

**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**SUBLIMITY INSURANCE COMPANY
SUBLIMITY, OREGON**

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**SUBLIMITY INSURANCE COMPANY
SUBLIMITY, OREGON**

NAIC COMPANY CODE 26824

DECEMBER 31, 2013

TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION.....	4
COMPANY HISTORY	4
<i>Capitalization.....</i>	<i>5</i>
<i>Dividends to Stockholders and Other Distributions</i>	<i>5</i>
CORPORATE RECORDS	6
<i>Board Minutes.....</i>	<i>6</i>
<i>Articles of Incorporation.....</i>	<i>6</i>
<i>Bylaws</i>	<i>7</i>
MANAGEMENT AND CONTROL	7
<i>Board of Directors</i>	<i>7</i>
<i>Officers.....</i>	<i>8</i>
<i>Conflict of Interest</i>	<i>8</i>
<i>Insurance Company Holding System</i>	<i>8</i>
INTERCOMPANY AGREEMENTS.....	10
<i>Cost Sharing and Allocation Agreement.....</i>	<i>10</i>
<i>Income Tax Allocation Agreement.....</i>	<i>11</i>
FIDELITY BOND AND OTHER INSURANCE.....	11
TERRITORY AND PLAN OF OPERATION	12
GROWTH OF THE COMPANY	12
LOSS EXPERIENCE	13
REINSURANCE	13
<i>Umbrella</i>	<i>14</i>
<i>Facultative Reinsurance.....</i>	<i>15</i>
<i>Risk Retention.....</i>	<i>15</i>
<i>Insolvency Clause.....</i>	<i>15</i>
ACCOUNTS AND RECORDS	15
STATUTORY DEPOSIT	16
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS.....	16
SUBSEQUENT EVENTS.....	16
FINANCIAL STATEMENTS.....	16
NOTES TO FINANCIAL STATEMENTS	21
<i>Note 1 – Invested Assets.....</i>	<i>21</i>
<i>Note 2 – Actuarial Reserves.....</i>	<i>21</i>
SUMMARY OF COMMENTS AND RECOMMENDATIONS	22
CONCLUSION	22
ACKNOWLEDGMENT	23
AFFIDAVIT	24

SALUTATION

October 24, 2014

Honorable Laura N. Cali, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

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 coordinated multi-state examination of Sublimity Insurance Company, part of the United Heritage Mutual Holding Company (UHMC) 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, 2008. This examination covers the period of January 1, 2009, to December 31, 2013.

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 and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles, annual statement instructions, and Oregon statutes and administrative rules.

COMPANY HISTORY

Sublimity Insurance Company started in Sublimity, Oregon in 1896 as The Farmers Fire Relief Association of Sublimity. The Company was incorporated under the laws of the State of Oregon 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 of Meridian, Idaho. The director of the Oregon Department of Consumer and Business Services (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.

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.

In the prior examination as of December 31, 2008, the Company reported 3,000,000 shares issued and outstanding. All shares issued and outstanding are owned by UHFG. The following table displays transactions made since the Company's last examination:

<u>Date</u>	<u>Shares</u>	<u>Common Capital Stock</u>	<u>Paid in and Contributed Surplus</u>
12/31/2008	3,000,000	\$ 3,000,000	\$ 0
07/28/2010	173,777	173,777	426,233
08/09/2011	<u>212,264</u>	<u>212,274</u>	<u>587,736</u>
Totals	<u>3,386,041</u>	<u>\$ 3,386,041</u>	<u>\$ 1,013,969</u>

Dividends to Stockholders and Other Distributions

During the period under examination, the Company declared and paid dividends totaling \$2,234,000 to its sole stockholder, as follows:

<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
03/02/2009	\$ 62,500	Ordinary
06/01/2009	62,500	Ordinary
08/31/2009	62,500	Ordinary
12/03/2009	62,500	Ordinary
03/02/2010	62,500	Ordinary
06/01/2010	62,500	Ordinary
09/01/2010	90,000	Ordinary
11/30/2010	90,000	Ordinary
03/01/2011	90,000	Ordinary

05/31/2011	90,000	Ordinary
08/30/2011	135,000	Ordinary
12/02/2011	135,000	Ordinary
02/29/2012	135,000	Ordinary
05/31/2012	135,000	Ordinary
09/19/2012	160,000	Ordinary
12/02/2012	160,000	Ordinary
03/06/2013	160,000	Ordinary
06/03/2013	160,000	Ordinary
09/05/2013	160,000	Ordinary
12/02/2013	160,000	Ordinary

All dividends were reported to the director of DCBS and were timely filed within five business days of declaration, as required by ORS 732.554 and OAR 836-027-0170(2). All dividends were approved by the Oregon Insurance Division.

CORPORATE RECORDS

Board Minutes

In general, the review of 2009 to 2013 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 officer compensation. 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 Articles were not amended during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

Bylaws

The Company's Bylaws 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, 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, 2013, 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
James R. Hay * McMinnville, Oregon	Retired VP and Manager Key Bank of Oregon, NA	1983
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, 2013, were as follows:

<u>Officer</u>	<u>Office</u>
Andrew L. Trower	President and CEO, Treasurer
Kevin W. Lucke	Sr. VP, Marketing and Underwriting, Secretary
Michael E. Bergantzel	VP, Accounting and Administration
Eric F. Nichols	VP, Information Technology

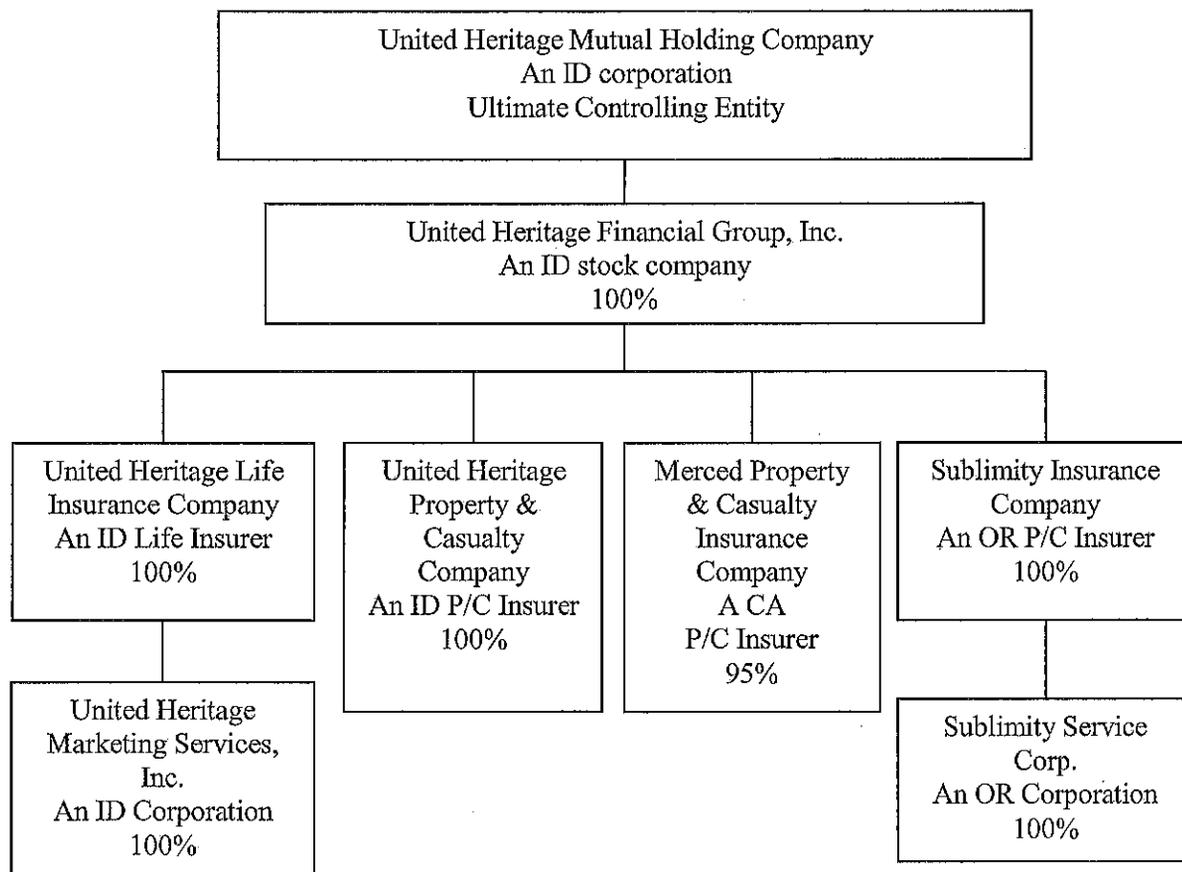
Conflict of Interest

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 95% by UHFG. The remaining 5% is owned by policyholders who elected to take stock as part of the Company's demutualization. MPCC is licensed only in California.

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. This business was terminated prior to the period covered by this examination, 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 August 15, 2003, the Company and its affiliates entered into a cost-sharing and allocation arrangement with UHFG. Under this agreement, various operating expenses of the Company, UHLIC, UHPC, and United Heritage Financial Service, Inc. (previously disbanded and merged into UHFG), were paid by UHFG and charged to the individual companies based upon its share of usage. Effective September 7, 2008, this agreement was replaced with another agreement providing similar services.

Effective October 4, 2013, a new agreement was executed to include UHFG's new entity, Merced Property & Casualty Company. 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.

Income Tax Allocation Agreement

Effective January 1, 2010, the Company became a party to a amended tax allocation agreement with UHMHC and all its subsidiaries. Effective January 1, 2013, a new agreement was executed to include Merced Property & Casualty Company. 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, 2013, the Company was covered for up to \$1,000,000 per occurrence, after a \$10,000 deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage met the minimum coverage recommended by the NAIC. In addition, the Company was covered against professional liability for losses up to \$3,000,000 aggregate limit with

\$25,000 loss retention. Other insurance risks covered included property (including earthquake, business personal property and computer equipment), commercial automobile, umbrella liability, and workers' compensation. All coverages appeared adequate.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, 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	\$ 3,054,514
Oregon	17,216,049
Utah	5,669,259
Washington	<u>0</u>
Total Direct Premium	<u>\$25,939,822</u>

During 2013 the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Personal automobile	\$ 10,393,891	40.07
Homeowner's	8,475,848	32.68
Auto physical damage	5,560,724	21.44
Fire	447,250	1.72
Farmowners multiple peril	436,576	1.68
Allied lines	435,814	1.68
Other liability-occurrence	189,049	0.73
Burglary and theft	<u>670</u>	<u>0.00%</u>
Total	<u>\$25,939,822</u>	<u>100.0%</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 Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2009	\$20,610,972	\$10,812,192	\$ 9,798,780	\$1,054,181
2010	23,393,831	11,928,160	11,465,671	1,514,016
2011	25,977,726	12,733,602	13,244,123	1,280,833
2012	29,412,122	15,720,684	13,691,438	925,876
2013*	31,380,031	17,494,282	13,885,749	797,543

*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>	(1) <u>Premium Earned</u>	(2) <u>Losses and LAE Incurred</u>	(3) <u>Other Underwriting Expenses Incurred</u>	(2)+(3)/(1) <u>Combined Ratio</u>
2009	\$12,844,239	\$ 7,874,577	\$4,412,541	95.7%
2010	15,344,329	9,217,368	5,296,625	94.6%
2011	17,394,298	10,873,370	6,083,805	97.5%
2012	18,933,731	12,343,363	6,861,008	101.4%
2013*	21,351,002	14,107,011	7,691,558	102.1%

*Per examination

REINSURANCE

At December 31, 2013, the Company's reinsurance program was comprised of three agreements that included excess of loss coverage for both property and casualty business, a catastrophe coverage for property business, and a separate agreement for umbrella risks. The Company's reinsurance Multiple Line Excess of Loss (XOL) and Personal Umbrella coverage are obtained directly.

Effective January 1, 2013, the Company was covered under a Multi-line Excess of Loss Agreement with Swiss Reinsurance America Corporation (NAIC #25364), with the following terms:

<u>Coverage</u>	<u>Retention or Underlying Limit</u>	<u>1st Excess Cover</u>	<u>2nd Excess Cover</u>	<u>3rd Excess Cover</u>
Liability business	\$125,000 each occurrence	\$175,000 each occurrence after retention	\$700,000 each occurrence excess \$300,000	\$500,000 each occurrence XS \$1,000,000
Property business	\$125,000 each risk	\$175,000 each risk after retention	\$700,000 each risk XS \$300,000	\$500,000 each risk XS \$1,000,000

Effective January 1, 2013, both the Company and its affiliate, 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 \$2,000,000 limited to 95% of \$2,000,000 for aggregate losses.
Second Layer	\$3,000,000 each risk	95% of \$7,000,000 limited to 95% of \$7,000,000 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.

Umbrella

At December 31, 2013, the Company was covered under a Quota Share and Excess of Loss Reinsurance Agreement for personal umbrella business with Swiss Reinsurance America Corporation. The reinsurer agreed to pay the Company, with respect to each personal umbrella policy of the Company, 97% of the first \$1,000,000 each occurrence of each net loss sustained by the Company.

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 \$125,000. As such, the Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company, therefore, 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, 2013, 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 2013, the Company maintained deposits with the Idaho Department of Insurance in the sum of \$1,114,368 (admitted value), for the benefit of all policyholders. These deposits were verified by confirmation from the custodian.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

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

SUBSEQUENT EVENTS

The examiner did not note any significant subsequent events.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Sublimity Insurance Company as of December 31, 2013:

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, 2013

<u>Assets</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$ 21,850,272	\$ -	\$ 21,850,272	1
Common stocks	224,376	-	224,376	1
Real Estate				
Properties occupied by the company	836,418	-	836,418	
Cash, cash equivalents and short-term investments	1,079,206	-	1,079,206	1
Receivables for securities	23	-	23	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$ 23,990,295</u>	<u>\$ -</u>	<u>\$ 23,990,295</u>	
Investment income due and accrued	264,886	-	264,886	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	3,412,937	-	3,412,937	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,835,271	-	2,835,271	
Reinsurance				
Amounts recoverable from reinsurers	44,323	-	44,323	
Federal and foreign income tax recoverable	141,570	-	141,570	
Net deferred tax asset	627,087	-	627,087	
Electronic data processing equipment and software	63,661	-	63,661	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	<u>\$ 31,380,031</u>	<u>\$ -</u>	<u>\$ 31,380,031</u>	

SUBLIMITY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2013

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	Notes
Liabilities, Surplus and other Funds				
Losses	\$ 4,081,387	\$ -	\$ 4,081,387	2
Loss adjustment expenses	669,157	-	669,157	2
Commissions payable, contingent commissions and other similar charges	531,440	-	531,440	
Other expenses	491,750	-	491,750	
Taxes, licenses and fees (excluding federal and foreign income taxes)	210,170	-	210,170	
Unearned premiums	10,393,961	-	10,393,961	
Advanced premium	249,157	-	249,157	
Ceded reinsurance premiums payable	543,600	-	543,600	
Amounts withheld or retained for account of others	16,647	-	16,647	
Payable to parent, subsidiaries, and affiliates	119,337	-	119,337	
Aggregate write-ins for liabilities	187,676	-	187,676	
Total Liabilities	<u>\$ 17,494,282</u>	<u>\$ -</u>	<u>\$ 17,494,282</u>	
Common capital stock	3,386,041	-	3,386,041	
Gross paid in and contributed capital	1,013,961	-	1,013,961	
Unassigned funds (surplus)	9,485,747	-	9,485,747	
Surplus as regards policyholders	<u>\$ 13,885,749</u>	<u>\$ -</u>	<u>\$ 13,885,749</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 31,380,031</u>	<u>\$ -</u>	<u>\$ 31,380,031</u>	

SUBLIMITY INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2013

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	Notes
Underwriting Income				
Premiums earned	\$ 21,351,002	\$ -	\$ 21,351,002	
Deductions:				
Losses incurred	12,462,273	-	12,462,273	
Loss adjustment expenses incurred	1,644,738	-	1,644,738	
Other underwriting expenses incurred	7,691,558	-	7,691,558	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>21,798,569</u>	<u>-</u>	<u>21,798,569</u>	
Net underwriting gain or (loss)	<u>(447,567)</u>	<u>-</u>	<u>(447,567)</u>	
Investment Income				
Net investment income earned	1,158,148	-	1,158,148	
Net realized capital gains or (losses)	<u>182,252</u>	<u>-</u>	<u>182,252</u>	
Net investment gain or (loss)	<u>1,340,400</u>	<u>-</u>	<u>1,340,400</u>	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	(109,126)	-	(109,126)	
Finance and service charges not included in premiums	202,106	-	202,106	
Aggregate write-ins for miscellaneous income	<u>4,194</u>	<u>-</u>	<u>4,194</u>	
Total other income	<u>97,174</u>	<u>-</u>	<u>97,174</u>	
Net income before dividends to policyholders and income taxes	900,007	-	900,007	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	<u>192,464</u>	<u>-</u>	<u>192,464</u>	
Net income	<u>\$ 797,543</u>	<u>\$ -</u>	<u>\$ 797,543</u>	

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

	2013	2012	2011	2010	2009
Surplus as regards policyholders, December 31, previous year	<u>\$ 13,691,438</u>	<u>\$ 13,244,123</u>	<u>\$ 11,465,671</u>	<u>\$ 9,798,779</u>	<u>\$ 8,454,840</u>
Net income	797,543	925,876	1,280,833	1,514,016	1,054,181
Change in net unrealized capital gains or (losses)	(59,289)	46,577	(20,278)	4,668	458,479
Change in net deferred income tax	88,998	38,750	56,545	(74,398)	(128,360)
Change in nonadmitted assets	7,059	26,111	(88,894)	(72,394)	201,961
Change in provision for reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	386,041	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	413,961	600,000	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Net remittances from or (to) Home Office	-	-	-	-	-
Dividends to stockholders (cash)	(640,000)	(590,000)	(450,000)	(305,000)	(250,000)
Change in treasury stock	-	-	-	-	-
Examination changes	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	200,244	-	7,678
Change in surplus as regards policyholders for the year	<u>194,311</u>	<u>447,314</u>	<u>1,778,452</u>	<u>1,666,892</u>	<u>1,343,939</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$13,885,749</u></u>	<u><u>\$13,691,438</u></u>	<u><u>\$13,244,123</u></u>	<u><u>\$11,465,671</u></u>	<u><u>\$ 9,798,779</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

Most of the Company's long-term bond investments were in US obligations, US federal agency bonds, municipal obligations, and corporate issues. The Company did have a moderate to high exposure to mortgaged-backed securities (MBS) and asset-backed securities (ABS). The MBS/ABS issues were 99.7% NAIC category 1 and 2 investment grade rated at year-end 2013 of which the carrying book value of \$16.0 million comprised over 73.3% of the total long-term bond portfolio, or almost 66.8% of all invested assets.

At year end 2013 equity investments were common stocks which included miscellaneous industrials and mutual funds. The Company non-admitted the full value of the wholly-owned subsidiary in the amount of \$19,952.

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>B</u>	<u>C</u>	<u>Ratio</u>	<u>Ratio</u>	<u>Ratio</u>
	<u>Bonds</u>	<u>Common Stocks</u>	<u>Cash and Short-term</u>	<u>A/ Total Assets</u>	<u>B/ Total Assets</u>	<u>C/ Total Assets</u>
2009	\$15,073,851	\$509,018	\$ 777,346	73.1%	2.5%	3.8%
2010	17,375,139	400,208	598,085	74.3%	1.7%	2.6%
2011	19,934,869	139,641	353,739	76.7%	0.5%	1.4%
2012	20,703,079	489,591	516,850	70.4%	1.7%	1.8%
2013*	21,850,272	224,376	1,079,206	69.6%	0.7%	3.4%

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, 2013, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, thus the Company was in compliance with ORS 733.580.

Note 2 – Actuarial Reserves

David Dahl, FCAS, MAAA, Property/Casualty actuary for the Oregon Insurance Division, reviewed the liabilities established as of the December 31, 2013. His review consisted of the following:

1. The data, methods, and calculations used in the actuarial report supporting the actuarial opinion as of December 31, 2013.
2. The data, methods, and calculations used by the Company to establish its liabilities as of December 31, 2013.

Joseph L. Petrelli of Demotech Inc. in Dublin, Ohio, prepared the company's actuarial report. The Company's Board of Directors appointed Mr. Petrelli on October 23, 2013. The Company's liabilities were found to be redundant by approximately \$61,000 on a net basis. This amount is 0.4% of the Company's reported surplus as of December 31, 2013, and consequently, not material. Mr. Petrelli's actuarial report used paid and incurred developments, and hindsight techniques consisting of paid and incurred Bornhuetter-Ferguson methods to estimate the loss and defense and cost containment expense on a combined basis. Separate estimates were made for other loss adjustment expense using loss payment patterns and the common assumption that 50% of the other loss adjustment expense is paid when opening a claim and 50% paid when closing a claim. The experience for loss and defense and cost containment was grouped by annual statement line, and the experience for other loss adjustment expense is on an overall basis.

The Company's retention on their multi-line excess of loss reinsurance treaty retention is \$125,000 per occurrence for 2013. The Company also has two catastrophe reinsurance contracts that cover 95% of their losses from \$2 million to \$10 million. RMS estimates Sublimity's 1 in 200-year earthquake exposure is \$10.7 million and their 1 in 500-year severe storm exposure is \$3.9 million. The Company's reinsurance coverage appears to be adequate based on these estimates.

Sublimity's liability for Losses and Loss Adjustment Expenses was found to be reasonably stated as of December 31, 2013.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from \$8,434,746, as presented in the December 31, 2008, report of examination to \$13,885,749, as shown in this report. The comparative assets and liabilities are:

	<u>2013</u>	<u>December 31,</u> <u>2008</u>	<u>Change</u>
Assets	\$31,380,031	\$17,670,509	\$13,709,522
Liabilities	<u>17,494,282</u>	<u>9,235,763</u>	<u>8,258,519</u>
Surplus	<u>\$13,885,749</u>	<u>\$ 8,434,746</u>	<u>\$ 5,451,003</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, Keilei Yambaw, Michael P. Phillips, CPA, CFE, AES insurance examiners and David Dahl, FCAS, MAAA, actuary, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination. In addition, the Idaho Insurance Division's cooperation during this coordinated examination is greatly appreciated.

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Lead Examiner-EIC
Department of Consumer and Business Services
State of Oregon

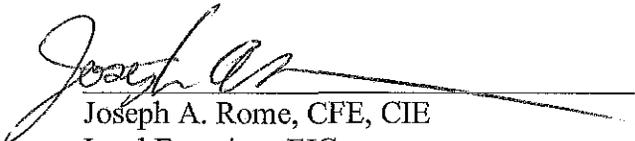
AFFIDAVIT

STATE OF OREGON)
)
County of Marion) ss

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

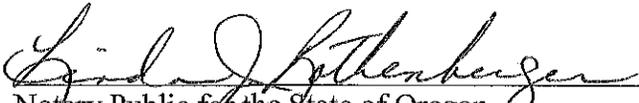
1. I have authority to represent the state of Oregon in the examination of Sublimity Insurance Company, Sublimity, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial 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.

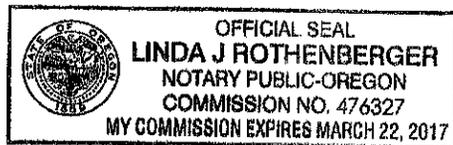


 Joseph A. Rome, CFE, CIE
 Lead Examiner-EIC
 Department of Consumer and Business Services
 State of Oregon

Subscribed and sworn to me this 15 day of January, 2015.



 Notary Public for the State of Oregon



My Commission Expires: 3/22/2017