

STATE OF OREGON

**DEPARTMENT OF
CONSUMER AND BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

SUBLIMITY INSURANCE COMPANY
SUBLIMITY, OREGON

AS OF

DEC. 31, 2022

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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NAIC COMPANY CODE 26824

AS OF

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SALUTATION

April 2, 2024

Honorable Andrew R. Stolfi,
Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter St. NE
Salem, OR 97301-3883

Dear director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) *Financial Condition 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, full-scope, coordinated, multistate 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 Dec. 31, 2017. This examination covers the period of Jan. 1, 2018, to Dec. 31, 2022.

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 the plan'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 effect 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 or

proprietary information), 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 as a mutual fire insurance company on Nov. 10, 1897. By amended articles of incorporation, which were approved in 1954, the company adopted the corporate name Sublimity Fire Insurance Company. In 1972, the name of the company was changed to Sublimity Insurance Company.

On Dec. 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 Oregon Department of Consumer and Business Services (DCBS) approved the planned 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 authorized the company to issue 20,000,000 shares of common stock, with a par value of \$1 per share. The company has issued 3,521,899 shares to its direct parent, UHFG, representing 100 percent of the shares outstanding. No additional capital was contributed to the company during the period under examination.

All shares issued and outstanding are owned by UHFG. During the examination period, the company did not issue any additional shares.

Dividends to Stockholders and Other Distributions

During the period under examination, the company declared and paid dividends totaling \$2,700,000 to its sole stockholder, as follows:

<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
2/28/2018	\$135,000	Ordinary
5/30/2018	135,000	Ordinary
9/4/2018	135,000	Ordinary
11/30/2018	135,000	Ordinary
3/29/2019	135,000	Ordinary
6/28/2019	135,000	Ordinary
9/9/2019	135,000	Ordinary
12/31/2019	135,000	Ordinary
3/31/2020	135,000	Ordinary
7/1/2020	135,000	Ordinary
10/13/2020	135,000	Ordinary
12/31/2020	135,000	Ordinary
3/31/2021	135,000	Ordinary
7/1/2021	135,000	Ordinary
9/30/2021	135,000	Ordinary
11/29/2021	135,000	Ordinary
3/9/2022	135,000	Ordinary
6/6/2022	135,000	Ordinary
9/7/2022	135,000	Ordinary
12/29/2022	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 2018 to 2022 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).

However, the company's board of directors did not review the appointed actuary's qualification documentation in accordance with the NAIC Property and Casualty Annual Statement instructions. Further, the company's appointed actuary did not directly present the actuarial opinion to the board of directors or the Audit Committee, as required by the NAIC Property and Casualty Statement instructions. This violates Oregon Revised Statute (ORS) 731.574, and Oregon Administrative Rules (OAR) 836-011-0000.

I recommend that the company have the board of directors annually review the appointed actuary's qualification documentation and actuary report, and directly present the actuarial opinion to the plan's board of directors or the Audit Committee, in accordance with ORS 731.574 and OAR 836-011-0000.

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 conform to the 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 conform 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 articles of incorporation, in Article IV, state that the corporation shall be governed by a board of directors, composed of not less than five nor more than 15 directors. The company's amended bylaws, in Section 4.9, describes a quorum as a majority of the number of directors. As of Dec. 31, 2022, the company was governed by a seven-member board of directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Elaine R. Eastman* Albany, Oregon	Retired – President and CEO, Central Willamette Community Credit Union	2013
Byron R. Hendricks Salem, Oregon	Retired – President, Pru-One Inc.	2017
Theresa A. Haskins Salem, Oregon	Senior Business Development Manager, Portland General Electric	2020
Kevin W. Lucke Aumsville, Oregon	President and Chief Executive Officer, Sublimity Insurance Company	2018
Dean D. Sandros, CPA Eagle, Idaho	Vice President, Investments and Treasurer, Sublimity Insurance Company	2021
Linda P. Smith Boise, Idaho	Retired – Regional Vice President, Patient Centered Access Saint Alphonsus Health System	2021
Joseph P. Shirts Eagle, Idaho	Retired – Partner, Shirts Motz and Boyd, CPAs	2021

*Chairman

The company’s board met all of the requirements of ORS 732.305.

Officers

Principal officers serving as of Dec. 31, 2022, were as follows:

<u>Officer</u>	<u>Office</u>
Kevin W. Lucke	President and CEO, Treasurer
Mathew D. Dahl	Vice President, Chief Financial Officer
Frederick P. Chlanda	Vice President, Underwriting
Steven A. Browning	Vice President, Claims
Jill L. Evoy	Vice President, Actuary
Jeffrey D. Neumeyer	Vice President, and General Counsel & Asst. Secretary
Michael D. Joy	Vice President, Marketing
Stefanie A. Thiel	Vice President, Human Resources
Dean D. Sandros	Vice President, Investments & Treasurer

Tracy R. Oneale

Vice President, Deputy General Counsel and Secretary

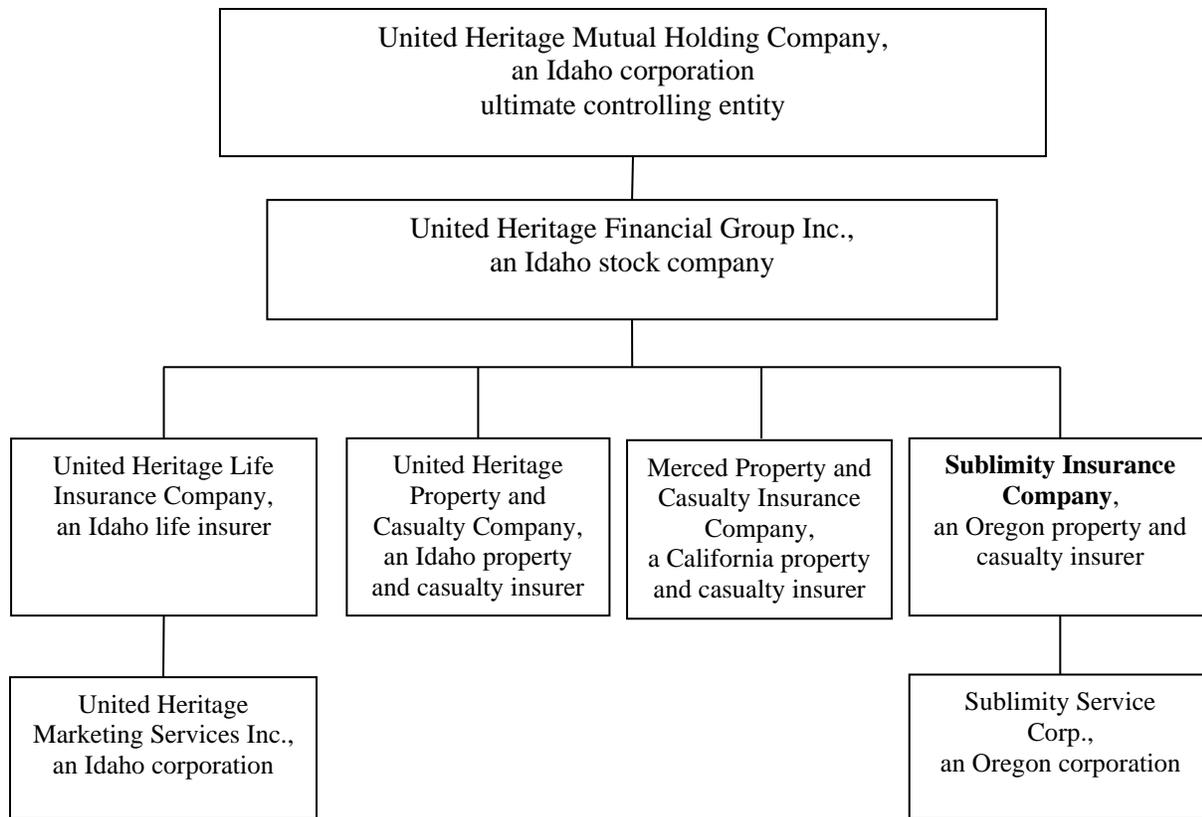
Conflict of Interest

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 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 that is 100 percent owned by UHMHC. It owns 100 percent 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 that is 100 percent owned by UHFG. Formed as the Grange Mutual Life Company in 1934, UHLIC is licensed in 49 states, including Oregon.

United Heritage Property & Casualty Company (UHPC) is an Idaho domiciled property and casualty insurer that is 100 percent owned 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 on April 1, 2013, and is 100 percent owned by UHFG. The California insurance commissioner was appointed as statutory liquidator on Dec. 3, 2018.

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 100 percent owned by UHLIC.

Sublimity Service Corporation (SSC) is a dormant Oregon for-profit stock corporation formed to offer warranty contracts. Before 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 100 percent owned by the company.

INTERCOMPANY AGREEMENTS

Cost Sharing and Allocation Agreement

Effective Oct. 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.

Income Tax Allocation Agreement

Effective Jan. 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 before the quarterly due date by wire transfer. Any subsequent adjustments shall be due within 30 days.

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 March 1, 2018, through Feb. 28, 2023, 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.

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. As of Dec. 31, 2022, 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, and fiduciary liability coverages. All coverages are deemed to be adequate.

TERRITORY AND PLAN OF OPERATION

As of Dec. 31, 2022, the company was authorized to write property and casualty, excluding workers' compensation, marine and transportation, and surety business in Oregon. The company was also authorized to write business in Arizona, Idaho, Utah, and Washington. Direct premiums written were:

Arizona	\$	0
Idaho		3,176,585
Oregon		20,925,229
Utah		7,767,376
Washington		<u>0</u>
Total Direct Premium		<u>\$ 31,869,190</u>

During 2022, the company wrote the following lines of business:

<u>Line</u>	<u>Direct Premiums</u>	<u>Percentage</u>
Fire	\$ 310,252	0.97
Allied lines	320,482	1.01
Farm owners multiple peril	412,020	1.29

Homeowners multiple peril	11,081,245	34.77
Other liability occurrence	233,086	0.73
Private passenger auto liability	1,606,726	5.04
Other passenger auto liability	10,112,089	31.73
Private passenger auto physical damage	7,793,111	24.45
Burglary and theft	<u>179</u>	<u>0.00</u>
Total	<u>\$ 31,869,190</u>	<u>100.00</u>

The company markets its business through independent agents.

GROWTH OF THE COMPANY

The growth of the company over the past five years is reflected in the following schedule. Amounts were derived from the company's annual statements, except in those years in which 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>
2018	\$42,859,038	\$ 25,683,717	\$ 17,175,321	\$ 1,952,280
2019	42,437,922	23,484,987	18,952,935	2,111,915
2020	42,202,695	22,971,607	19,231,088	729,449
2021	40,171,757	24,786,857	15,384,900	(4,063,302)
2022*	38,644,989	23,203,083	15,441,906	768,578

*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>
2018	28,112,131	18,769,720	8,766,023	97.9%
2019	27,685,712	18,274,539	9,062,611	98.7%
2020	26,690,689	18,158,357	10,027,764	105.6%
2021	27,439,678	23,845,535	9,329,705	120.9%
2022*	26,761,632	18,406,351	9,309,053	103.6%

*Per examination

REINSURANCE

As of Dec. 31, 2022, the company's reinsurance program comprised six agreements, which were a quota share, property catastrophe excess of loss (XOL), fifth layer property catastrophe excess of loss, personal umbrella and quota share, multiline excess of loss, and facultative reinsurance.

Quota Share Agreement

Effective Dec. 31, 2022, through Dec. 31, 2023, for policies in force at the inception of, written or renewed with an effective date during the period, the company is covered under a quota share reinsurance agreement whereby Dorinco Reinsurance Company (NAIC No. 33499) accepts a maximum liability for any one loss, which is limited to \$1,000,000. Premiums are subject to a 27.5 percent ceding commission.

Property Catastrophe Excess of Loss

Effective Jan. 1, 2021, through Jan. 1, 2023, both the company and its affiliate, United Heritage Property and Casualty Company (UHPC), were covered under a property catastrophe excess of loss treaty with numerous subscribing reinsurers with the following terms:

<u>Coverage</u>	<u>Retention</u>	<u>Annual Aggregate Retention</u>	<u>Limits</u>
First excess	\$1,000,000 each risk	\$2,000,000	\$3,000,000 per occurrence \$6,000,000 aggregate
Second excess	\$4,000,000 each risk	N/A	\$6,000,000 per occurrence \$12,000,000 aggregate
Third excess	\$10,000,000 each risk	N/A	\$15,000,000 per occurrence \$30,000,000 aggregate
Fourth excess	\$25,000,000 each risk	N/A	\$25,000,000 per occurrence \$50,000,000 aggregate

Fifth Layer Property Catastrophe Excess of Loss

Effective April 1, 2020, through Jan. 1, 2023, both the company and its affiliate, United Heritage Property and Casualty Company, were covered under a property catastrophe excess of loss treaty with Swiss Reinsurance America Corporation (NAIC No. 25364). Under the terms of the agreement, the reinsurer shall be liable for 95 percent of the amount of the company's ultimate net loss in any one loss occurrence in excess of \$50,000,000, but shall never be liable for more than 95 percent of \$25,000,000 in any one loss occurrence, \$23,750,000 aggregate. Further, for events of terrorism, the reinsurer shall never be liable for more than 95 percent of \$25,000,000 during the term of the agreement.

Personal Umbrella and Quota Share

Effective Jan. 1, 2020, and to continue in force until terminated, the company was covered under a personal umbrella quota share and an excess of loss reinsurance agreement with General Reinsurance Corporation (NAIC No. 22039). The reinsurer agreed to pay the company, with respect to each personal umbrella policy of the company, 95 percent of the first \$1,000,000 of each

occurrence of each net loss sustained by the company and 100 percent of the policy limits up to \$2,000,000.

Multiline Excess of Loss

Effective Jan. 1, 2021, and to continue in force until terminated, the company was covered under a multiline excess of loss agreement with General Reinsurance Corporation (NAIC No. 22039) 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	\$225,000 each risk	\$175,000 each risk after retention	\$600,000 each risk	\$1,000,000 each risk, but not to exceed \$3,000,000
Property business	\$225,000 each risk	\$175,000 each risk after retention	\$600,000 each risk	\$1,000,000 each risk, but not to exceed \$3,000,000
Wildfire business	\$225,000 each risk	\$175,000 each risk after retention	\$600,000 each risk	N/A

Facultative Reinsurance

Effective Jan. 1, 2018, and to continue in force until terminated, the company entered into a facultative reinsurance agreement with General Reinsurance Corporation (NAIC No. 22039). Under the terms of the agreement, the company ceded certain risks not specifically covered by the agreement. The company is covered up to a limit of \$3,000,000, and a company retention of \$2,000,000 on all risks involved in one occurrence, for the property business was written.

Risk Retention

The highest risk the company retained on any one insured was \$225,000. As such, the company did not retain risk on any one subject in excess of 10 percent of its surplus in regard to 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 Dec. 31, 2022, 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 2022, the company maintained deposits with the Idaho Department of Insurance with a par value of \$1,093,000 and an admitted value of \$933,489, for the benefit of all policyholders. These deposits were verified by confirmation directly from the custodian.

In addition, the company reported six U.S. securities on deposit; five U.S. Special Revenues Bonds with a total par value of \$625,000 and a U.S. territory bond with a par value of \$100,000,

maintained with the Department of Consumer and Business Services, Division of Financial Regulation, for the benefit of all policyholders. These securities were confirmed with the Insurance Institutions section. The deposits were verified from the records of the Division of Financial Regulation and were listed in the 2022 annual statement on Schedule E – Part 3.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

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

SUBSEQUENT EVENTS

Effective Oct. 24, 2023, Kevin Lucke, CEO and president, resigned from his position. Todd Gill has been named the interim President & Chief Executive Officer. In Dec. 2023, the company issued 657,095 shares of common stock to UHFG for a sale price of approximately \$2,000,000. In addition, the company issued a \$2,500,000 surplus note to UHLIC.

Effective March 1, 2024, UHPC, an affiliate, would discontinue and block the nonrenewal of the following types of coverage:

- Farm owner coverage
- Umbrella coverage
- Condominium homeowner coverage
- Owner-occupied homeowner coverage
- Tenant homeowner coverage

The latter was the result of the restructuring and streamlining plans between UHPC and the company. These restructuring plans included changes in the organizational structure and types of coverages offered by both legal entities. Certain positions were eliminated or consolidated resulting in operational efficiencies. UHPC would focus on specialty products, and the company would offer farm owners, umbrella, condominium homeowner and those coverages discontinued by UHPC.

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 Dec. 31, 2022. 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 Dec. 31, 2022

Assets	Balance per <u>Company</u>	Examination <u>Adjustments</u>	Balance per <u>Examination</u>	<u>Notes</u>
Bonds	\$ 24,584,131	\$ -	\$ 24,584,131	1
Preferred stocks	1,690,556	-	1,690,556	1
Common stocks	1,385,034	-	1,385,034	1
Real estate				
Properties held for sale	704,441	-	704,441	
Cash, cash equivalents, and short-term investments	188,630	-	188,630	1
Aggregate write-ins for invested assets	-	-	-	
Subtotals, cash and invested assets	<u>28,552,792</u>	<u>-</u>	<u>28,552,792</u>	
Investment income due and accrued	224,231	-	224,231	
Premiums and considerations				
Uncollected premiums and agents' balances in the course of collection	4,413,983	-	4,413,983	
Deferred premiums; agents' balances and installments booked but deferred and not yet due	3,565,108	-	3,565,108	
Accrued retrospective premiums and contracts subject to redetermination	-	-	-	
Reinsurance				
Amounts recoverable from reinsurers	498,600	-	498,600	
Funds held by or deposited with reinsured companies	-	-	-	
Federal income tax receivable	-	-	-	
Net deferred tax asset	1,378,116	-	1,378,116	
Guaranty funds receivable or on deposit	-	-	-	
Electronic data processing equipment and software	12,008	-	12,008	
Aggregate write-ins for other-than-invested assets	<u>150</u>	<u>-</u>	<u>150</u>	
Total Assets	<u>\$ 38,644,989</u>	<u>\$ -</u>	<u>\$ 38,644,989</u>	

SUBLIMITY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of Dec. 31, 2022

	<u>Balance per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance per</u> <u>Examination</u>	<u>Notes</u>
Losses	\$ 6,430,731	\$ -	\$ 6,430,731	2
Loss adjustment expenses	832,146	-	832,146	2
Commissions payable, contingent commissions and other similar charges	803,472	-	803,472	
Other expenses	248,068	-	248,068	
Taxes, licenses and fees (excluding federal income taxes)	234,227	-	234,227	
Unearned premiums	12,494,015	-	12,494,015	
Advance premium	309,995	-	309,995	
Ceded reinsurance premiums payable	1,623,145	-	1,623,145	
Funds held by company under reinsurance treaties	-	-	-	
Amounts withheld or retained by company for account of others	(16,255)	-	(16,255)	
Payable to parent, subsidiaries and affiliates	141,049	-	141,049	
Aggregate write-ins for liabilities	<u>102,489</u>	<u>-</u>	<u>102,489</u>	
Total liabilities	<u>\$ 23,203,083</u>	<u>\$ -</u>	<u>\$ 23,203,083</u>	
Common capital stock	\$ 3,521,899	\$ -	\$ 3,521,899	
Gross paid in and contributed surplus	1,428,104	-	1,428,104	
Unassigned funds (surplus)	10,491,903	-	10,491,903	
Surplus as regards policyholders	<u>15,441,906</u>	<u>-</u>	<u>15,441,906</u>	
Total liabilities, surplus, and other funds	<u>\$ 38,644,989</u>	<u>\$ -</u>	<u>\$ 38,644,989</u>	

SUBLIMITY INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended Dec. 31, 2022

	<u>Balance per</u> <u>Company</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance per</u> <u>Examination</u>	<u>Notes</u>
Underwriting income				
Premiums earned	\$ 26,761,632	\$ -	\$ 26,761,632	
Deductions:				
Losses incurred	16,112,641	-	16,112,641	
Loss adjustment expenses incurred	2,293,710	-	2,293,710	
Other underwriting expenses incurred	9,309,053	-	9,309,053	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>27,715,404</u>	<u>-</u>	<u>27,715,404</u>	
Net underwriting gain (loss)	(953,772)	-	(953,772)	
Investment income				
Net investment income earned	1,386,510	-	26761632	
Net realized capital gains (losses)	<u>245,443</u>	<u>-</u>	<u>245,443</u>	
Net investment gain (loss)	1,631,953	-	1,631,953	
Other income				
Net gain (loss) from agents' or premium balances charged off	(39,161)	-	(39,161)	
Finance and service charges not included in premiums	111,396	-	111,396	
Aggregate write-ins for miscellaneous income	<u>18,163</u>	<u>-</u>	<u>18,163</u>	
Total other income	<u>90,397</u>	<u>-</u>	<u>90,397</u>	
Net income before dividends to policyholders and income taxes	768,578	-	768,578	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>-</u>	<u>-</u>	<u>-</u>	
Net income	<u>\$ 768,578</u>	<u>\$ -</u>	<u>\$ 768,578</u>	

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Surplus as regards policyholders, December 31, prior year	<u>\$ 15,384,897</u>	<u>\$ 19,231,088</u>	<u>\$ 18,952,935</u>	<u>\$ 17,175,321</u>	<u>\$ 15,956,981</u>
Net income	768,578	(4,063,302)	729,449	2,111,915	1,952,280
Change in net unrealized capital gains or (losses)	(398,035)	52,267	23,604	311,899	(178,160)
Change in net deferred income tax	(20,283)	929,911	58,052	(105,008)	(79,181)
Change in nonadmitted assets	246,746	(225,067)	7,048	(1,192)	63,401
Change in provision for reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Transferred from surplus (stock dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Transferred to capital (stock dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Dividends to stockholders	(540,000)	(540,000)	(540,000)	(540,000)	(540,000)
Change in treasury stock	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>57,009</u>	<u>(3,846,191)</u>	<u>278,153</u>	<u>1,777,614</u>	<u>1,218,340</u>
Surplus as regards policyholders, Dec. 31 current year	<u>\$ 15,441,906</u>	<u>\$ 15,384,897</u>	<u>\$ 19,231,088</u>	<u>\$ 18,952,935</u>	<u>\$ 17,175,321</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2022, the company's long-term bond investments were diversified in U.S. obligations, U.S. 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 2022, and the carrying book value comprised 8.9 percent of the total long-term bond portfolio, or 7.7 percent 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 of 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 &</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>
2018	\$ 29,379,959	\$ 1,611,296	\$ 357,483	68.6%	3.8%	0.8%
2019	28,291,722	2,639,503	656,273	66.7%	6.2%	1.5%
2020	26,860,065	2,493,816	494,712	63.6%	5.9%	1.2%
2021	26,218,292	2,286,872	596,367	65.3%	5.7%	1.5%
2022*	24,584,131	3,075,590	188,630	63.6%	8.0%	0.5%

* 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 Dec. 31, 2022, 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 Feb. 1, 2019, 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 (l), except for OAR 836-027-0200(4)(c) and (n).

I recommend that the company amends its custody agreement with Wells Fargo Bank to include section 4(c) and 4(n) of OAR 836-027-0200.

Note 2 – Actuarial Reserves

A review of the unpaid loss and loss adjustment expense (LAE) reserves for the company was performed by David Dahl, FCAS, MAAA, property and casualty actuary for the Oregon Division of Financial Regulation. As part of the review, Mr. Dahl examined the supporting statements prepared by the company's opining actuary, Glenn A. Tobleman, FCAS, FSA, MAAA, executive vice president and consulting actuary from Lewis & Ellis Inc.

Mr. Dahl's review was based on the data, methods, and calculations used in the actuarial report supporting the actuarial opinion as of Dec. 31, 2022; the data, methods, and calculations used by the company to establish its loss and LAE liabilities; the company's reserve position as measured by the appointed actuary's range; and independent actuarial tests as necessary. The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2022 were reasonable. Mr. Dahl concurred that the reserves of the Company were reasonably stated as of Dec. 31, 2022.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the company's surplus as a result of this examination. The following is a summary of the recommendations made in this report of examination:

Page

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|----|--|
| 8 | I recommend that the company have the board of directors annually review the appointed actuary's qualification documentation as well as the appointed actuary report, and directly present the actuarial opinion to the plan's board of directors or the Audit Committee, in accordance with ORS 731.574 and OAR 836-011-0000. |
| 25 | I recommend that the company amends its custody agreement with Wells Fargo Bank to include section 4(c) and 4(n) of OAR 836-027-0200. |

CONCLUSION

During the four-year period covered by this examination, the surplus of the company has decreased from \$15,956,981, as presented in the Dec. 31, 2017, report of examination to \$15,441,906, as shown in this report. The comparative assets and liabilities are:

	Dec. 31,		
	<u>2022</u>	<u>2017</u>	<u>Change</u>
Assets	\$ 38,644,989	\$ 40,674,225	\$ (2,029,236)
Liabilities	<u>23,203,083</u>	<u>24,717,244</u>	<u>(1,514,161)</u>
Surplus	<u>\$ 15,441,906</u>	<u>\$ 15,956,981</u>	<u>\$ (515,075)</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, Chivonne Bradley, and David Lorenz, APIR, insurance 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/ Tho Le

Tho Le, CFE, PIR
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Tho Le, CFE, PIR, 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/ Tho Le
Tho Le, CFE, PIR
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 15th day of May, 2024.

/s/ Eliva R. Warrington
Notary Public in and for the State of Oregon

My Commission Expires: 8/1/2026