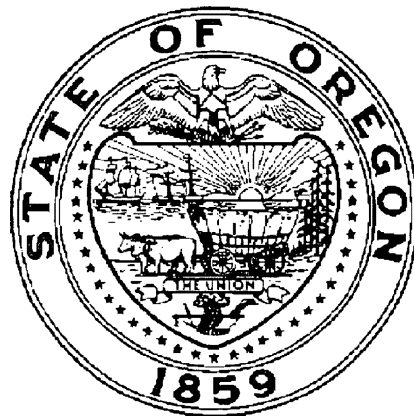


**STATE OF OREGON**

**DEPARTMENT OF  
CONSUMER & BUSINESS  
SERVICES**

**DIVISION OF FINANCIAL  
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**SUBLIMITY INSURANCE COMPANY  
SUBLIMITY, OREGON**

AS OF

DECEMBER 31, 2017

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**SUBLIMITY INSURANCE COMPANY  
SUBLIMITY, OREGON**

**NAIC COMPANY CODE 26824**

AS OF

DECEMBER 31, 2017

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**SALUTATION**

May 10, 2019

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

Dear Director:

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

**SUBLIMITY INSURANCE COMPANY  
100 SW Sublimity Blvd.  
Sublimity, Oregon 97385**

**NAIC Company Code 26824**

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

## SCOPE OF EXAMINATION

We have performed our regular, coordinated, multi-state examination of Sublimity Insurance Company, part of the United Heritage Mutual Holding Company holding company system, with the Idaho Insurance Department designated as the lead state. The last examination of this property and casualty insurance company was completed as of December 31, 2013. This examination covers the period of January 1, 2014 to December 31, 2017.

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

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

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items

identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

### **COMPANY HISTORY**

The Company started in Sublimity, Oregon, in 1896 as The Farmers Fire Relief Association of Sublimity and was incorporated by the Department of Consumer and Business Services (DCBS) on November 10, 1897, as a mutual fire insurance company. By amended Articles of Incorporation approved in 1954, the corporate name Sublimity Fire Insurance Company was adopted. In 1972, the name of the Company was changed to Sublimity Insurance Company.

On December 20, 2002, the Company entered into an agreement to be acquired by United Heritage Mutual Holding Company (UHMHC) of Meridian, Idaho. The director of the DCBS approved the plan of merger on May 23, 2003, at which point the Company converted from a mutual insurance company to a for-profit stock company. All shares of common capital stock were ultimately transferred to United Heritage Financial Group, Inc. (UHFG), a downstream holding company of UHMHC.

### **Capitalization**

Article V of the Company's Restated Articles of Incorporation authorize the Company to issue 20,000,000 shares of common stock, with a par value of \$1 per share.

All shares issued and outstanding are owned by UHFG. In the prior examination, the Company reported 3,386,041 shares issued and outstanding. During this examination period UHFG acquired an additional 135,858 shares. The following table displays all transactions since last examination:

<u>Date</u>	<u>Shares</u>	<u>Common Capital Stock</u>	<u>Paid in and Contributed Surplus</u>
12/31/2013	3,386,041	\$ 3,386,041	\$ 1,013,961
06/25/2014	74,486	74,486	225,514
09/16/2014	<u>61,372</u>	<u>61,372</u>	<u>188,629</u>
Totals	3,521,899	\$ 3,521,899	\$ 1,428,104

### **Dividends to Stockholders and Other Distributions**

During the period under examination, the Company declared and paid dividends totaling \$2,185,000 to its sole stockholder, as follows:

<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
02/28/2014	\$ 160,000	Ordinary
05/31/2014	135,000	Ordinary
08/31/2014	135,000	Ordinary
11/30/2014	135,000	Ordinary
02/28/2015	135,000	Ordinary
05/31/2015	135,000	Ordinary
08/31/2015	135,000	Ordinary
11/30/2015	135,000	Ordinary
02/29/2016	135,000	Ordinary
06/10/2016	135,000	Ordinary
08/31/2016	135,000	Ordinary
11/30/2016	135,000	Ordinary
02/28/2017	135,000	Ordinary
05/31/2017	135,000	Ordinary
08/31/2017	135,000	Ordinary
11/30/2017	135,000	Ordinary

The Company made the proper disclosure of the distributions to the director of DCBS in accordance with the reporting requirements established by ORS 732.554 and 732.576.

## **CORPORATE RECORDS**

### **Board Minutes**

In general, the review of 2014 to 2017 Board meeting minutes of the Company, as well as the executive committee authorized by the Board, indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum met

at all of the meetings held during the period under review. The Board met quarterly and additional meetings were scheduled as necessary.

The Board's Executive Committee approved the compensation of all corporate officers. The Company's Board then approved the Executive Committee's actions. This process complies with the provisions of ORS 732.320(3).

### **Articles of Incorporation**

The Company's restated Articles of Incorporation were most recently amended on May 15, 2006, and were not amended during the period under examination. The Articles of Incorporation conformed to Oregon Insurance Code.

### **Bylaws**

The Company's Bylaws were last restated on May 23, 2003, and were not amended during the period under examination. The Bylaws conformed to Oregon statutes.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

Management and control of the Company is vested in a Board of Directors. The Company's Amended Bylaws, in Section 4.2, state that the Board shall be comprised of six (6) members. Section 4.9 describes a quorum as a majority of the number of directors. As of December 31, 2017, the Company was governed by a six member Board of Directors as follows:



<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
William L. Bingle Salem, Oregon	Retired VP of Marketing Oregon Mutual Insurance Company	2008
Elaine R. Eastman Albany, Oregon	President and CEO Central Willamette Community Credit Union	2013
Jerome C. Fischer * Salem, Oregon	President Fischer, Hayes & Associates, PC	2006
Todd H. Gill Meridian, Idaho	SVP & CFO United Heritage Financial Group	2013
Bryon R. Hendricks Salem, Oregon	President Pru-One, Inc.	2017
Andrew L. Trower Albany, Oregon	President and CEO Sublimity Insurance Company	2013

\*Chairman

The Company's Board met all of the requirements of ORS 732.305.

### Officers

Principal officers serving at December 31, 2017, were as follows:

<u>Officer</u>	<u>Office</u>
Andrew L. Trower	President and CEO, Treasurer
Michael E. Bergantzel	VP, Accounting and Administration
Eric J. Cutler	VP, Marketing and Underwriting
Michael F. Rasmussen	Secretary, VP Claims
Jack J. Winderl	Treasurer
Jeffrey D. Neumeyer	VP and General Counsel & Asst. Secretary
David D. Sandros	Asst. Treasurer
Stefanie A. Thiel	VP Human Resources

### Conflict of Interest

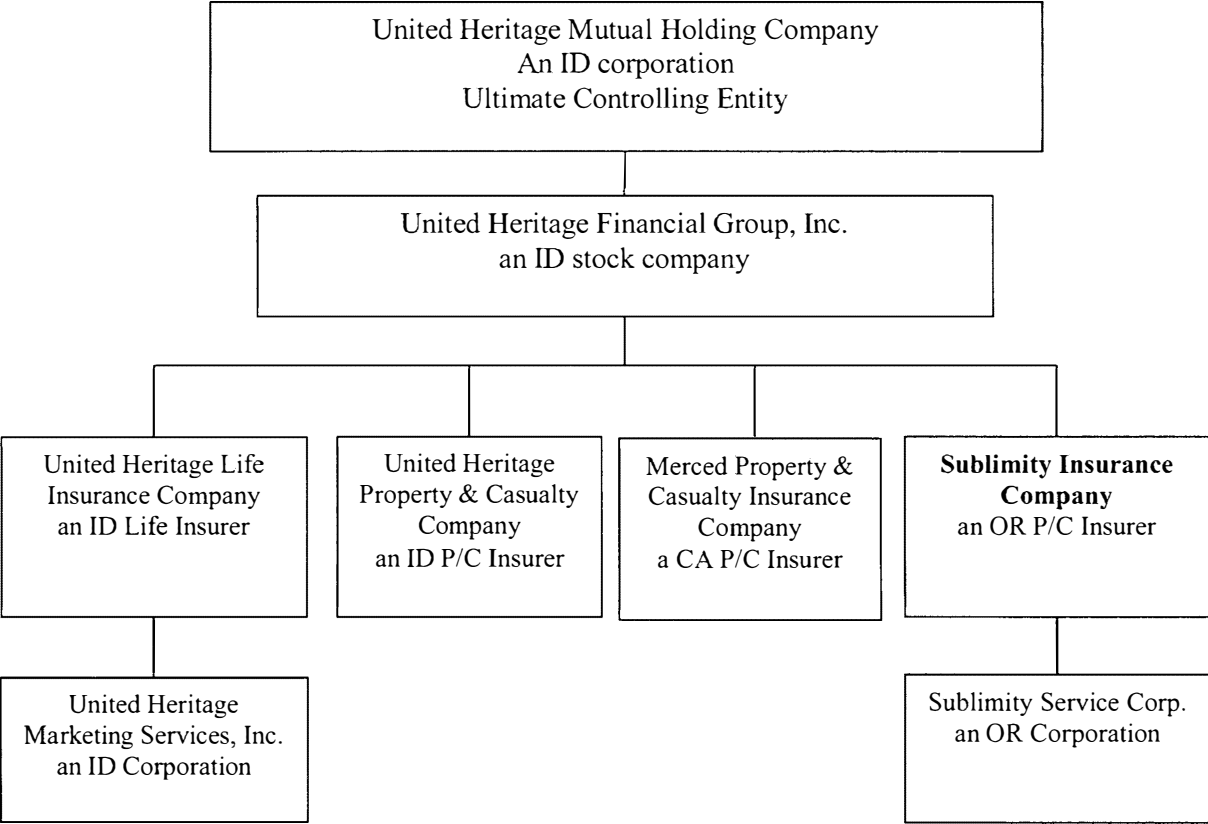
The Company requires officers and directors to annually report any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict

of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

**Insurance Company Holding System**

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

As discussed in the Company History section of this report above, on May 23, 2003, the Company became part of an insurance company holding system in which United Heritage Mutual Holding Company is the ultimate controlling entity. The following organizational chart depicts the relationships within the holding company system:



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

United Heritage Mutual Holding Company (UHMHC) is an Idaho based mutual holding company formed in 2001 as a result of the demutualization of United Heritage Life Insurance Company. It is owned by the policyholders of United Heritage Life Insurance Company and Sublimity Insurance Company.

United Heritage Financial Group, Inc. (UHFG) is an Idaho based for-profit stock corporation owned 100% by UHMHC. It owns 100% of the common stock of the Company and would be considered the direct parent.

United Heritage Life Insurance Company (UHLIC) is an Idaho domiciled life and health insurer owned 100% by UHFG. Formed as the Grange Mutual Life Company in 1934, UHLIC is licensed in 36 states, including Oregon.

United Heritage Property & Casualty Company (UHPC) is an Idaho domiciled property and casualty insurer owned 100% by UHFG. Formed as the Canyon County Farmers Mutual in 1908, it became Idaho Mutual Insurance Company in 1992 and was acquired by UHFG in 2000. UHPC is licensed in five states, including Oregon.

Merced Property & Casualty Company (MPCC) is a California domiciled property and casualty insurer acquired April 1, 2013, and is owned 100% by UHFG.

United Heritage Marketing Services, Inc. (UHMS) is an Idaho based for-profit stock insurance agency that facilitates the sale of life insurance products through independent agents in the states in which UHLIC writes business. It is owned 100% by UHLIC.

Sublimity Service Corporation (SSC) is a dormant Oregon for-profit stock corporation formed to offer warranty contracts. Prior to the period covered by this examination, this business was terminated and its Board of Directors approved a dividend that effectively moved most of the assets into Sublimity Insurance Company. It is owned 100% by the Company.

### **Intercompany Agreements**

#### Cost Sharing and Allocation Agreement

Effective October 4, 2013, a cost sharing and allocation agreement was executed between UHFG and its subsidiaries, SIC, SSC, UHLIC, UHMS, UHPC, and MPCC. Under this agreement, various synergies have been identified and specific areas of allocation based on usage, including employee benefits plans; building rent; and operating expenses. Primary functions for operating expenses are: investment management, human resource management, information technology and services and regulatory and statutory compliance. The agreements clearly stated that no markup or overhead charge will be earned by UHFG.

#### Promissory Note – Revolving Line of Credit Agreement

UHFG and the Company have executed a \$1 million revolving line of credit with each other for the period of January 28, 2015 through March 31, 2018 using the Wells Fargo Prime Rate as a benchmark interest rate. No borrowings against the line of credit have been made during the examination period.

#### Income Tax Allocation Agreement

Effective January 1, 2013, a tax allocation agreement was executed between UHMHC, UHFG and its subsidiaries, SIC, SSC, UHLIC, UHMS, UHPC, and MPCC. Under the terms of the agreement,

each party shall compute its separate tax liability or benefit, as applicable, for federal income taxes on an individual company basis using the separate return method. UHFG will pay all consolidated quarterly tax estimates on or before the date required by the Internal Revenue Code. In the event any member of the holding company incurs a tax liability, payments shall be paid to UHFG at least two days prior to the quarterly due date by wire transfer. Any subsequent adjustments shall be due within 30 days.

**FIDELITY BOND AND OTHER INSURANCE**

The examination of insurance coverages involved a review of adequacy of limits and retentions, and the solvency of the insurers providing the coverages. At December 31, 2017, the Company’s Parent, UHMHC and its subsidiaries was covered for up to \$5,000,000 per occurrence, after a \$50,000 deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage met the coverage recommended by the NAIC. In addition, the Company was covered against Directors and Officers Liability, Employment Practices Liability, Fiduciary Liability and Cyber Insurance Coverages. All coverages are deemed to be adequate.

**TERRITORY AND PLAN OF OPERATION**

As of December 31, 2017, the Company was authorized to write property, casualty excluding workers’ compensation, marine and transportation, and surety business in Oregon. The Company was also authorized to write business in Idaho, Utah and Washington. Direct premiums written were:

Idaho	\$ 3,759,830
Oregon	22,999,143
Utah	8,179,322
Washington	<u>0</u>
Total Direct Premium	<u>\$ 34,938,295</u>

During 2017 the Company wrote the following lines of business:

<u>Line</u>	<u>Direct Premium</u>	<u>Percentage</u>
Private passenger auto liability	\$ 14,458,143	41.38
Homeowners multi peril	10,855,242	31.07
Auto physical damage	8,132,185	23.28
Farmowners multiple peril	442,189	1.27
Allied lines	395,540	1.13
Fire	393,158	1.13
Other liability-occurrence	261,727	0.74
Burglary and theft	111	0.00
Total	<u>\$ 34,938,295</u>	<u>100.00</u>

The Company markets its business through independent agents.

### **GROWTH OF THE COMPANY**

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

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2013*	\$ 31,380,031	\$ 17,494,282	\$ 13,885,749	\$ 797,543
2014	33,970,988	18,920,662	15,050,327	1,065,551
2015	36,111,366	19,820,706	16,290,661	1,745,416
2016	40,033,836	23,162,996	16,870,839	1,030,185
2017*	40,674,225	24,717,244	15,956,981	(313,729)

\*Per examination

### **LOSS EXPERIENCE**

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

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Losses and LAE Incurred</u>	<u>(3) Other Underwriting Expenses Incurred</u>	<u>(2)+(3)/(1) Combined Ratio</u>
2013*	\$ 21,351,002	\$ 14,107,011	\$ 7,691,558	102.1%
2014	24,361,197	16,075,339	8,284,659	100.0%
2015	25,342,126	16,581,258	8,162,696	97.6%
2016	27,053,725	19,373,523	8,588,879	103.4%
2017*	25,570,612	19,858,269	8,003,253	109.0%

\*Per examination

### REINSURANCE

At December 31, 2017, the Company's reinsurance program was comprised of four agreements that included a multi-line quota share, a multi-line excess of loss coverage, a catastrophe coverage for property business, and a separate agreement for personal umbrella risks. The Company's Multiple Line Quota Share, Multi Line Excess of Loss (XOL), Property Catastrophe XOL, and Personal Umbrella and Quota Share reinsurance coverages are obtained directly from reinsurers.

#### Multiline Quota Share

Effective December 31, 2016 through December 31, 2018, for policies in force and new and renewal policies subsequent, the Company was covered under a Multiline Quota Share agreement whereby Swiss Reinsurance America Corporation (NAIC #25364) accepts a 15% Quota Share, or \$26,250, of the first \$175,000 of risk. The multi-line XOL and Catastrophe reinsurance agreement inure to the benefit of this agreement. Premiums are subject to a 30% ceding commission.

#### Multiline Excess of Loss

Effective January 1, 2016 through December 31, 2017, the Company was covered under a Multi-line Excess of Loss Agreement with Swiss Reinsurance America Corporation with the following terms:

<u>Coverage</u>	<u>Retention or Underlying Limit</u>	<u>1<sup>st</sup> Excess Cover</u>	<u>2<sup>nd</sup> Excess Cover</u>	<u>3<sup>rd</sup> Excess Cover</u>
Liability business	\$175,000 each occurrence	\$225,000 each occurrence after retention	\$600,000 each occurrence excess \$400,000	\$500,000 each occurrence XS \$1,000,000
Property business	\$175,000 each risk	\$225,000 each risk after retention	\$600,000 each risk XS \$400,000	\$500,000 each risk XS \$1,000,000

### Property Catastrophe

Effective January 1, 2016 through December 31, 2017, both the Company and its affiliate, United Heritage Property & Casualty Company (UHPC), were covered under a property catastrophe excess of loss treaty with Swiss Reinsurance America Corporation with the following terms:

#### **Property Catastrophe Coverage**

	<u>Retention</u>	<u>Limits</u>
First Layer	\$1,000,000 each risk	95% of \$3,000,000 limited to 95% of \$3,000,000 for aggregate losses. An annual aggregate of 95% of \$9,000,000
Second Layer	\$4,000,000 each risk	95% of \$9,000,000 limited to 95% of \$9,000,000 for aggregate losses

The agreement specified that 5% of the ultimate net loss in each loss occurrence shall be retained by the Company, above and beyond the retention at its own risk and not reinsured in any way.

### Personal Umbrella and Quota Share.

Effective January 1, 2016 through December 31, 2017, the Company was covered under a Personal Umbrella Quota Share and a Excess of Loss reinsurance agreement with Swiss Reinsurance America Corporation. The reinsurer agreed to pay the Company, with respect to each personal



umbrella policy of the Company, 95% of the first \$1,000,000 each occurrence of each net loss sustained by the Company and 100% of the policy limits up to \$2,000,000.

#### Facultative Reinsurance

In addition to treaty coverage, each of the agreements offered a special acceptance arrangement for the Company to cede certain risks not specifically covered by the agreement.

#### Risk Retention

The highest risk the Company retained on any one insured was \$148,750. As such, the Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

#### Insolvency Clause

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

### **ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2017, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company has a system in place to account for unclaimed funds and the Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352. From a review of the Company's disaster recovery plan, it was determined that the current information system possessed the physical and internal controls as prescribed by the NAIC.

### **STATUTORY DEPOSIT**

At year-end 2017, the Company maintained deposits with the Idaho Department of Insurance with a par value of \$1,243,000 and an admitted value of \$899,544, for the benefit of all policyholders. These deposits were verified by confirmation directly from the custodian.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations or comments made as a result of the prior examination.

### **SUBSEQUENT EVENTS**

An affiliated insurer, Merced Property & Casualty Company, NAIC #15768, was placed in liquidation as a result of the “Camp Fire” losses in Northern California exceeding its reinsurance recoverable and surplus.

### **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

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

**SUBLIMITY INSURANCE COMPANY**  
**ASSETS**  
**As of December 31, 2017**

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 27,601,710	\$ -	\$ 27,601,710	1
Preferred stocks	380,417	-	380,417	1
Common stocks	648,575	-	648,575	1
Properties occupied by the company	845,819	-	845,819	
Cash, cash equivalents and short-term investments	853,483	-	853,483	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>30,330,004</u>	<u>\$ -</u>	<u>30,330,004</u>	
Investment income due and accrued	234,471	-	234,471	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	5,288,111	-	5,288,111	
Accrued retrospective premiums and contracts subject to redetermination	3,680,163	-	3,680,163	
Reinsurance				
Funds held by or deposited with reinsured companies	374,896	-	374,896	
Net deferred tax assets	626,844	-	626,844	
FIT receivable	83,661	-	83,661	
EDP equipment and software	56,073	-	56,073	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 40,674,225</u>	<u>\$ -</u>	<u>\$ 40,674,225</u>	

**SUBLIMITY INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**As of December 31, 2017**

	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Losses	\$ 8,439,285	\$ -	\$ 8,439,285	2
Loss adjustment expenses	895,745	-	895,745	2
Commission payable, contingent commissions and other similar charges	621,568	-	621,568	
Other expenses	214,935	-	214,935	
Taxes, licenses and fees (excl. FIT)	158,575	-	158,575	
Unearned premiums	12,844,410	-	12,844,410	
Advance premium	259,142	-	259,142	
Ceded reinsurance premium payable	1,055,682	-	1,055,682	
Amounts withheld or retained for the account of others	47,261	-	47,261	
Payable to parent, subsidiaries and affiliates	49,302	-	49,302	
Aggregate write-ins for liabilities	<u>131,338</u>	-	<u>131,338</u>	
Total Liabilities	<u>\$ 24,717,244</u>	<u>\$ -</u>	<u>\$ 24,717,244</u>	
Common capital stock	\$ 3,521,899	\$ -	\$ 3,521,899	
Gross paid-in and contributed capital	1,428,104	-	1,428,104	
Unassigned funds (surplus)	<u>11,006,978</u>	-	<u>11,006,978</u>	
Surplus as regards policyholders	<u>\$ 15,956,981</u>	-	<u>\$ 15,956,981</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 40,674,225</u>	<u>\$ -</u>	<u>\$ 40,674,225</u>	

**SUBLIMITY INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2017**

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
<b>Underwriting income</b>				
Premium earned	\$ 25,570,612	\$ -	\$ 25,570,612	
Deductions				
Losses incurred	17,715,583	-	17,715,583	
Loss adjustment expenses incurred	2,142,686	-	2,142,686	
Other underwriting expenses	8,003,253	-	8,003,253	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>27,861,522</u>	<u>-</u>	<u>27,861,522</u>	
Net underwriting gain or (loss)	(2,290,909)	-	(2,290,909)	
<b>Investment income</b>				
Net investment income earned	1,495,289	-	1,495,289	
Net realized gains or (losses)	<u>207,787</u>	<u>-</u>	<u>207,787</u>	
Net investment gain or (loss)	1,703,076	-	1,703,076	
<b>Other income</b>				
Net gain or (loss) from agents' or premium balances charges off	(91,889)	-	(91,889)	
Finance and service charges not included in premiums	221,683	-	221,683	
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>129,794</u>	<u>-</u>	<u>129,794</u>	
Net income before dividends to policyholders and income taxes	(458,039)	-	(458,039)	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>(144,310)</u>	<u>-</u>	<u>(144,310)</u>	
Net income	<u>\$ (313,729)</u>	<u>\$ -</u>	<u>\$ (313,729)</u>	

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

	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$ 16,870,840</u>	<u>\$ 16,290,663</u>	<u>\$ 15,050,326</u>	<u>\$ 13,885,749</u>
Net income (loss)	(313,729)	1,030,185	1,745,416	1,065,551
Change in net unrealized capital gains or (losses)	66,363	73,083	(105,726)	(18,232)
Change in net deferred income tax	(64,529)	(54,281)	79,030	39,537
Change in non-admitted assets	(61,963)	71,190	61,616	92,720
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	135,858
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in				414,144
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	(540,000)	(540,000)	(540,000)	(565,000)
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-
Change in surplus as regards policyholders for the year	<u>(913,859)</u>	<u>,580,177</u>	<u>1,240,336</u>	<u>1,164,577</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 15,956,981</u>	<u>\$ 16,870,840</u>	<u>\$ 16,290,663</u>	<u>\$ 15,050,326</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

At year-end 2017, the Company's long-term bond investments were diversified in US obligations, US federal agency bonds, municipal obligations, and industrial and miscellaneous. The Company had a small exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2017, and the carrying book value comprised 11.4% of the total long-term bond portfolio, or 7.7% of all invested assets.

Investments in common and preferred stocks were comprised of industrial and miscellaneous corporations. The Company non-admitted the full value of the common stock its wholly-owned subsidiary in the amount of \$4,082.

Cash and short-term deposits consisted of cash on deposit and a Wells Fargo (WFA) money market fund.

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

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common &amp;</u> <u>Preferred</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total</u> <u>Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total</u> <u>Assets</u>
2013*	\$ 21,850,272	\$ 224,376	\$ 1,079,206	69.6%	0.7%	3.4%
2014	24,710,610	327,491	300,196	72.7%	1.0%	0.9%
2015	26,794,851	506,975	165,675	74.2%	1.4%	0.5%
2016	29,617,740	571,936	213,816	74.0%	1.4%	0.5%
2017*	27,601,710	1,028,992	853,483	67.9%	2.5%	2.1%

\* Balance per examination

The Board of Directors approved the investment transactions in each of the years under review, in compliance with ORS 733.740. As of December 31, 2017, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

Effective December 17, 2009, the Company entered into a custodial agreement with Wells Fargo. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (1).

**Note 2 – Actuarial Reserves**

A review of the actuarial liabilities was performed by Andrew Chandler, ACAS, MAAA, Actuarial Consultant, Risk & Regulatory Consulting, and Dave Heppen, FCAS, MAAA, Director, Risk & Regulatory Consulting LLC. As part of their review, they examined the Actuarial Report Supporting Statements as of December 31, 2017, prepared by Joseph L. Petrelli, ACAS, ASA, MAAA, FCA (MBA), President of Demotech Inc., who prepared the company’s actuarial report and opinion. The Company’s Board of Directors appointed Mr. Petrelli on October 24, 2017.

David Dahl, FCAS, MAAA, Property/Casualty actuary for the Oregon Division of Financial Regulation, peer reviewed the contracted actuarial review performed by Mr. Chandler and Mr. Heppen and their assessment of the liabilities established as of the December 31, 2017. His review noted that the assessment of Sublimity’s pricing and reserving risk were reasonable and the assumptions and methodologies used were reasonable. Therefore, the Company’s liability for Losses and Loss Adjustment Expenses was found to be reasonably stated as of December 31, 2017.

**SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no adjustments made to the Company’s surplus as a result of this examination and no recommendations were made.

**CONCLUSION**

During the four year period covered by this examination, the surplus of the Company has increased from \$13,885,749, as presented in the December 31, 2013, report of examination to \$15,956,981, as shown in this report. The comparative assets and liabilities are:

	<b>December 31,</b>		
	<b><u>2017</u></b>	<b><u>2013</u></b>	<b><u>Change</u></b>
Assets	\$ 40,674,225	\$ 31,380,031	\$ 9,294,194
Liabilities	<u>24,717,244</u>	<u>17,494,282</u>	<u>7,222,962</u>
Surplus	<u>\$ 15,956,981</u>	<u>\$ 13,885,749</u>	<u>\$ 2,071,232</u>



## ACKNOWLEDGMENT

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

In addition to the undersigned, Tho Le, AFE, Brandon K. Lau, staff examiners, and David Dahl, FCAS, MAAA, actuary, for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination. In addition, examiners and contractors representing the Idaho Department of Insurance participated and their cooperation during this coordinated examination is greatly appreciated.

Respectfully submitted,

/s/ Joseph A. Rome

Joseph A. Rome, CFE, CIE

Lead Examiner – EIC

Division of Financial Regulation

Department of Consumer and Business Services

State of Oregon

**AFFIDAVIT**

STATE OF OREGON)

County of Marion)

Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

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

The affiant says nothing further.

/s/ Joseph A. Rome  
Joseph A. Rome, CFE, CIE  
Lead Examiner – EIC  
Division of Financial Regulation  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to before me this 21 day of June, 2019.

/s/ Sara Warburton  
Notary Public in and for the State of Oregon

My Commission Expires: 12/17/21

