



ANNUAL REPORT

2018



MUTUAL OF
ENUMCLAW
INSURANCE
EST. 1898

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PRESIDENT'S MESSAGE

Black Swan Theory is a phenomenon that refers to unforeseeable events, which in hindsight appear to have been predictable. But like the black swan, no one could have predicted its existence until someone saw one with their own eyes.

In 2018 it seemed like a whole flock of black swans flew over, as numerous unforeseeable events contributed to a less than stellar bottom line. Some of the major events included: wildfires, hailstorms, lawsuits, arson fires, wind, volatile investment markets—and even a tornado. It was an unprecedented volume of catastrophic events, all of which occurred in the span of seven months.

Despite these challenges, we managed to earn a profit and grew our revenues by 6.7%. The US stock market had its worst year in more than a decade, leading to unrealized losses on our investments and a decline in our policyholder surplus (retained earnings). Our capital strength remains solid, and our overall capital adequacy (claims paying ability) is rated as Superior by the financial rating agency AM Best. In December 2018, AM Best affirmed our overall financial rating at A- (Excellent) with a stable outlook. We were also rated by the financial rating agency Demotech, who noted our strong capital position and gave us an A' (A Prime, Unsurpassed) financial rating. You can be confident in our financial security, despite the unforeseen events that befell us in 2018.

With the bad times come the good, and 2018 brought several noteworthy accomplishments:

- We developed and installed a new claims computer system.
- We introduced paperless billing and policy delivery.
- We launched operations in Montana.
- We were awarded the National Association of Mutual Insurance Companies Award in Innovation.
- We were named by *Seattle Business* magazine as one of the 100 Best Places to Work in Washington for the seventh straight year.

We also continued to offer the Wildfire Defense Systems (WDS) program to all members. WDS provides wildfire response services specifically to Mutual of Enumclaw member properties. They responded to over 67 wildfires in 2018 and actively worked to protect hundreds of homes that were threatened. As a result of this work only three homes were damaged—during one of our most active wildfire seasons ever. We are proud to be one of the few companies that offer this service.

In the future, we will continue to seek innovative ways to help protect our members from suffering a loss. For 2019, our plan continues to be delivering a rare and valuable experience to our members and agents that cannot be obtained elsewhere. We will accomplish this through our engaged and enthusiastic associates who live our values of being ethical, responsive, personal, and efficient. Our scores for member loyalty and agent ease-of-doing-business continue to improve, so we know we are succeeding at this goal.

We believe that our focus on protecting and serving our members is what energizes us as a company—just as it has for the past 121 years. We dream of building a 500-year-old company where our children's children continue this work for many generations to come.

Best wishes for a prosperous 2019,



A handwritten signature in black ink that reads "Eric Nelson". The signature is fluid and cursive.

Eric Nelson, CPCU, ARP
President & CEO

FORWARD TOGETHER

Together is where we started, with deep roots, from our first day as a company. On that day in 1898, a group of Enumclaw residents joined together to help neighbors protect the things they owned and the people they loved. That was the first goal of the Farmers' Mutual Insurance Company, and it's been our focus ever since.

How we do that has evolved over time. But the basic foundation is built into our DNA—our relationships with our members and agents have always come first. We make personal connections at the times that make the biggest difference. We engage in a true partnership with our independent agents, supporting them so they can provide their best possible service. And we remain thoughtful about what our members and agents need—and make it happen.

In 2018 we rolled out a new claims system that allows us to process claims more efficiently, and we launched paperless billing and policy delivery. We also continued to improve our Mobile App and other member offerings, and have worked hard to expand resources for our independent agents. But even as we innovate and advance with better and better experiences, our core values remain the same. We are here to help, to do the right thing, and to make a positive difference in people's lives.

It's been 121 years, but really it's always been the same business—taking care of our people in times of need. Thanks for coming along with us this far. Let's go forward, together.



**As we adapt and grow,
one thing remains the same.**

Thoughtful is here to stay.



OUR MISSION

Thoughtful people protecting members' financial security.

OUR VISION

Delivering a rare and valuable experience across America for generations to come.

Our Quality Standards

These are the principles that guide us in all we do:

Ethical

We do what's right.

Responsive

Speed and competency build trust.

Personal

Positive and memorable customer service begins with a personal touch.

Efficient

We continually improve what we do every day.



RECOGNITION & RATINGS

2018



Washington's 100 Best Companies to Work For

7 Consecutive Years
Seattle Business magazine



NAMIC Award in Innovation

Overall Winner



A- Excellent with a Stable Outlook

AM Best



A' (A Prime) Unsurpassed

Demotech, Inc.

We've been able to maintain our strong ratings and financial stability from year to year because:

- We address geographic risks by writing in multiple states.
- We purchase comprehensive reinsurance.
- We maintain a robust policyholder surplus.
- We diversify across personal, commercial, and farm lines.



OUR LOCAL PRESENCE

Our employees live and work alongside our members, in local communities throughout Washington, Oregon, Idaho, Montana, Utah, and Arizona.

BOARD MEMBERS

T. Andrew Fujimoto
Chair
Retired Executive

Anthony Baruffi
Director
VP, Garde Capital

Laurinda Mackenzie
Director
Retired Executive

Eric Nelson
Director
President & CEO, Mutual of Enumclaw

Don Powell
Director
Attorney at Law, Powell & Gunter

Jane Repensek
Director
COO/CFO, Seattle Opera

Norman Smith
Director
Senior Fellow, M.J. Murdock Charitable Trust

David Waldo
Director
President & CEO, Field-Waldo Insurance

EXECUTIVE MEMBERS

Eric Nelson
President & CEO

Andrew Chen
CFO & VP, Financial Services

Sandy Williams
VP, Administration

Michele Wyatt
CCO & VP, Claims

Richard Hawkins
VP, Marketing

Alice Cameron
VP, Personal Lines

Cori Medrano
VP, Commercial & Farm

David Wilson
CIO & VP, Information Technology

Megan Hall
VP, Product Development

Athan Shinas
General Counsel

Tom Taylor
Chief Risk Officer

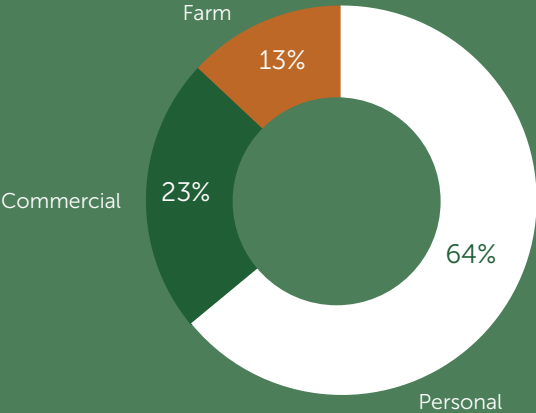


FINANCIAL HIGHLIGHTS

2018

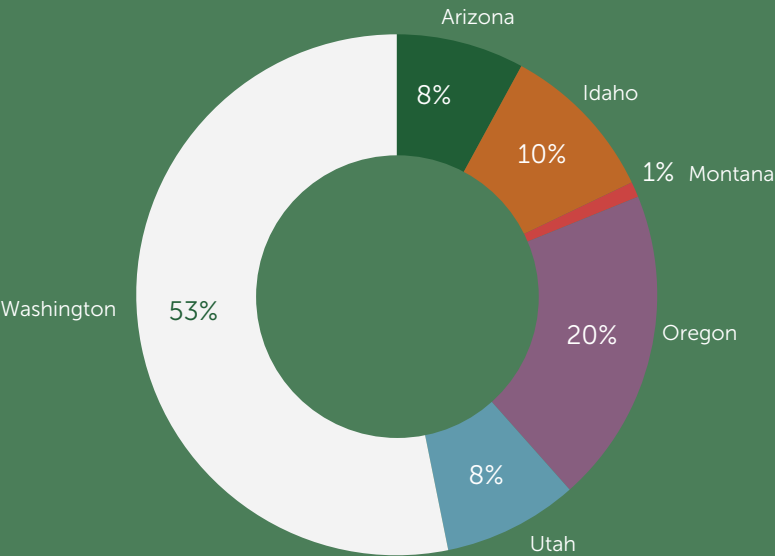
Premiums Written by Line of Business

Premiums were spread by risk type between personal (64%), commercial (23%), and farm (13%). Total policy count was 247,221.



Premiums Written by State

We have members in Washington, Oregon, Idaho, Utah, Arizona, and now Montana, where we had a strong first year. Our expanded geographic footprint allows us to manage concentration and weather-related risks, while remaining nimble.

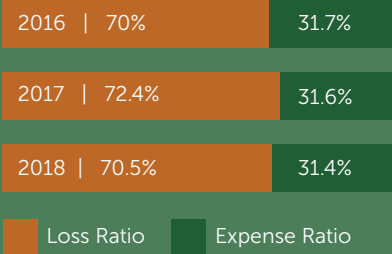


Combined Ratio

We posted a 101.9% combined ratio for 2018 after a major hailstorm in Idaho, a wildfire event in the Tri-Cities, and a few windstorms in late fourth quarter.

A measure of an insurer's underwriting profitability, with results under 100% indicating an underwriting profit.

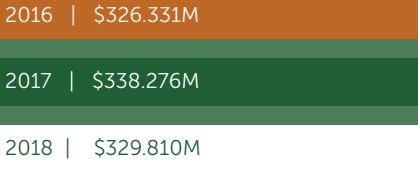
Loss Ratio + Expense Ratio = Combined Ratio



Equity

Retained earnings that measure an insurance company's financial strength and capacity to write new business.

Unrealized losses due to the investment market decline impacted our equity, with a minor setback to \$329.8 million. Our excellent financial strength allows us to provide solid financial security to benefit our members and agents.



Premiums Written by Year

Our premiums written grew by 6.7% during 2018, reaching \$446.8 million. In Personal Lines, Member's Best written premiums grew to \$58 million. We thank our members for trusting us to provide coverage they can count on.



Total Assets

A measure of an insurance company's resources that provide future benefits.

Our total assets measured \$765.7 million as of the end of 2018. This year, we invested in technologies including paperless bills and policies and our newly implemented Guidewire claim system.



MAKING GOOD
THINGS HAPPEN,
TOGETHER.



ANNUAL REPORT

2018



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Enumclaw, WA 98022

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