

**HISTORICAL SUMMARY
OF KEY DATA**

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 |

2008

| | |
|----------------------|------------|
| Premium Income | 13,718,377 |
| Net Earnings | 59,451 |
| Assets | 17,690,603 |
| Capital | 8,454,840 |

2009

| | |
|----------------------|------------|
| Premium Income | 16,449,740 |
| Net Earnings | 1,054,181 |
| Assets | 20,610,972 |
| Capital | 9,798,780 |

Sublimity

Insurance Company

Directors

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



2009 Annual Report

*Serving the
 Northwest
 since 1896*



Message From the President



Fewer housing starts and purchases of new cars, coupled with customers' efforts to control costs by increasing deductibles and reducing limits, might predict

a bleak landscape for growing personal lines insurance premiums. For Sublimity Insurance Company it provided an opportunity to showcase our stability, professionalism and service capabilities. Add to the mix a very successful entry into the state of Utah and we were able to achieve a gratifying 16.6% increase in policies-in-force during the year. Perhaps more impressive was our ability to maintain strong financial leverage ratios.

Always conservative in our investment policies, we were able to reduce our exposure to poorly performing or impaired securities which stopped the erosion of assets that characterized the prior year for most all businesses. As a result, the Company is larger and stronger than ever before.

Spectacular achievements are always preceded by unspectacular preparation. Roger Staubach.

We have built a very solid financial foundation, which along with our excellent staff, has been yielding consistently positive results. Our people and our agency partnerships are our greatest assets - - we appreciate and value their contributions to our success.

G. Richer Budke
President & CEO

Sublimity Insurance Company

STATEMENT OF EARNINGS for the year ending December 31

| | 2009 | 2008 |
|---|-------------------|-------------------|
| DIRECT WRITTEN PREMIUM | 16,449,740 | 13,718,377 |
| Reinsurance Cost | (2,640,068) | (2,193,625) |
| NET WRITTEN PREMIUM | 13,809,672 | 11,524,752 |
| Unearned premium adjustment | (965,433) | (352,376) |
| NET EARNED PREMIUM | 12,844,239 | 11,172,376 |
| BENEFITS TO POLICYHOLDERS (LOSSES) | 7,811,157 | 7,608,081 |
| REINSURANCE RECOVERIES (Recoverables) | (967,033) | (1,407,237) |
| Net Losses | 6,844,124 | 6,200,844 |
| Loss Adjustment Expense | 1,030,453 | 1,000,796 |
| Underwriting (Operating) Expenses | <u>4,412,541</u> | <u>3,889,863</u> |
| TOTAL EXPENSES | 12,287,118 | 11,091,503 |
| Earnings from operations | 557,121 | 80,873 |
| Earnings from investments (Net) | 906,546 | 226,734 |
| Service Charges | 53,242 | 111,688 |
| Earnings before income taxes | 1,516,909 | 419,295 |
| Provisions for income taxes | <u>462,728</u> | <u>359,844</u> |
| NET EARNINGS | 1,054,181 | 59,451 |

BALANCE SHEETS as of December 31

| | 2009 | 2008 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash | 607,052 | 119,975 |
| Short term investments | 170,294 | 1,213,487 |
| Accrued interest and dividends | 171,976 | 228,090 |
| Premiums receivable | 2,590,911 | 1,950,232 |
| Accounts receivable | 682,754 | 462,375 |
| Real estate (Net) | 716,195 | 729,050 |
| Bonds less appropriate discount | 15,073,843 | 11,727,276 |
| Common and preferred stock | 509,017 | 1,161,283 |
| Other assets | <u>88,930</u> | <u>98,835</u> |
| TOTAL ASSETS | 20,610,972 | 17,690,603 |
| LIABILITIES AND RESERVES | | |
| Accounts Payable | 298,360 | 188,644 |
| Loss reserves | 3,182,139 | 2,757,194 |
| Loss adjustment expenses | 606,395 | 633,972 |
| Ceded reinsurance payable | 520,085 | 396,703 |
| Commission payable & contingent commission | 456,952 | 386,589 |
| Amounts held on accounts of others | 219,991 | 309,824 |
| Unearned premium | <u>5,528,270</u> | <u>4,562,837</u> |
| TOTAL LIABILITIES | 10,812,192 | 9,235,763 |
| RESERVE FOR POLICYHOLDER PROTECTION | 9,798,780 | 8,454,840 |
| TOTAL LIABILITIES AND RESERVES | 20,610,972 | 17,690,603 |

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 Consumer and Business Services, Insurance Division, and the National Association of Insurance Commissioners (NAIC), and is available for inspection by any policyholder during regular office hours at the Home Office, Sublimity, Oregon.