percent of premiums written in Washington, 22.3 percent in Oregon, 17.3 percent in Utah, and 9.3 percent in Idaho in 2013.

Growth of Company
The following reflects the Company’s growth as reported in its filed NAIC Annual Statements for the four year period under examination:

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Capital &amp; Surplus</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$8,658,097</td>
<td>$897,887</td>
</tr>
<tr>
<td>2012</td>
<td>8,481,613</td>
<td>811,019</td>
</tr>
<tr>
<td>2011</td>
<td>7,723,227</td>
<td>100,084</td>
</tr>
<tr>
<td>2010</td>
<td>7,598,598</td>
<td>104,537</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium Earned *</th>
<th>Net Underwriting Gain (Loss)</th>
<th>Net Investment Gain (Loss)</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$0</td>
<td>$0</td>
<td>$137,871</td>
<td>$89,616</td>
</tr>
<tr>
<td>2012</td>
<td>0</td>
<td>0</td>
<td>180,379</td>
<td>115,520</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>0</td>
<td>194,982</td>
<td>129,082</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>0</td>
<td>194,484</td>
<td>194,484</td>
</tr>
</tbody>
</table>

* EPC cedes 100 percent of its net premiums written to MOE.
Affiliated Companies
The Company is 100 percent owned by Mutual of Enumclaw Insurance Company which is a mutual company owned by its policyholders.

The following organizational chart is taken from the Company’s filed 2013 NAIC Annual Statement:

Intercompany Agreements
As of December 31, 2013, the Company had the following intercompany agreements in force, with the effective date indicated:

Intercompany Quota Share Reinsurance Agreement with MOE January 1, 2013
Consolidated Federal Income Tax Sharing Agreement with MOE January 30, 2004

MANAGEMENT AND CONTROL

Board of Directors
Directors as of December 31, 2013:

Bernadene Dochnahl Board Chairperson
Tadashi Fujimoto
Thomas Garland
Robert Guile
Eric Nelson
Donald Powell
Jane Repensek
Frederick Schunter
David Waldo
Officers
Officers as of December 31, 2013:

Eric Nelson  President and Chief Executive Officer
Rena Bilodeau  Vice President Human Resources
Jeannie Fleming  Vice President Claims
Bradley Gipson  Chief Financial Officer and Treasurer
Richard Hawkins  Vice President Marketing
Richard Hundven  Vice President Services
Denise Pavlov  Chief Underwriting Officer
Frederick Schunter  Secretary
David Wilson  Vice President Information Technology

Conflict of Interest
MOE and EPC annually require all employees, directors, and officers to complete a conflict of interest statement. All are required to disclose to the Company relevant outside interests. The conflict of interest statements are reviewed by the Company and its BOD annually for conflicting situations. No exceptions were noted during our review.

Fidelity Bond and Other Insurance
Combined with its parent MOE, EPC has fidelity insurance that meets and exceeds the NAIC recommended minimum coverage levels. Additionally, EPC has Directors and Officers (D&O), employment practices, fiduciary, property, automobile, general liability, and umbrella coverages.

CORPORATE RECORDS

The Company’s Articles of Incorporation, Bylaws, Certificates of Authority, and meeting minutes of the BOD and its committees were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes. However, the BOD did not approve the Company’s IPS annually. (See Instruction No. 1.)

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserves carried by the Company for loss and loss adjustment expenses were $0 and $0, respectively, as of December 31, 2013. The balances are accurate due to the reinsurance agreement with MOE. The agreement calls for EPC to cede 100 percent of its net written premiums to MOE. The associated reserves are carried by MOE.

REINSURANCE

The Company cedes 100 percent of all net premiums written to its parent, MOE. EPC and MOE participate in quota share, catastrophic, and excess of loss treaties with various reinsurers. Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes and are all properly classified in Schedule F of the Company’s 2013 NAIC Annual Statement. The agreements transfer risk in accordance with SSAP No. 62R, paragraph 10.
Combined with its parent MOE, EPC utilizes the services of a reinsurance intermediary, Willis Re Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. The Company's reinsurance intermediary is in compliance with provisions of Chapter 48.94 RCW, Reinsurance Intermediary Act.

**STATUTORY DEPOSITS**

The Company maintained the following statutory deposits as of December 31, 2013:

<table>
<thead>
<tr>
<th>State</th>
<th>Type</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idaho</td>
<td>Bond</td>
<td>$1,126,658</td>
<td>$1,122,469</td>
</tr>
<tr>
<td>Nevada</td>
<td>Bond</td>
<td>217,901</td>
<td>217,938</td>
</tr>
<tr>
<td>Oregon</td>
<td>Bond</td>
<td>279,643</td>
<td>277,062</td>
</tr>
<tr>
<td>Washington</td>
<td>Bond</td>
<td>5,100,936</td>
<td>5,219,189</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$6,725,138</td>
<td>$6,836,658</td>
</tr>
</tbody>
</table>

**ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) basis and is audited annually by the certified public accounting firm of Ernst & Young LLP (E&Y). The Company received an unqualified opinion for all years under review. The Company’s accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing 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 system and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which have been tested on a regular basis and includes the availability of an alternate site.

**SUBSEQUENT EVENTS**

EPC and MOE notified the OIC in 2014 of their plan to redomesticate to Oregon for the purpose of converting to a mutual holding company structure under Oregon’s mutual holding company act.

In 2014, the Company engaged Johnson Lambert LLP as its new external audit firm, and Pinnacle Actuarial Resources, Inc., as its actuarial consulting firm replacing Ernst & Young LLP.
The following financial statements show the financial condition of Enumclaw Property and Casualty Insurance Company as of December 31, 2013:

Assets, Liabilities, Surplus and Other Funds
Statement of Income and Capital and Surplus Account
Four Year Reconciliation of Surplus
### Enumclaw Property and Casualty Insurance Company

#### Assets, Liabilities, Surplus and Other Funds

**December 31, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Balance Per Company</th>
<th>Examination Adjustments</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$8,194,103</td>
<td>0</td>
<td>$8,194,103</td>
</tr>
<tr>
<td>Cash, cash equivalents, and short-term investments</td>
<td>219,660</td>
<td>0</td>
<td>219,660</td>
</tr>
<tr>
<td><strong>Subtotals, cash and invested assets</strong></td>
<td>8,413,763</td>
<td>0</td>
<td>8,413,763</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>56,059</td>
<td>0</td>
<td>56,059</td>
</tr>
<tr>
<td>Receivables from parent, subsidiaries and affiliates</td>
<td>188,275</td>
<td>0</td>
<td>188,275</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$8,658,097</td>
<td>0</td>
<td>$8,658,097</td>
</tr>
</tbody>
</table>

| **Liabilities, Surplus and Other Funds** |                     |                         |                         |
| Losses                    | 0                    | 0                       | 0                       |
| Loss adjustment expenses  | 0                    | 0                       | 0                       |
| Other expenses            | 3,152                | 3,152                   | 3,152                   |
| Taxes, licenses and fees  | 846,480              | 0                       | 846,480                 |
| Current federal and foreign income taxes | 48,255 | 0 | 48,255 |
| **Total Liabilities**     | 897,887              | 0                       | 897,887                 |
| Common capital stock      | 3,000,000            | 3,000,000               | 3,000,000               |
| Gross paid in and contributed surplus | 3,100,000 | 3,100,000 |
| Unassigned funds (surplus) | 1,660,210           | 1,660,210               | 1,660,210               |
| Surplus as regards policyholders | 7,760,210 | 0 | 7,760,210 |
| **Total Liabilities, Surplus and Other Funds** | $8,658,097 | 0 | $8,658,097 |
Enumclaw Property and Casualty Insurance Company

Statement of Income and Capital and Surplus Account
For the Year Ended December 31, 2013

<table>
<thead>
<tr>
<th>Underwriting Income</th>
<th>Balance Per Company</th>
<th>Examination Adjustment</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums earned</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses incurred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss adjustment expenses incurred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total underwriting deductions</strong></td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net underwriting gain (loss)</strong></td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Income</th>
<th>Balance Per Company</th>
<th>Examination Adjustment</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income earned</td>
<td>137,871</td>
<td>137,871</td>
<td></td>
</tr>
<tr>
<td>Net realized capital gains (losses)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net investment gain (loss)</strong></td>
<td>137,871</td>
<td>0</td>
<td>137,871</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income</th>
<th>Balance Per Company</th>
<th>Examination Adjustment</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net gain (loss) from agents' or premium balances charged off</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and service charges not included in premiums</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate write-ins for miscellaneous income</td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td></td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Balance Per Company</th>
<th>Examination Adjustment</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes</td>
<td>137,871</td>
<td>137,871</td>
<td></td>
</tr>
<tr>
<td>Federal and foreign income taxes incurred</td>
<td>48,255</td>
<td>48,255</td>
<td></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$89,616</td>
<td>$0</td>
<td>$89,616</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital and Surplus Account</th>
<th>Balance Per Company</th>
<th>Examination Adjustment</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus as regards policyholders, December 31 prior year</td>
<td>$7,670,594</td>
<td>$0</td>
<td>$7,670,594</td>
</tr>
<tr>
<td>Net Income</td>
<td>89,616</td>
<td></td>
<td>89,616</td>
</tr>
<tr>
<td>Change in surplus as regards policyholders for the year</td>
<td>89,616</td>
<td>0</td>
<td>89,616</td>
</tr>
<tr>
<td>Surplus as regards policyholders, December 31 current year</td>
<td>$7,760,210</td>
<td>$0</td>
<td>$7,760,210</td>
</tr>
</tbody>
</table>
Enumclaw Property and Casualty Insurance Company

Four Year Reconciliation of Surplus
For the Years Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Surplus, December 31, prior year</td>
<td>$7,670,594</td>
<td>$7,623,143</td>
<td>$7,494,061</td>
<td>$7,299,577</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>89,616</td>
<td>115,520</td>
<td>129,082</td>
<td>194,484</td>
</tr>
<tr>
<td>Aggregate write-ins for gains and losses in surplus</td>
<td></td>
<td>(68,069)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in surplus as regards policyholders for the year</td>
<td>89,616</td>
<td>47,451</td>
<td>129,082</td>
<td>194,484</td>
</tr>
<tr>
<td>Capital and Surplus, December 31, current year</td>
<td>$7,760,210</td>
<td>$7,670,594</td>
<td>$7,523,143</td>
<td>$7,494,061</td>
</tr>
</tbody>
</table>
The Company has no special consents or permitted practices from the state of Washington.
ACKNOWLEDGMENT

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

In addition to the undersigned, Michael Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy Hays, CPA, JD, Investment Specialist; Eric Slavich, ACAS, MAAA, Actuary; Dan Forsman, Actuarial Analyst; Katy Bardsley, CPA, CFE, Financial Examiner; Jim Gill, CPA, MBA, Financial Examiner; Constantine Arustamian, CFE, CIE, CPA, CPCU, ARC, ARM, ARe, AIS, AIAF, API, Financial Examiner; Youngjae Lee, CPA, CFE, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, and examiners representing the Oregon and Nevada insurance departments, participated in the examination and in the preparation of this report.

Respectfully submitted,

[Signature]

Tarik Subbagh, MSBA, CPA, CFE
Examiner-in-Charge
State of Washington
Tarik Subbagh, 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 Enumclaw Property and Casualty 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, MSBA, CPA, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 13th day of March, 2015.

Notary Public in and for the State of Washington
March 6, 2015

Mr. William R. Michels  
Deputy Insurance Commissioner  
Company Supervision Division  
P.O. Box 40255  
Olympia, WA 98504-0255


Dear Mr. Michels:

Based on our review of the referenced reports received on March 3rd, 2015, and page 8 of the Mutual of Enumclaw Insurance Company examination report to include the complete balance sheet per our subsequent communications with Mr. Michael Jordan, enclosed please find the company comments on the reports of examination for both companies.

Please contact me if you have questions.

Sincerely,

Andrew Chen, CPA, MBA  
Corporate Controller  
Mutual of Enumclaw Insurance Company  
Enumclaw Property and Casualty Insurance Company

Enclosures

cc: Eric Nelson, President  
    Brad Gipson, Chief Financial Officer  
    Tom Taylor, Chief Risk Officer
Enumclaw Property and Casualty Insurance Company
Company Comments
State of Washington 2013 Financial Examination Reports
March 6, 2015

1. Investment Policy Statement (IPS)

EPC’s IPS was not approved annually by its Board of Trustees (BOT) as required by RCW 48.13.051.

The Company is instructed to comply with RCW 48.13.051 by having its BOT review and approve the Company’s IPS at least annually.

Company Comment:
The Company’s current Investment Policy statement was approved by the Board of Director’s subcommittee, the Investment Committee. On January 30, 2015, the full Board considered the Investment Committee recommendation and approved the current Investment Policy Statement. The Company will be mindful that the full Board must approve this document annually in the future.