

**HISTORICAL SUMMARY
OF KEY DATA**

2003

Premium Income 9,326,582
 Net Earnings 526,384
 Assets 9,738,421
 Capital 3,804,365

2004

Premium Income 10,224,723
 Net Earnings 1,030,694
 Assets 11,769,751
 Capital 5,319,080

2005

Premium Income 10,718,398
 Net Earnings 1,731,065
 Assets 13,933,981
 Capital 7,268,878

2006

Premium Income 11,028,968
 Net Earnings 1,174,966
 Assets 15,706,523
 Capital 8,272,884

2007

Premium Income 12,689,231
 Net Earnings 932,797
 Assets 16,757,879
 Capital 8,728,599

Sublimity

Insurance Company

Directors

James R. Hay *Chairman of the Board*
 Ray D. Edwards *Vice-Chairman of the Board*
 Harold I. Gilbert *Director*
 Dennis L. Johnson *Director*
 G. Richer Budke *Director*
 Jerome C. Fischer *Director*

Officers

G. Richer Budke, ARM *President & CEO*
 Andrew L. Trower, CPCU *Sr. Vice President,
Marketing and Underwriting*
 Eric F. Nichols *Vice President,
Information Technology*



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*A member of the
United Heritage Financial Group*



Sublimity

Insurance Company



2007 Annual Report

*Serving the
Northwest
since 1896*



Message From the President



*It's the job that's not started
that takes longest to finish.*

JRR Tolkien

It's always a pleasure to report profitability and progress to our policyholders, and all other parties who have an interest in our well-being. 2007

was our fifth consecutive year achieving an underwriting gain, something which the insurance industry as a whole has only done three times since 1978. As an outgrowth of our financial success, we launched an initiative to modernize our infrastructure. New computer equipment and upgrades to our workplace environment for Underwriting and Claims were met with enthusiasm by our knowledgeable and professional employees. The rest of our building is scheduled to be refurbished during 2008.

We continue to provide a responsive and competent service product which contributed to a 10% growth in policies-in-force during the year. We are working hard to add automated billing and payment efficiencies for all our customers to further enhance our service capabilities.

The economic challenges during 2007, faced by virtually everyone with invested assets, had an adverse impact on our investment portfolio as well, slowing surplus growth. Even so, company operations earned an 11% return on equity, and we ended the year with solid financial results.

We'd like to thank our agents for their steadfast support. It is much appreciated. With our capable staff and defined business plan, we are well positioned for a successful future.

G Richer Budke
President & CEO

Sublimity Insurance Company

STATEMENT OF EARNINGS for the year ending December 31

	2007	2006
DIRECT WRITTEN PREMIUM	12,689,231	11,028,968
Reinsurance Cost	(2,158,702)	(1,509,601)
NET WRITTEN PREMIUM	10,530,529	9,519,367
Unearned premium adjustment	(428,464)	(382,333)
NET EARNED PREMIUM	10,102,065	9,137,034
BENEFITS TO POLICYHOLDERS (LOSSES)	6,377,458	5,692,042
REINSURANCE RECOVERIES (Recoverables)	(1,125,801)	(1,467,269)
Net Losses	5,251,657	4,224,773
Loss Adjustment Expense	837,534	690,951
Underwriting (Operating) Expenses	<u>3,569,398</u>	<u>3,298,970</u>
TOTAL EXPENSES	9,658,589	8,214,694
Earnings from operations	443,476	922,340
Earnings from investments (Net)	832,793	731,137
Service Charges	95,767	75,891
Earnings before income taxes	1,372,036	1,729,368
Provisions for income taxes	<u>439,239</u>	<u>554,402</u>
NET EARNINGS	932,797	1,174,966

BALANCE SHEETS as of December 31

	2007	2006
ASSETS		
Cash	365,610	198,506
Short term investments	123,993	73,797
Accrued interest and dividends	153,884	148,643
Premiums receivable	1,691,765	1,556,797
Accounts receivable	468,368	371,787
Real estate (Net)	491,922	460,684
Bonds less appropriate discount	11,588,697	10,944,772
Common and preferred stock	1,785,599	1,932,716
Other assets	<u>88,041</u>	<u>18,821</u>
TOTAL ASSETS	16,757,879	15,706,523
LIABILITIES AND RESERVES		
Accounts Payable	285,123	285,183
Loss reserves	1,956,228	1,927,242
Loss adjustment expenses	596,520	598,362
Ceded reinsurance payable	390,948	333,206
Commission payable & contingent commission	389,953	378,381
Amounts held on accounts of others	60,355	40,744
Unearned premium	<u>4,350,153</u>	<u>3,870,521</u>
TOTAL LIABILITIES	8,029,280	7,433,639
RESERVE FOR POLICYHOLDER PROTECTION	8,728,599	8,272,884
TOTAL LIABILITIES AND RESERVES	16,757,879	15,706,523

These condensed financial statements have been derived from expanded financial statements which were prepared in conformity with practices prescribed or permitted by the Insurance Commissioner of the State of Oregon. A copy of the complete annual statement has been filed with the State of Oregon, Department of Business and Consumer Services, Insurance Division, and the Idaho Department of Insurance, and is available for inspection by any policyholder during regular office hours at the Home Office, Sublimity, Oregon.