

WILMINGTON INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

**WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS**



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wilmington Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Wilmington Insurance Company, which comprise the statutory statements of admitted assets, liabilities, and capital and surplus as of December 31, 2016 and 2015, and the related statutory statements of income, capital and surplus, and cash flows for the years then ended, and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statutory financial statements in accordance with the statutory basis of accounting as prescribed by the Delaware Department of Insurance; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statutory financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement:

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements and supplementary information were prepared by Wilmington Insurance Company using accounting practices prescribed by the State of Delaware. The effects on the financial statements of the variances between the statutory accounting practices described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Wilmington Insurance Company as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended. In addition, because of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" above, we do not express an opinion on the supplementary information referred to herein based upon U.S. generally accepted accounting principles.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Wilmington Insurance Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed by the Delaware Department of Insurance, as described in Note 2.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the statutory financial statements as a whole. The investment risks interrogatories and the summary investment schedule is presented for purposes of additional analysis and is not a required part of the statutory financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audits of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory financial statements as a whole.



Certified Public Accountants

May 23, 2017

WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND
CAPITAL AND SURPLUS
DECEMBER 31, 2016 AND 2015

	2016	2015
<u>ADMITTED ASSETS</u>		
Bonds, at statement value (fair value \$1,107,004 and \$1,122,349 in 2016 and 2015, respectively)	\$ 1,089,363	\$ 1,106,984
Preferred stock, at fair value (cost, \$66,323 and \$231,207 in 2016 and 2015, respectively)	64,921	216,018
Common stock, at fair value (cost, \$288,019 and \$350,685 in 2016 and 2015, respectively)	270,231	342,153
Real estate, at cost less accumulated depreciation	400,124	411,156
Cash and short-term investments	2,647,708	2,052,853
Total cash and invested assets	4,472,347	4,129,164
Accrued investment income	21,167	21,536
Premiums in course of collection	695,151	645,485
Reinsurance recoverable on paid losses	72,263	73,294
Net deferred tax asset	87,211	49,863
Data processing equipment, at cost less accumulated depreciation	397	2,763
Other	866	866
TOTAL ASSETS	\$ 5,349,402	\$ 4,922,971
<u>LIABILITIES AND CAPITAL AND SURPLUS</u>		
Losses	\$ 220,052	\$ 330,903
Loss adjustment expenses	174,529	152,931
Commissions payable	136,595	136,927
Accounts payable and accrued expenses	55,524	62,500
Taxes, licenses & fees payable	(1,495)	5,866
Current federal income taxes	108,677	43,889
Unearned premiums	653,971	461,467
Advance premiums	54,768	54,349
Ceded reinsurance premiums payable	480,669	401,017
Remittances and items not allocated	10,250	10,167
TOTAL LIABILITIES	1,893,540	1,660,016
Common stock (20,000 shares authorized; 14,800 shares issued and outstanding; \$100 par value)	1,480,000	1,480,000
Additional paid in capital	1,627,405	1,627,405
Unassigned funds	348,457	155,550
TOTAL CAPITAL AND SURPLUS	3,455,862	3,262,955
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	\$ 5,349,402	\$ 4,922,971

See accompanying notes to statutory financial statements

**WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
UNDERWRITING GAIN		
Net premiums earned	\$ 842,990	\$ 1,002,654
Expenses:		
Net loss incurred	(19,439)	278,106
Net loss adjustment expenses incurred	150,113	273,353
Net commissions and brokerage	(514,879)	(340,289)
Other underwriting expenses	800,122	711,718
	<u>415,917</u>	<u>922,888</u>
Net underwriting gain	<u>427,073</u>	<u>79,766</u>
INVESTMENT ACTIVITY		
Interest	28,557	79,622
Dividends	22,633	21,503
Real estate (Company occupancy of home office)	42,080	42,080
	<u>93,270</u>	<u>143,205</u>
Investment expenses	117,791	110,394
	<u>(24,521)</u>	<u>32,811</u>
Net realized capital gain (loss)	<u>34,905</u>	<u>(17,173)</u>
Net investment gain	10,384	15,638
OTHER INCOME (EXPENSE)		
Balances charged off	(836)	2,971
Other income	72,918	58,277
	<u>72,082</u>	<u>61,248</u>
Net other income	72,082	61,248
INCOME BEFORE FEDERAL INCOME TAXES	509,539	156,652
Federal income taxes	<u>95,751</u>	<u>37,544</u>
NET INCOME	<u>\$ 413,788</u>	<u>\$ 119,108</u>

See accompanying notes to statutory financial statements

WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 3,262,955	\$ 3,316,926
Net income	413,788	119,108
Change in:		
Unrealized capital gain, net deferred income tax benefit (expense) of \$13,671 and (\$18,801) in 2016 and 2015, respectively	5,148	1,635
Net deferred income tax	51,019	(3,516)
Non admitted assets	23,177	(21,126)
Dividends to parent company	(85,100)	(150,072)
Prior year adjustment - ceded unearned premium reserve	<u>(215,125)</u>	<u>-</u>
Balance, end of year	<u><u>\$ 3,455,862</u></u>	<u><u>\$ 3,262,955</u></u>

See accompanying notes to statutory financial statements

**WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH AND SHORT-TERM INVESTMENTS FROM OPERATIONS		
Premiums collected, net of reinsurance	\$ 1,072,600	\$ 1,042,329
Net investment income	20,888	25,884
Other income	72,082	61,248
Benefit and loss related payments	(90,382)	25,319
Commissions and expenses paid	(428,426)	(526,652)
Federal and foreign income taxes paid	(53,280)	(13,411)
Net cash and short-term investments from operations	<u>593,482</u>	<u>614,717</u>
CASH AND SHORT-TERM INVESTMENTS FROM INVESTMENTS		
Proceeds from sale of bonds	27,127	79,416
Proceeds from sale of stocks	793,216	26,755
Cost of stocks acquired	(511,738)	(301,203)
Cost of real estate acquired	(4,540)	-
Net cash and short-term investments from investments	<u>304,065</u>	<u>(195,032)</u>
CASH AND SHORT-TERM INVESTMENTS FROM FINANCING AND MISCELLANEOUS SOURCES		
Dividends to parent company	(85,100)	(150,072)
Other cash and short-term investments provided (used)	(217,592)	15,042
Net cash and short-term investments from financing and miscellaneous sources	<u>(302,692)</u>	<u>(135,030)</u>
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	594,855	284,655
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	<u>2,052,853</u>	<u>1,768,198</u>
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	<u><u>\$ 2,647,708</u></u>	<u><u>\$ 2,052,853</u></u>

See accompanying notes to statutory financial statements

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. DESCRIPTION OF BUSINESS

Wilmington Insurance Company (the "Company") writes property and liability insurance in Delaware and is also licensed to write business in the District of Columbia and North Dakota. The Company is a wholly owned subsidiary of Wilmington Holdings Corporation ("WHC"). Trident Commercial Company ("Trident") owns 65% of WHC. Products are offered through independent insurance agents. A majority of the policies are written on a direct bill basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of accounting

The financial statements of the Company are presented on the basis of accounting practices prescribed by the Delaware Department of Insurance.

The Delaware Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Delaware for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under Delaware Insurance Laws. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a component of prescribed practices by the state of Delaware. During 2016, the Delaware Department of Insurance permitted the Company to correct an error that was identified in 2016 and related to the 2015 year directly through 2016 surplus. In 2015, the Company did not have any permitted accounting practices.

Statutory accounting practices prescribed by the Delaware Department of Insurance vary in some respects from accounting principles generally accepted in the United States of America. The more significant of these differences are:

- a) bonds which management does not intend to hold to maturity are reported at amortized cost rather than fair value;
- b) acquisition costs, such as commissions, premium taxes and other items, have been charged to operations when incurred rather than deferred and amortized over the terms of the policies;
- c) all changes in deferred taxes are reported in surplus;
- d) certain assets designated as nonadmitted assets (principally, billed and unbilled premiums overdue, office furniture and equipment, automobiles and a portion of deferred tax assets) are charged off against surplus;
- e) salvage and subrogation are recorded as reductions of losses incurred on a cash basis;
- f) certain cash flows are reported in different activities and reported amounts may include noncash activities;

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of accounting (continued)

g) estimated reinsurance receivables arising from ceding transactions and amounts paid to reinsurers related to unexpired portions of reinsurance contracts have been netted against related gross liabilities rather than reported as separate assets; and

h) the Company does not separately report comprehensive income.

The effect of such differences on the accompanying statutory financial statements has not been determined.

Fair value of financial instruments

The Company has used the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investments – The fair value of stocks are primarily based upon quoted market prices. The fair values for bonds are primarily based upon either quoted market prices or inputs derived principally from or corroborated from observable market information.

Cash and short-term investments – The carrying amounts reported in the statements of admitted assets, liabilities and capital and surplus for these instruments approximate their fair values.

Concentrations of credit risk

Financial instruments and other assets which potentially expose the Company to concentrations of credit risk consist primarily of bonds, cash and short-term investments, premiums in course of collection and balances recoverable from reinsurers.

The Company's investment in Maryland State Health Bonds, totaling \$305,689 and \$306,218, accounts for 5.7% and 6.2% of total admitted assets at December 31, 2016 and 2015, respectively.

The Company maintains cash in bank deposit accounts that, at times, may exceed the federally insured limits. The Company has not experienced any losses from bank accounts.

Insureds primarily consist of individuals and commercial businesses. No one insured accounted for a significant amount of premiums receivable at December 31, 2016 and 2015.

As of December 31, 2016, the Company had uncollateralized net reinsurance balances of approximately \$350,000 due from Maiden Reinsurance Company and \$1,686,000 due from various Lloyd's syndicates which generally have an A. M. Best rating of A- or better.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premium revenue recognition

Premium income is recognized in earnings over the periods covered by the policies, whereas the related acquisition and commission costs are expensed when incurred.

Investments

Bonds and stocks are valued in accordance with valuations prescribed by the National Association of Insurance Commissioners. Bonds are carried at cost, adjusted where appropriate for amortization of premium or accretion of discount computed on the scientific method. Highest quality perpetual preferred stocks are carried at quoted fair value while other preferred stocks are carried at lower of cost or fair value. Common stocks are carried at quoted fair value. The net unrealized gain or loss on stock is included in capital and surplus. Realized capital gains and losses are calculated based upon the specific identification of securities sold.

For all securities that are in an unrealized loss position, the Company performs an evaluation of the specific events attributable to the decline in fair value. The Company considers the length of time and extent to which the investment's fair value has been below cost as well as general market conditions, industry characteristics and the fundamental operating results of the issuer to determine if the decline is other than temporary. The Company also considers as part of the evaluation its intent and ability to hold the investment until its fair value has recovered to a level at least equal to its basis. When the Company determines that an investment's unrealized loss is other than temporary, a realized loss is recognized in the period in which the decline in fair value is determined to be other than temporary. The write-downs are measured based on current market prices and the Company's expectation at the time of the write-down of the future realizable value for the security. These write-downs result in a new cost basis being established for the security.

Real estate

Real estate is recorded at cost less accumulated depreciation. Maintenance, repairs and minor renewals are charged to expense as incurred while expenditures which substantially increase the useful life of the asset are capitalized. Depreciation is provided by using the straight-line method over the estimated useful lives of the assets for financial reporting. Accelerated methods are used for income tax purposes.

Cash and short-term investments

For purposes of the statements of cash flow, cash on deposit and investments with remaining maturities of one year or less at time of acquisition are considered to be cash and short-term investments.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Losses and loss adjustment expenses

The liabilities for losses and loss adjustment expenses have been established on the basis of actuarial assumptions and management judgments. Projections of future ultimate losses and loss expenses are inherently uncertain because of the random nature of claims occurrences. They are also dependent upon future contingent events and are affected by economic, legal, political and social factors.

The liability for losses included the net amount for claims after deducting appropriate reinsurance recoveries, which have been reported to the Company and are unpaid at statement date, as well as provision for claims incurred but not reported at statement date. The reserve for claims incurred but not reported amounted to \$60,000 and \$115,000 at December 31, 2016 and 2015, respectively.

Management believes that the liabilities for losses and loss adjustment expenses are adequate to cover the ultimate net cost of losses and claims to date. These liabilities are subject to continuing review by management and changes in estimates are reflected in earnings currently.

The chance of material liability from toxic tort and environmental impairment claims is remote as there are no reported claims, and the Company primarily writes homeowners, fire and small commercial lines of insurance.

Unearned premiums

Unearned premiums are calculated using the monthly pro-rata method and are reported net after deducting amounts ceded to reinsurance companies.

Income taxes

The Company reports federal income taxes in the statements of income that are currently paid or payable. Changes in deferred income taxes are reported in unassigned funds. The Company is included in the consolidated federal income tax return with WHC. The companies have a written agreement whereby current consolidated income taxes are allocated on a separate return basis and are settled annually.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred income taxes account for the tax effects of temporary differences between the statutory basis and tax basis of the Company's assets and liabilities and net operating loss carryover at enacted tax rates expected to be in effect when such amounts are realized or settled. Changes in deferred income taxes are reported in capital and surplus. The Company provides for a valuation allowance if it is determined that it is more likely than not that some or all of the deferred tax assets (DTAs) will not be realized. In addition, admitted DTAs are provided for using a multi-step evaluation limiting DTAs to the amount that will reverse in three years and which are available for recoupment based upon Internal Revenue Service (IRS) carryback rules, 15% of adjusted capital and surplus and the amount of deferred tax liabilities.

Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of admitted assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these statutory financial statements in conformity with accounting practices prescribed by the Delaware Department of Insurance. Actual results could differ from those estimates.

Reclassifications

Certain amounts reported in the Company's 2016 and 2015 annual statement have been reclassified within the statements of capital and surplus in the accompanying financial statements. These reclassifications had no impact on the Company's results of operations.

Subsequent events

The Company has evaluated subsequent events through May 23, 2017, the date which the financial statements were available to be issued. In January 2017, The Trident Commercial Corporation agreed to a conditional purchase agreement whereby WHC, and the Company would be acquired by Gearson Partners Fund, subject to regulatory approval.

Accounting changes and corrections of errors

During the first quarter of 2016, the Company noted an error with the 2015 annual statement. This error was related to \$215,125 of ceded unearned premium that was improperly booked in 2015 due to a misunderstanding with the reinsurance contracts. To correct this error, the Company received approval from the Delaware Department of Insurance dated May 2, 2016 to make the adjustment in the first quarter of 2016 to correct the Company's unearned premium reserves. In order to correct the misstatement in the first quarter, the Company made the \$215,125 prior period adjustment directly to surplus and offset ceded written premiums by the same amount.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. INVESTMENTS

The statement value, gross unrealized gains, gross unrealized losses and fair value of investments in bonds at December 31 were as follows:

<u>2016</u>	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
States, territories and possessions	\$ 195,192	\$ 5,093	\$ 1,785	\$ 198,500
Political subdivisions	102,192	1,705	-	103,897
Special revenue	597,296	16,627	2,445	611,478
Industrial and miscellaneous	196,646	5,956	9,473	193,129
	<u>\$ 1,091,326</u>	<u>\$ 29,381</u>	<u>\$ 13,703</u>	<u>\$ 1,107,004</u>
Adjustment for bonds stated at fair value	<u>(1,963)</u>			
	<u>\$ 1,089,363</u>			

<u>2015</u>	<u>Statement Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
States, territories and possessions	\$ 200,108	\$ 214	\$ 17,010	\$ 183,312
Political subdivisions	103,037	3,683	-	106,720
Special revenue	599,179	27,796	1,869	625,106
Industrial and miscellaneous	231,735	-	24,524	207,211
	<u>\$ 1,134,059</u>	<u>\$ 31,693</u>	<u>\$ 43,403</u>	<u>\$ 1,122,349</u>
Adjustment for bonds stated at fair value	<u>(27,075)</u>			
	<u>\$ 1,106,984</u>			

The amortized cost and fair value of bonds at December 31, 2016, by contracted maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized cost</u>	<u>Fair value</u>
Due within one year	\$ 75,165	\$ 76,130
Due after one year through five years	288,808	295,337
Due after five years through ten years	215,319	227,419
Due after 10 years	512,034	508,118
	<u>\$ 1,091,326</u>	<u>\$ 1,107,004</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

Proceeds from sales or maturities of bonds in 2016 and 2015 were \$27,127 and \$79,416, respectively. There were \$3,298 and \$16,596 gains realized on sales or maturities in 2016 and 2015, respectively.

At December 31, gross unrealized gains and losses pertaining to stocks carried at fair value were as follows:

	<u>2016</u>	<u>2015</u>
Gains	\$ 3,043	\$ 14,749
Losses	<u>22,233</u>	<u>38,470</u>
Net	<u>\$ (19,190)</u>	<u>\$ (23,721)</u>

Proceeds from sales of stocks in 2016 and 2015 were \$793,216 and \$26,755 with a gain (loss) of \$53,924 and (\$326), respectively.

The Company has performed other than temporary impairment analysis on all securities and has recognized other than temporary impairment losses of \$0 and \$27,098, which were included in net realized capital losses in the statutory statements of income for the years ended December 31, 2016 and 2015, respectively.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

The gross unrealized losses, after the recognition of other than temporary impairment losses, and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position at December 31 were as follows:

2016	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
States, territories and possessions	\$ -	\$ -	\$ 98,215	\$ 1,785	\$ 98,215	\$ 1,785
Special revenue	202,934	2,409	10,136	36	213,070	2,445
Industrial and miscellaneous	-	-	110,728	9,473	110,728	9,473
Subtotal, bonds	<u>202,934</u>	<u>2,409</u>	<u>219,079</u>	<u>11,294</u>	<u>422,013</u>	<u>13,703</u>
Preferred stock	13,024	366	27,907	1,770	40,931	2,136
Common stock	<u>87,726</u>	<u>5,892</u>	<u>102,608</u>	<u>14,205</u>	<u>190,334</u>	<u>20,097</u>
Subtotal, stock	<u>100,750</u>	<u>6,258</u>	<u>130,515</u>	<u>15,975</u>	<u>231,265</u>	<u>22,233</u>
Total temporarily impaired securities	<u>\$ 303,684</u>	<u>\$ 8,667</u>	<u>\$ 349,594</u>	<u>\$ 27,269</u>	<u>\$ 653,278</u>	<u>\$ 35,936</u>

2015	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
States, territories and possessions	\$ -	\$ -	\$ 113,098	\$ 17,010	\$ 113,098	\$ 17,010
Special revenue	-	-	113,066	1,869	113,066	1,869
Industrial and miscellaneous	<u>118,441</u>	<u>23,698</u>	<u>4,300</u>	<u>826</u>	<u>122,741</u>	<u>24,524</u>
Subtotal, bonds	<u>118,441</u>	<u>23,698</u>	<u>230,464</u>	<u>19,705</u>	<u>348,905</u>	<u>43,403</u>
Preferred stock	135,100	17,309	29,138	539	164,238	17,848
Common stock	<u>115,816</u>	<u>11,974</u>	<u>49,300</u>	<u>8,648</u>	<u>165,116</u>	<u>20,622</u>
Subtotal, stock	<u>250,916</u>	<u>29,283</u>	<u>78,438</u>	<u>9,187</u>	<u>329,354</u>	<u>38,470</u>
Total temporarily impaired securities	<u>\$ 369,357</u>	<u>\$ 52,981</u>	<u>\$ 308,902</u>	<u>\$ 28,892</u>	<u>\$ 678,259</u>	<u>\$ 81,873</u>

At December 31, 2016 and 2015, the Company held securities with gross unrealized losses of \$35,936 and \$81,873, respectively. These unrealized losses are a result of general economic conditions. The Company has the ability and intent to hold all bonds until maturity and to hold all stocks until the security is no longer in an unrealized loss position.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

Fair value measurements

The Company's financial assets which are carried at fair value or for which fair value is disclosed are classified in one of the following three categories:

Level 1 – Represents quoted prices in active markets for identical assets. The Company considers U.S. treasury securities, exchange traded stocks and mutual funds to be Level 1 assets.

Level 2 – Represents financial assets whose fair value is determined based upon inputs derived principally from or corroborated with other observable market information. The Company considers all debt securities, except U.S. treasury securities, to be Level 2 assets.

Level 3 – Represents financial assets whose fair value is determined based upon inputs that are unobservable. The Company does not have any investments classified as Level 3.

The following tables present the fair value measurements for investments as of December 31:

<u>2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Fair Value</u>	<u>Contract Value</u>
Bonds:				
States, territories and possessions	\$ -	\$ 198,500	\$ 198,500	\$ 195,191
Political subdivisions	-	103,897	103,897	102,192
Special revenue	-	611,478	611,478	597,296
Industrial and miscellaneous	-	193,129	193,129	194,684
Total bonds	-	1,107,004	1,107,004	1,089,363
Preferred stock	64,921	-	64,921	64,921
Common stock	270,231	-	270,231	270,231
Total stocks	335,152	-	335,152	335,152
Total	\$ 335,152	\$ 1,107,004	\$ 1,442,156	\$ 1,424,515

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

3. INVESTMENTS (CONTINUED)

Fair value measurements (continued)

<u>2015</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Fair Value</u>	<u>Contract Value</u>
Bonds:				
States, territories and possessions	\$ -	\$ 183,312	\$ 183,312	\$ 193,896
Political subdivisions	-	106,720	106,720	103,037
Special revenue	-	625,106	625,106	599,179
Industrial and miscellaneous	-	207,211	207,211	210,872
Total bonds	-	1,122,349	1,122,349	1,106,984
Preferred stock	216,018	-	216,018	216,018
Common stock	342,153	-	342,153	342,153
Total stocks	558,171	-	558,171	558,171
Total	\$ 558,171	\$ 1,122,349	\$ 1,680,520	\$ 1,665,155

4. PROPERTY AND EQUIPMENT

The following is a schedule of admitted property and equipment at December 31:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 456,523	\$ 451,983	7-39 years
Less accumulated depreciation	(56,399)	(40,828)	
	<u>\$ 400,124</u>	<u>\$ 411,155</u>	
Data processing equipment and software	\$ 41,777	\$ 41,777	5 years
Less accumulated depreciation	(41,380)	(39,014)	
	<u>\$ 397</u>	<u>\$ 2,763</u>	

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

4. PROPERTY AND EQUIPMENT (CONTINUED)

The following is a schedule of nonadmitted equipment at December 31:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Life</u>
Furniture, equipment and automobiles	\$ 57,355	\$ 57,355	5 years
Less accumulated depreciation	<u>(51,197)</u>	<u>(47,713)</u>	
	<u>\$ 6,158</u>	<u>\$ 9,642</u>	

Depreciation expense for 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Real estate	\$ 15,571	\$ 15,944
Data processing equipment and software	2,366	2,456
Furniture, equipment and automobiles	<u>3,484</u>	<u>3,699</u>
	<u>\$ 21,421</u>	<u>\$ 22,099</u>

5. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liabilities for losses and loss adjustment expenses is summarized as follows:

	<u>2016</u>	<u>2015</u>
Net balance, January 1	\$ 483,834	\$ 221,492
Incurred related to:		
Current year	344,000	519,000
Prior years	<u>(213,326)</u>	<u>32,459</u>
Total incurred	<u>130,674</u>	<u>551,459</u>
Paid related to:		
Current year	167,000	144,000
Prior years	<u>52,927</u>	<u>145,117</u>
Total paid	<u>219,927</u>	<u>289,117</u>
Net balance, December 31	<u>\$ 394,581</u>	<u>\$ 483,834</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

**5. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES
(CONTINUED)**

As a result of changes in estimates of insured events in prior years, the liabilities for losses and loss adjustment expenses decreased by \$213,326 in 2016 and increased by \$32,459 in 2015.

6. REINSURANCE

In ordinary course of business, the Company seeks to limit its exposure to loss on individual claims and from the effects of catastrophes by entering into reinsurance contracts with other insurance companies. Reinsurance is ceded by the Company principally on pro rata and excess of loss bases with the Company's retention at 10% per occurrence for property risks (to a maximum retention of \$300,000) and \$50,000 per occurrence for casualty risks. Insurance ceded by the Company does not relieve it from its obligation to policyholders.

The effect of reinsurance on premiums written and earned for 2016 and 2015 was as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 3,644,903	\$ 3,674,314	\$ 3,727,507	\$ 3,577,733
Ceded	<u>(2,609,409)</u>	<u>(2,831,324)</u>	<u>(2,667,118)</u>	<u>(2,575,079)</u>
Net	<u>\$ 1,035,494</u>	<u>\$ 842,990</u>	<u>\$ 1,060,389</u>	<u>\$ 1,002,654</u>

The effect of reinsurance on unearned premiums as of December 31 was as follows:

	<u>2016</u>	<u>2015</u>
Direct	\$ 1,816,935	\$ 1,846,346
Ceded	<u>(1,162,964)</u>	<u>(1,384,879)</u>
	<u>\$ 653,971</u>	<u>\$ 461,467</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

6. REINSURANCE (CONTINUED)

The effect of reinsurance on the liabilities for losses and loss adjustment expenses as of December 31, 2016 and 2015 and losses and loss adjustment expenses incurred for 2016 and 2015 were as follows:

	<u>Liabilities for losses and loss adjustment expenses</u>		<u>Losses and loss adjustment expenses incurred</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Direct	\$ 883,174	\$ 866,775	\$ 861,516	\$ 993,404
Ceded	<u>(488,593)</u>	<u>(382,941)</u>	<u>(730,842)</u>	<u>(441,945)</u>
	<u>\$ 394,581</u>	<u>\$ 483,834</u>	<u>\$ 130,674</u>	<u>\$ 551,459</u>

The maximum amount of return commission which would be due non-admitted reinsurers if all of the Company's reinsurance was cancelled as of December 2016 and 2015 was \$347,766 and \$417,635, respectively.

7. FEDERAL INCOME TAXES

The provision for federal income tax for 2016 and 2015 varied from that which would be obtained by applying the statutory federal income tax rate of 34% to income before income taxes due to the following:

	<u>2016</u>	<u>2015</u>
Provision computed at statutory rate	\$ 162,131	\$ 55,419
Tax-exempt income	(7,092)	(9,714)
Nondeductible expenses	710	678
Other	<u>(88,700)</u>	<u>1,022</u>
Total	<u>\$ 67,049</u>	<u>\$ 47,405</u>
Current federal income taxes incurred	\$ 95,751	\$ 37,544
Realized capital gains tax	22,317	6,345
Change in deferred income taxes	<u>(51,019)</u>	<u>3,516</u>
Total statutory income taxes	<u>\$ 67,049</u>	<u>\$ 47,405</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. FEDERAL INCOME TAXES (CONTINUED)

As of December 31, 2016, the Company did not have any net operating loss carryforwards, capital loss carryforwards or minimum tax credit carryovers. Additionally, the Company did not have any deposits under Section 6603 of the Internal Revenue Code.

The Company had federal income taxes incurred in 2016 and 2015 of \$95,751 and \$37,544, respectively that are available for recoupment in the event of future losses.

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31 were as follows:

	<u>2016</u>	<u>2015</u>
Gross deferred tax assets:		
Ordinary:		
Unearned and advance premiums	\$ 48,891	\$ 35,767
Loss discounting	4,507	6,443
Fixed assets	2,094	3,278
Receivables - admitted	22,539	24,817
Other	11,814	1,478
Nonadmitted assets	<u>-</u>	<u>(17,362)</u>
Admitted deferred tax assets, ordinary	<u>89,845</u>	<u>54,421</u>
Capital:		
Unrealized investment losses	<u>16,744</u>	<u>20,771</u>
Nonadmitted deferred tax assets, capital	<u>16,744</u>	<u>20,771</u>
Total admitted deferred tax assets	<u>89,845</u>	<u>54,421</u>
Deferred tax liabilities:		
Ordinary, fixed assets	<u>2,634</u>	<u>4,558</u>
Total deferred tax liabilities	<u>2,634</u>	<u>4,558</u>
Net admitted deferred tax asset	<u>\$ 87,211</u>	<u>\$ 49,863</u>

All deferred tax liabilities have been recognized in 2016 and 2015.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. FEDERAL INCOME TAXES (CONTINUED)

The change in net deferred income taxes for 2016 and 2015 was as follows:

	December 31,		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Total gross deferred tax assets	\$ 89,845	\$ 54,421	\$ 35,424
Total deferred tax liabilities	<u>(2,634)</u>	<u>(4,558)</u>	<u>1,924</u>
Net deferred tax asset	<u>\$ 87,211</u>	<u>\$ 49,863</u>	37,348
Tax effect of unrealized investment gains			<u>13,671</u>
Change in net deferred income tax			<u>\$ 51,019</u>

	December 31,		
	<u>2015</u>	<u>2014</u>	<u>Change</u>
Total gross deferred tax assets	\$ 54,421	\$ 36,108	\$ 18,313
Total deferred tax liabilities	<u>4,558</u>	<u>1,530</u>	<u>3,028</u>
Net deferred tax asset	<u>\$ 49,863</u>	<u>\$ 34,578</u>	15,285
Tax effect of unrealized investment losses			<u>(18,801)</u>
Change in net deferred income tax			<u>\$ (3,516)</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. FEDERAL INCOME TAXES (CONTINUED)

The components of all deferred tax assets and liabilities at December 31 were as follows:

	2016		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Deferred tax assets admitted	\$ 89,845	\$ 16,744	\$ 106,589
Deferred tax assets nonadmitted	-	(16,744)	(16,744)
Deferred tax liabilities	(2,634)	-	(2,634)
Net admitted deferred tax asset	<u>\$ 87,211</u>	<u>\$ -</u>	<u>\$ 87,211</u>
Admission Calculation Components of SSAP No. 101:			
Federal income taxes paid in prior years recoverable through loss carrybacks	<u>\$ 51,907</u>	<u>\$ -</u>	<u>\$ 51,907</u>
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations (the lesser of 1 and 2 below):	<u>-</u>	<u>-</u>	<u>-</u>
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	<u>41,268</u>	<u>-</u>	<u>41,268</u>
2. Adjusted gross deferred tax assets allowed per limitation threshold	<u>-</u>	<u>-</u>	<u>500,136</u>
Additional adjusted gross deferred tax assets offset by gross deferred tax liabilities	<u>(3,330)</u>	<u>-</u>	<u>(3,330)</u>
Admitted deferred tax assets	<u>\$ 89,845</u>	<u>\$ -</u>	<u>\$ 89,845</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. FEDERAL INCOME TAXES (CONTINUED)

	2015		
	Ordinary	Capital	Total
Deferred tax assets admitted	\$ 71,783	\$ 20,771	\$ 92,554
Deferred tax assets nonadmitted	(17,362)	(20,771)	(38,133)
Deferred tax liabilities	(4,558)	-	(4,558)
Net admitted deferred tax asset	<u>\$ 49,863</u>	<u>\$ -</u>	<u>\$ 49,863</u>

Admission Calculation Components of SSAP No. 101:

Federal income taxes paid in prior years recoverable through loss carrybacks	<u>\$ 49,863</u>	<u>\$ -</u>	<u>\$ 49,863</u>
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitations (the lesser of 1 and 2 below):	-	-	-
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-
2. Adjusted gross deferred tax assets allowed per limitation threshold	-	-	481,549
Additional adjusted gross deferred tax assets offset by gross deferred tax liabilities	<u>4,558</u>	-	<u>4,558</u>
Admitted deferred tax assets	<u>\$ 54,421</u>	<u>\$ -</u>	<u>\$ 54,421</u>

The Company determined the amount of its admitted deferred tax assets based upon a realization threshold limitation table for risk-based capital (RBC) reporting entities. Based upon this table, the Company can admit deferred tax assets that can be expected to be realized within three years subject to a maximum of 15% of adjusted capital and surplus. Data used in determining the Company's threshold limitation was as follows:

	2016	2015
RBC ratio percentage used to determine recovery period and threshold limitation amount	2762%	2324%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 3,334,238	\$ 3,210,329

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

8. LEASES

The Company entered into a vehicle lease agreement on April 18, 2014. The Company has contracted to pay \$601 per month for 36 months. Minimum annual payments due under the terms of the lease are:

2017	\$	1,802
2018		-
2019		-
2020		-
2021		-
Thereafter		-
	\$	1,802

9. DIVIDENDS AND CAPITAL AND SURPLUS

As a Delaware domestic insurer, the Company is required to maintain minimum capital and surplus of \$750,000 in order to write multiple lines of insurance.

Dividend payments are limited by the Insurance Code of the State of Delaware. A domestic insurer may not declare or pay dividends or other distributions from any source other than earned surplus without the Commissioner's prior approval. As of December 31, 2016 and 2015, the balance of earned surplus was \$348,457 and \$155,550, respectively. The Company paid an ordinary dividend to WHC of \$85,100 and \$150,072 in 2016 and 2015, respectively. Dividend payments made by the Company were from earned surplus.

10. MAJOR PRODUCERS

In 2016 and 2015, five insurance agency groups produced approximately 83% and 81% of the Company's direct premium volume, respectively.

11. DEFINED CONTRIBUTION PLAN

The Company maintains a Safe Harbor 401(k) plan for eligible employees. Under the terms of the Plan, all employees who meet minimum service requirements are eligible to participate. The Plan permits voluntary employee contributions and provides for a fully vested employer matching contribution up to a maximum of 4% of eligible employee compensation for all employees that participate in the Plan. The Company had a monthly allowance for each employee of \$655 and \$630 for 2016 and 2015, respectively.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

11. DEFINED CONTRIBUTION PLAN (CONTINUED)

The Company has cafeteria style benefits, and each employee may use the allowance to select their benefits. Company contributions to the 401(k) plan amounted to \$12,281 and \$10,838 for 2016 and 2015, respectively.

12. RISK-BASED CAPITAL

Risk-based capital (RBC) is a method developed by the NAIC to measure the minimum amount of capital that an insurance company needs to support its overall business operations. At December 31, 2016 and 2015, the Company's capital and surplus was in excess of the RBC requirements.

WILMINGTON INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES
DECEMBER 31, 2016

Provided below are management's responses to the investment risks interrogatories and summary investment schedule required by NAIC SAP. Questions/categories not applicable to the Company have not been included below.

Investment Risks Interrogatories

The Company's total admitted assets as of December 31, 2016 were \$5,349,402.

The Company's largest exposures to a single issuer, based upon statement value, excluding U.S. government, U.S. government agency securities and U.S. government money market funds, listed by investment category were as follows:

1 Issuer	2 Description of exposure	3 Amount	4 Percentage of total admitted assets
Maryland St. Health & Higher	Bond	\$ 305,689	5.714%
Delaware St. Health Facs	Bond	165,000	3.084%
Puerto Rico Comwlth Hwy	Bond	109,991	2.056%
Delaware State General	Bond	102,192	1.910%
Maryland St. Trans Authority	Bond	101,662	1.900%
Global X Funds	Common Stock	62,430	1.167%
US West	Bond	50,535	0.945%
Puerto Rico Municipal	Bond	50,000	0.935%
Motorola Solutions	Bond	41,592	0.778%
Ishares US Preferred Stock Eft	Common Stock	40,931	0.765%

The Company's amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating categories were as follows:

Bonds	1	2	Preferred Stocks	3	4
NAIC-1	\$ 869,487	16.254%	P/RP-1	\$ 64,921	1.214%
NAIC-2	123,424	2.307%			
NAIC-4	71,260	1.332%			
NAIC-5	9,928	0.186%			
NAIC-6	15,264	0.285%			

WILMINGTON INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)
DECEMBER 31, 2016

Investment Risks Interrogatories (Continued)

The Company's amounts and percentages of total admitted assets held in the largest equity interests were as follows:

1 Name of Issuer	2	3
Global X Funds	\$ 62,430	1.167%
Ishares US Preferred Stock Eft	40,931	0.765%
Spdr Index Shs Fds Euro Stoxx 50 Et	36,806	0.688%
Duke Energy Corp	15,524	0.290%
Cigna Corp. Com	13,339	0.249%
Willis Towers Watson PLC	12,228	0.229%
Cabelas Inc Cs	11,710	0.219%
XL Group Ltd Com	11,178	0.209%
Seaspan Corp	10,968	0.205%
Verizon Communications	10,676	0.200%

WILMINGTON INSURANCE COMPANY
SUMMARY INVESTMENT SCHEDULE
DECEMBER 31, 2016

	Gross investment holdings		Admitted assets as reported in the annual statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	\$ 195,191	4.364%	\$ 195,192	4.364%
Political subdivisions of states, territories and possessions	102,192	2.285%	102,192	2.285%
Revenue and assessment obligations	597,296	13.355%	597,296	13.355%
Other debt and other fixed income securities, unaffiliated				
Domestic securities	194,684	4.353%	194,684	4.353%
Equity interests:				
Investments in mutual funds	99,236	2.219%	99,236	2.219%
Preferred stocks, unaffiliated	64,921	1.452%	64,921	1.452%
Publicly traded equity securities, unaffiliated	170,995	3.823%	170,995	3.823%
Real estate investments, property occupied by Company	400,124	8.947%	400,123	8.947%
Cash and short-term investments	2,647,708	59.202%	2,647,707	59.202%
Total invested assets	\$ 4,472,347	100.000%	\$ 4,472,346	100.000%

* Gross investment holdings as valued in compliance with NAIC Accounting Practices and Procedures Manual