STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

OF

Mutual of Enumclaw Insurance Company
Enumclaw, Washington

NAIC CODE 14761
DECEMBER 31, 2004

Participating States:
Washington

SALUTATION

Seattle, Washington
March 31, 2006

The Honorable Alfred E. Gross
Insurance Commissioner
Chair, NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
Commonwealth of Virginia
PO Box 1157
Richmond, VA 23219

The Honorable Gary Smith
Director, Idaho Department of Insurance
NAIC Secretary, Western Zone
Department of Insurance
700 West State Street
Boise, ID 83720-0043

The Honorable Mike Kreidler, Commissioner
Washington Office of the Insurance Commissioner (OIC)
Insurance Building
302 – 14th Avenue SW
Olympia, WA 98504

Dear Commissioners and Director:

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

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 condition of the Company as of December 31, 2004.

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, 2004.

Patrick H. McNaughton

PATRICK H. MCNAUGHTON
Chief Examiner

March 30, 2006
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004 and comprises a comprehensive review of the books and records of the Company. The examination followed the 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 that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2004 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 contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. NAIC Annual Statement Errors and Misclassifications

The examination team discovered several instances in which the Company's filing of the 2004 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the 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 made.

The Company is instructed to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions. The following exceptions were noted in our examination:

a. Investment in Money Market Funds

The Company's investments in Wells Fargo Government Money Market Funds and Union Bank were incorrectly classified as cash. This classification was not in compliance with the AP&P which required the investments to be classified as stocks.

b. Incorrect Notes Schedules Information

Some of the schedules and the disclosed information in the Notes to the Financial Statements of the 2004 NAIC Annual Statement contained incorrect and/or incomplete information such as an incorrect rental lease commitment schedule in Note No. 15, omitting pension cost amounts in Note No. 12, and all the notes, Notes 1 through 35, were repeated and recorded again by Notes 36 through 70. Some of the errors were results of irrelevant and/or incomplete information that was caused by not updating the information from prior years' filings. Also, in several instances, the Company did not disclose all of the required information.

c. Aggregate Write-ins

During our review of the Details of Write-ins Aggregated on Line 23 of the Liabilities, Surplus and Other Funds page, we discovered that the balance includes several items that should have been reported on other statement lines. The Aggregate Write-ins for Liabilities line is only for reporting other liability items not specifically provided for on the Liabilities, Surplus, and Other Funds page. The following items should have been reported on other statement lines:

Other Expenses	($3,858,536)
Receivables from parent, subsidiaries, and affiliates	142,008
Amounts withheld or retained by company for others	(34,642)
Taxes, licenses, and fees	(1,726)

d. Advance Premiums

The Company did not report any advance premiums on Line 10 of Page 3 (Liabilities, Surplus, and Other Funds) of the 2004 NAIC Annual Statement, when, in fact, premiums had been received in advance of the effective date on several policies. The advance premiums were netted incorrectly against premiums receivable on Line 12.1 (Uncollected Premiums and Agents' Balances in the Course of Collection).

2. Incorrect Transaction Date

During our examination of investment schedule details for the period ended December 31, 2004, it was noted that the Company incorrectly used the settlement date or other dates as the date of the transaction rather than the trade date. This was not in compliance with

SSAP 26, paragraph 4, for bonds, SSAP 30, paragraph 5, for common stocks, and SSAP 32, paragraph 10, for preferred stocks.

The Company is instructed to comply with RCW 48.05.073, which requires every insurer to "... file its financial statements in accordance with the accounting practices and procedures manual..."; RCW 48.05.280, which stipulates that, "Every insurer shall keep full and adequate accounts and records of its assets, obligations, transactions and affairs."; and, WAC 284-07-050(2) which states that each company should prepare "an annual statement as promulgated by the NAIC ...insurers shall adhere to the appropriate NAIC Annual Statement Instructions and Accounting Practices and Procedures Manuals promulgated by the NAIC."

3. Deferred Tax Assets Overstatement

During our examination of deferred tax assets for the period ended December 31, 2004, it was noted that the Company overstated its deferred tax assets by $463,680. The variance is due to the expected loss reserve amount to be reversed (or paid) in the following year. The Company used a reversal rate of two-thirds which is inconsistent with actual payment patterns in the last five years. Actual payment patterns support a rate of 55% to 60%. Using the upper limit of 60% requires decreasing surplus by the adjustment amount of $463,680.

The Company is instructed to comply with RCW 48.05.073, and WAC 284-07-050(2) in filing its NAIC Annual Statements in accordance with the NAIC Accounting Practices and Procedures Manual, and the NAIC Annual Statement Instructions. In order to properly reflect the amount of deferred tax asset, the following examination adjustment was made: (See Examination Adjustment No. 1)

	Debit	Credit
Surplus	$463,680	
Non-admitted Deferred Tax Assets		$463,680

4. Administrative Service Agreement

The administrative services provided by the Company to its subsidiary are charged at a reasonable value, according to agreement. However, RCW 48.31.B.030(1)(a)(iii) and SSAP 70, paragraph 8, requires that, "Expenses incurred and payments received must be allocated to the insurer in conformity with customary insurance accounting practices consistently applied". Therefore, the expenses must be charged on a cost basis, without any additional adjustments. The current charges are based upon data which does not demonstrate that they are purely cost-based.

The Company is instructed to work with its subsidiary company to negotiate inter-company charges which are based on the provider's pure cost, in compliance with RCW 48.31.B.030(1)(a)(iii), and SSAP 70, pursuant to WAC 284-07-050(2).

COMMENTS AND RECOMMENDATIONS

None.

COMPANY PROFILE

History

The Company was originally incorporated in February 1898 under the laws of the state of Washington. The Company was then 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 its 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 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 created Enumclaw Property & Casualty Insurance Company (EPC), a Washington domestic insurance company.

Territory and Plan of Operation

The Company is licensed to transact business in Arizona, Idaho, Nevada, Oregon, Utah, and Washington. The Company writes predominately personal lines business which is roughly 64% of net premiums written. The majority of its risks are located in Washington, Oregon and Idaho. Beginning in 2002, the Company began writing personal lines business in Utah. The personal lines of business consist of automobile, homeowners and dwelling fire coverages provided to a preferred client base. Commercial lines products represent roughly 36% of net written premiums and include small commercial multiple peril, commercial auto, businessowners, farmowners and general liability. The Company has sixteen claims offices and approximately 213 independent agents.

Growth of Company

The following schedules reflect the growth of the Company by year based on the NAIC Annual Statement filings beginning in 2000:

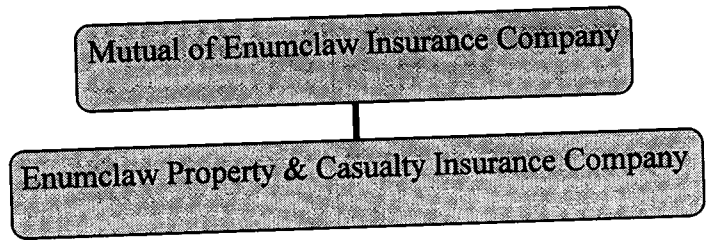
Year	Admitted Assets	Liabilities	Capital & Surplus
2004	$ 481,762,981	$ 320,289,916	$ 161,473,065
2003	462,952,173	312,488,508	150,463,665
2002	410,083,216	292,048,673	118,034,543
2001	385,982,436	263,566,377	122,416,059
2000	358,654,002	228,637,064	130,016,938

Year	Net Premium Written	Net Underwriting	Net Investment Gains (Losses)	Net Income
2004	$ 276,212,987	$ (1,877,114)	$ 14,101,406	$ 10,421,064
2003	269,338,648	(8,617,399)	12,603,386	5,350,361
2002	273,586,856	(37,957,744)	29,182,993	(3,235,378)
2001	259,766,763	(50,662,207)	22,064,533	(21,718,811)
2000	238,538,816	(17,462,030)	22,149,549	4,863,466

Affiliated Companies

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

The following organization chart is taken from the filed 2004 NAIC Annual Statement:



Intercompany Contracts

As of December 31, 2004, the Company was a party to the following inter-company contracts:

Administrative Services Contracts	January 25, 2001

MANAGEMENT AND CONTROL

Operations are directed by Gerald P. Schmidt, President, who was named General Manager in September 1993 and President in July 1995. Vance O. Fredrickson retired as General Manager in 1993 and continues as Chairman of the Board.

Trustees

Article II, Section 1, of the Corporate Bylaws authorizes not less than seven and not more than eleven trustees with whom all matters concerning the management of the Company is vested. Three are to be elected in January at each annual meeting of members for a three-year term. This effectively staggers the election of new trustees over a period of three years, which accomplishes consistency on the Board of Trustees (BOT) in matters of administration.

Trustees of the Company as of December 31, 2004:

Trustees
Dwight Leon Cummins
Gary Philip Heer
Robert Chrisopher Guile
Peter Charles Hanson
David Merle Waldo
Vance Oswald Fredrickson
Gerald Paul Schmidt
Frederick Merton Schunter
Bernadene Dochnahl

Officers

Officers of the Company as of December 31, 2004:

Officer	Responsibilities
Gerald Paul Schmidt	President
Frederick Merton Schunter	Treasurer
Bernadene Dochnahl	Secretary
Eric Paul Nelson	Vice President Underwriting
David Alan Wilson	Vice President Information Technology
Jeannie Mack Fleming	Vice President Claims
Peter Charles Hanson	Vice President
Richard Don Hundven	Vice President Services
Rena Kathleen Bilodeau	Vice President Human Resources
John Robert Willis	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. The OIC review did not reveal any exceptions.

Fidelity Bond and Other Insurance

The Company is a named insured under a financial institution bond written in the name of Mutual of Enumclaw Insurance Company, which provides the following coverage:

Type	Coverage Amount	Deductible
Dishonesty:		
Employee	$2,000,000	$100,000
Trade or Loan	2,000,000	100,000
On Premisses	2,000,000	100,000
In Transit	2,000,000	100,000
Forgery or Alteration	2,000,000	100,000
Extended Forgery	2,000,000	100,000
Counterfit Money	2,000,000	100,000
Computer System	2,000,000	100,000

The fidelity coverage carried by the Company exceeds the minimum recommended amount by the NAIC.

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

Regular full-time employees (working 30 hours or more weekly) and their eligible dependents are covered under the Company's benefit plans as specified below, effective on the first of the month following 30 days of employment.

Medical, Dental, and Vision Healthcare Insurance

The Company provides its regular full-time employees with medical, dental (optional) and vision coverage. The Company pays 100% of the premium for its employees, and 50% of the premium for each employee's qualified dependents, based on Premera Blue Cross Basic Plan (including dental). If employees elect a higher cost plan, they will pay the difference in premium.

Disability Insurance

The Company's group coverage offers long-term disability insurance for its regular full-time employees. The Company pays 100% of the premiums for employees' long term disability coverage. This plan covers disability due to accidental bodily injury or illness that results in the insured's inability to engage in their respective occupation.

Life Insurance and Accidental Death/Dismemberment Coverage

Life insurance is another benefit covered by the Company's group plan for regular full-time employees through Standard Insurance Company. The Company pays 100% of the premiums for the greater of: a) two times the employee's annual salary; or b) 61 times the normal retirement income as of April 1, 2002. Additional voluntary life insurance and accidental death & dismemberment coverage is also available for employees and their dependents. The employee pays 100% of the premium for any additional voluntary coverage.

401[K] Plan

For its regular full-time employees, MOE provides employees the opportunity to participate in the 401[K] salary deferral plan. Employees are eligible for participation on the first of the month following 30 days' employment, and may contribute up to the annual maximum allowable under IRS regulations. Employees attaining age 50 may also be eligible to defer catch up contributions.

Profit-Sharing Plan

To inspire Company employees to better serve policyholders and to focus on key Company projects in which all employees share team responsibilities, the Company adopted a profit sharing plan in 1999. All employees who are in good performance standing, and who are actively at work at year-end are eligible, including active part-time employees, with no minimum number of hours required. The plan formula is based on the following criteria:

- If policyholder surplus increases 20%, then employees may be eligible to earn up to 10% of their annual base pay.
- If policyholder surplus increases 5%, then employees may be eligible to earn a minimum of 2.5% of their annual base pay.
- All of the surplus, in a year where it grows at less than 5%, will be invested directly into the Company business.

Defined Benefit Pension Plan

MOE has a defined benefit pension plan, designed to provide retirement income for its employees, in conjunction with Social Security and their own savings and investments. Employees become eligible for plan participation following 1,000 hours of service in a plan year. Employees may contribute 2.25% of their annual gross compensation on a post-tax basis into the plan, and the Company contributes whatever is necessary to fund the plan based on actuarial calculations. Employee contributions are always 100% vested, however, the Company contributions vested are based on years of service.

Long Term Care Insurance

Employees may purchase long term care insurance for themselves and family members. Premiums are the responsibility of the employee through payroll deduction.

CORPORATE RECORDS

The Company's BOT managed the property and business of the Company and was actively involved in the Company's affairs. Investment purchases, transfers, and disposals were ratified by the BOT and noted in the minutes. Appointments and elections of officers, reinsurance contracts, bank agreements, and other contracts were also noted in the BOT's minutes.

UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The reserves carried by the Company for loss and loss adjusting expenses were $150,619,655 and $36,904,511, respectively, as of December 31, 2004.

These reserves were reviewed by the casualty actuarial staff employed by the OIC. The Company provided loss and loss adjustment expense development data by accident year and line of business, through December 31, 2004. Actuarial staff obtained additional information by interviewing several Company employees. They also reviewed an actuarial report prepared by Ernst & Young, the Company's consulting actuarial firm.

OIC actuarial staff estimates indicate that the reserves for losses and loss adjustment expenses, on a net basis, are within a range of reasonable estimates.

Therefore, the loss and loss adjustment expense reserves are accepted as they appear in the Company's 2004 Annual Statement.

REINSURANCE

In order to protect itself from excessive losses, all the Company's direct and assumed business is reinsured on a treaty and facultative basis. The treaty reinsurance is arranged through a series of agreements with a number of individual companies who accept various percentages of certain business types. The agreements are arranged through an intermediary under a contract which meets the requirements of Washington's Reinsurance Intermediary Act. This contract obliges the intermediary to retain all necessary records and to act on the Company's behalf in most matters; including handling fund transfers and obtaining any required letters of credit.

The treaties are structured to provide property coverage in excess of $600,000 per risk, through $55,000,000 for non-earthquake events and through $100,000,000 for earthquakes, exclusive of the $3,000,000 through $5,000,000 corridor, in any event. The lower-level, comprehensive excess of loss treaty has a $10,000,000 annual aggregate terrorism limit. The remaining layers contain terrorism exclusions relating to the Terrorism Risk Insurance Act of 2002.

Casualty loss occurrences are reinsured in excess of $600,000, through $15,000,000, subject to a $5,000,000 per occurrence and a $10,000,000 total aggregate terrorism limit. There is also a separate umbrella excess reinsurance contract covering personal and commercial umbrella business. The umbrella limit is $4,000,000 each occurrence, in excess of $1,000,000, with an $8,000,000 aggregate terrorism limit.

A boiler and machinery quota share treaty provides coverage up to $15,000,000 and there is a property facultative obligatory arrangement available from $3,000,000 through $10,000,000.

Assumed Business

The Company assumes 100% of all business written by its wholly-owned subsidiary, EPC, and allows a ceding commission sufficient "...to cover all underwriting and acquisition expenses..." of EPC.

All treaties comply with the relevant provisions of Washington law.

STATUTORY DEPOSITS

The Company maintained the following statutory deposits as of December 31, 2004:

Nevada	Federal Home Loan Bank	$ 200,000	$ 228,347	$ 228,347
Oregon	US Treasuary	223,000	203,332	203,332
Oregon	US Treasuary	100,000	97,835	97,835
Washington	Federal Home Loan Bank	3,000,000	2,999,414	2,999,414
Washington	US Treasuary	1,000,000	994,971	994,971
Total		$ 4,523,000	$ 4,523,899	$ 4,523,899

Securities held by the state of Washington and other states were confirmed directly with the Company's authorized custodians.

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. 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 management of the Company is sufficiently knowledgeable of the information systems (IS) process. Systems development, acquisition, and maintenance controls were evaluated to gain assurance that appropriate controls are in place. Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain data security. Sufficient internal controls are in place and monitored by the Company. The Company's IS Department has the ability to recover from an incident or disaster and has documented these procedures in a detailed, disaster recovery plan.

SUBSEQUENT EVENTS

No material subsequent events were disclosed during the examination.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All prior examination report instructions were satisfactorily addressed and corrected.

FINANCIAL STATEMENTS

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MUTUAL OF ENUMCLAW INSURANCE COMPANY
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

DECEMBER 31, 2004

Assets	BALANCE PER COMPANY	REF NOTE	EXAM ADJUSTMENT	BALANCE PER EXAM
Bonds	$ 336,569,324		$ 0	$ 336,569,324
Stocks:				
Preferred stocks	16,518,510			16,518,510
Common stocks	27,252,660			27,252,660
Mortgage Loans on real estate	172,621			172,621
Real estate				
Properties occupied by the company	5,435,106			5,435,106
Cash and short-term investments	15,652,734			15,652,734
Subtotal, cash and invested assets	401,600,955		0	401,600,955
Investment income due and accrued	3,476,936			3,476,936
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	51,883,311			51,883,311
Amount recoverable from reinsurers	8,499,067			8,499,067
Net deferred tax asset	13,855,074	1	(463,680)	13,391,394
Guaranty funds receivable or on deposit	824,171			824,171
Electronic data processing equipment and software	904,693			904,693
Receivable from parent, subsidiaries and affiliates	40,933			40,933
Aggregate write-ins for other than invested assets	677,841			677,841
Total Assets	**$ 481,762,981**		**$ (463,680)**	**$ 481,299,301**
Liabilities, Surplus and other Funds				
Losses	$ 150,619,655			$ 150,619,655
Loss adjustment expenses	36,904,511			36,904,511
Commissions payable, contingent commissions	6,420,773			6,420,773
Taxes, licenses and fees (excluding federal and foreign income taxes)	618,632			618,632
Current federal and foreign income taxes	570,093			570,093
Net deferred tax liability	921,239			921,239
Unearned premiums	116,020,554			116,020,554
Ceded reinsurance premiums payable	1,677,885			1,677,885
Provision for reinsurance	2,151,733			2,151,733
Aggregate write-ins for liabilities	4,384,841			4,384,841
Total Liabilities	**320,289,916**		**0**	**320,289,916**
Surplus notes	20,000,000			20,000,000
Unassigned funds (surplus)	141,473,065	1	(463,680)	141,009,385
Surplus as regards policyholders	**161,473,065**		**(463,680)**	**161,009,385**
Total Liabilities, Surplus and other Funds	**$ 481,762,981**		**$ (463,680)**	**$ 481,299,301**

MUTUAL OF ENUMCLAW INSURANCE COMPANY
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2004

Net underwriting gain or (loss)	(1,877,114)		0	(1,877,114)
Investment Income				
Net investment income earned	13,522,397		0	13,522,397
Net realized capital gains or (losses)	579,009		0	579,009
Net investment gain or (loss)	14,101,406		0	14,101,406
Other Income				
Finance and service charges not included in premiums	2,743,416		0	2,743,416
Aggregate write-ins for miscellaneous income	(122,859)		0	(122,859)
Total other income	2,620,557		0	2,620,557
Net income before dividends to policyholders but before federal and foreign income taxes	14,844,849			14,844,849
Dividends to policyholders	0			0
Net income, after dividends to policyholders but before federal and foreign income taxes	14,844,849			14,844,849
Federal and foreign income taxes incurred	4,423,785		0	4,423,785
Net income	**$ 10,421,064**		**$ 0**	**$ 10,421,064**
CAPITAL AND SURPLUS ACCOUNT				
Surplus as regards policyholders, December 31 prior year				
Surplus as regards policyholders, December 31 prior year	**$ 150,463,665**		**$ 0**	**$ 150,463,665**
Gains and (Losses) in Surplus				
Net income	10,421,064			10,421,064
Change in net unrealized capital gain/losses	447,645			447,645
Change in net deferred income tax	0	1	(463,680)	(463,680)
Change in nonadmitted assets	2,240,484			2,240,484
Change in provision for reinsurance	(2,151,733)			(2,151,733)
Aggregate write-ins for gains and losses in surplus	51,940			51,940
Change in surplus as regards policyholders	11,009,400		$ (463,680)	10,545,720
Surplus as regards policyholders, December 31 current year	**$ 161,473,065**		**$ (463,680)**	**$ 161,009,385**

MUTUAL OF ENUMCLAW INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
FOR THE YEAR ENDED DECEMBER 31, 2004

	2004	2003	2002	2001	2000
Capital and surplus, December 31, previous year	$ 150,463,665	$ 118,034,540	$ 122,416,059	$ 130,016,938	$ 128,103,656
Net income	10,421,064	5,350,361	(3,235,378)	(21,718,811)	4,863,466
Change in net unrealized capital gains or (losses)	447,645	3,430,893	(1,306,701)	(198,638)	(688,955)
Change in net deferred income tax	0	3,190,319	180,000	0	0
Change in nonadmitted assets	2,240,484	360,795	(261,505)	(6,626,554)	(1,011,506)
Change in provision for reinsurance	(2,151,733)	0	0	0	0
Change in surplus notes	0	20,000,000	0	0	0
Change in excess of statutory reserves over statement reserves	0	0	0	0	(1,143,000)
Cumulative effects of changes in accounting principles	0	0	0	21,064,379	0
Aggregate writ-ins for gains and losses in surplus	51,940	96,757	242,065	(121,255)	(106,723)
Change in surplus as regards policyholders for the year	11,009,400	32,429,125	(4,381,519)	(7,600,879)	1,913,282
Surplus as regards policyholders, December 31,current year	$ 161,473,065	$ 150,463,665	$ 118,034,540	$ 122,416,059	$ 130,016,938

MUTUAL OF ENUMCLAW INSURANCE COMPANY
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION
AS OF DECEMBER 31, 2004

	PER COMPANY	PER EXAM	EXAMINATION ADJUSTMENT REF NOTE	INCREASE (DECREASE) IN SURPLUS	TOTAL
Capital and Surplus, December 31, 2004 - Per NAIC Annual Statement					**$ 161,473,065**
ASSETS					
Non- admitted Deferred tax Assets	13,855,074	13,391,394	1	(463,680)	
LIABILITIES					
Change in surplus					(463,680)
Capital and Surplus, December 31, 2004 - Per Examination					**$ 161,009,385**

NOTES TO THE FINANCIAL STATEMENTS

The Company overstated its deferred tax assets by $ 463,680. The variance is due to the expected loss reserve amount to be reversed (or paid) in the following year. The Company used a reversal rate of two-thirds which is inconsistent with actual payment patterns in the last five years. Actual payment patterns support a rate of 55% to 60%. Using the upper limit of 60% requires decreasing surplus by the adjustment amount of $463,680. (See Instructions No. 3)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers of Mutual of Enumclaw Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Tarik Subbagh, CPA, CFE, Insurance Examiner; John J. Gaynard, CPA, CFE, CPCU, Reinsurance Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Bert Karau, CPA, Insurance Examiner; Ann V. Kauffman, CPA, Insurance Examiner; Juanita M. Turley, CPA, Insurance Examiner; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Eric Slavich, Actuarial Analyst; and John R. Jacobson, AFE, IS Specialist, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Timoteo L. Navaja, CFE, CIE
Examiner in Charge
State of Washington

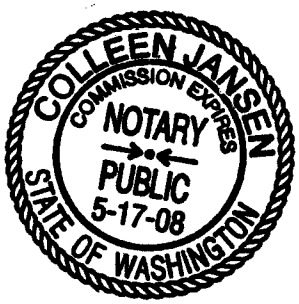
AFFIDAVIT

STATE OF WASHINGTON }
} **ss**
COUNTY OF KING }

Timoteo L. Navaja, CFE, CIE, 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 (NAIC).

Timoteo L. Navaja, CFE, CIE
Examiner in Charge
State of Washington

Subscribed and sworn to before me this 31st day of March, 2006.

Notary Public in and for the
State of Washington.