



**WILMINGTON  
INSURANCE COMPANY**

**YEARS ENDED  
DECEMBER 31, 2014 AND 2013**

**WILMINGTON INSURANCE COMPANY**  
YEARS ENDED DECEMBER 31, 2014 AND 2013

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## Independent Auditors' Report

Board of Directors  
Wilmington Insurance Company  
Wilmington, Delaware

### **Report on the Statutory 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, 2014 and 2013, and the related statutory statements of income, capital and surplus and cash flow 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 financial statements in accordance with accounting practices prescribed by the Delaware Department of Insurance. Management is also responsible for 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider internal control relevant to the Company'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 Company'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 the 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 Delaware Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of 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 Accepted 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, 2014 and 2013, or the results of its operations or its cash flow 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, 2014 and 2013, and the results of its operations and its cash flow for the years then ended in accordance with accounting practices prescribed by the Delaware Department of Insurance as described in Note 2.

### **Report on Supplementary Information Prepared on the Statutory Basis of Accounting**

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

*Brown Schultz Steindler & Fritz*

May 22, 2015

**WILMINGTON INSURANCE COMPANY**

**STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND CAPITAL AND  
SURPLUS**

DECEMBER 31, 2014 AND 2013

ADMITTED ASSETS

	<u>2014</u>	<u>2013</u>
Bonds, at statement value (fair value, 2014, \$1,228,090; 2013, \$1,076,062)	\$ 1,201,106	\$ 1,118,840
Stocks:		
Preferred, at fair value (cost, 2014, \$236,850; 2013, \$123,159)	240,535	104,556
Common, at fair value (cost, 2014, \$70,922; 2013, \$40,834)	71,737	46,552
Real estate, at cost less accumulated depreciation	427,099	443,562
Cash and short-term investments	<u>1,768,198</u>	<u>2,056,658</u>
Total cash and invested assets	3,708,675	3,770,168
Accrued investment income	21,537	22,143
Premiums in course of collection	554,964	550,185
Reinsurance recoverable on paid losses	205,892	52,253
Net deferred tax asset	34,578	38,938
Data processing equipment, at cost less accumulated depreciation	4,200	2,490
Other	<u>1,548</u>	<u>1,651</u>
	<u>\$ 4,531,394</u>	<u>\$ 4,437,828</u>

See notes to statutory financial statements.

LIABILITIES AND CAPITAL AND SURPLUS

	2014	2013
Losses	\$ 160,075	\$ 153,550
Loss adjustment expenses	61,417	66,361
Commissions payable	113,177	118,281
Accounts payable and accrued expenses	65,500	58,530
Accrued taxes, licenses and fees		7,108
Current federal income taxes	13,411	90,190
Unearned premiums	403,733	348,017
Advance premiums	49,630	
Ceded reinsurance premiums payable	324,142	293,401
Amounts withheld or retained by company for account of others		3,748
Remittances and items not allocated	23,383	
Total liabilities	1,214,468	1,139,186
Capital and surplus:		
Common stock; \$100 par value; 20,000 authorized shares; 14,800 shares issued and outstanding	1,480,000	1,480,000
Additional paid-in capital	1,627,405	1,627,405
Unassigned funds	209,521	191,237
Total capital and surplus	3,316,926	3,298,642
	\$ 4,531,394	\$ 4,437,828

**WILMINGTON INSURANCE COMPANY**

STATUTORY STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Underwriting gain:		
Net premiums earned	\$ 618,688	\$ 687,487
Expenses:		
Net losses incurred	151,753	106,418
Net loss adjustment expenses incurred	184,055	132,191
Net commissions and brokerage	(468,594)	(419,613)
Other underwriting expenses	653,299	613,612
	<u>520,513</u>	<u>432,608</u>
Net underwriting gain	<u>98,175</u>	<u>254,879</u>
Investment income:		
Interest	48,522	48,814
Dividends	13,638	5,584
Real estate (Company occupancy of home office)	42,080	23,670
	<u>104,240</u>	<u>78,068</u>
Investment expenses	<u>109,887</u>	<u>92,715</u>
	(5,647)	(14,647)
Net realized capital gain (loss)	<u>15,294</u>	<u>(41,627)</u>
Net investment gain (loss)	<u>9,647</u>	<u>(56,274)</u>
Other income (expense):		
Balances charged-off	(46,978)	13,761
Other income	56,553	57,483
Net other income	<u>9,575</u>	<u>71,244</u>
Income before federal income taxes	117,397	269,849
Federal income taxes	<u>13,411</u>	<u>90,190</u>
Net income	<u>\$ 103,986</u>	<u>\$ 179,659</u>

See notes to statutory financial statements.

**WILMINGTON INSURANCE COMPANY**  
 STATUTORY STATEMENTS OF CAPITAL AND SURPLUS  
 YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Balance, beginning of year	\$ 3,298,642	\$ 3,254,497
Net income	103,986	179,659
Change in:		
Unrealized capital gain, net of deferred income tax benefit, \$2,427 in 2014; \$7,537 in 2013	4,712	14,632
Net deferred income tax	(1,933)	14,010
Nonadmitted assets	26,515	(84,236)
Dividends to parent Company	(114,996)	(79,920)
Balance, end of year	\$ 3,316,926	\$ 3,298,642

See notes to statutory financial statements.



**WILMINGTON INSURANCE COMPANY**

STATUTORY STATEMENTS OF CASH FLOW

YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash and short-term investments from operations:		
Premiums collected, net of reinsurance	\$ 794,120	\$ 762,315
Net investment income	16,501	(5,971)
Other income	9,575	71,244
	<u>820,196</u>	<u>827,588</u>
Benefit and loss related payments	298,867	62,867
Commissions and expenses paid	378,947	296,204
Federal and foreign income taxes paid	90,190	10,984
	<u>768,004</u>	<u>370,055</u>
Net cash and short-term investments from operations	<u>52,192</u>	<u>457,533</u>
Cash and short-term investments from investments:		
Proceeds from investments sold or matured		
Bonds	195,000	
Stocks	56,128	
	<u>251,128</u>	
Cost of investments acquired:		
Bonds	292,595	
Stocks	184,612	101,313
Real estate		451,983
	<u>477,207</u>	<u>553,296</u>
Net cash and short-term investments from investments	<u>(226,079)</u>	<u>(553,296)</u>
Cash and short-term investments from financing and miscellaneous sources:		
Dividends to parent Company	(114,996)	(79,920)
Other cash and short-term investments provided (applied)	423	(11,355)
	<u>(114,573)</u>	<u>(91,275)</u>
Net cash and short-term investments from financing and miscellaneous sources	<u>(114,573)</u>	<u>(91,275)</u>
Net change in cash and short-term investments	(288,460)	(187,038)
Cash and short-term investments:		
Beginning of year	<u>2,056,658</u>	<u>2,243,696</u>
End of year	<u>\$ 1,768,198</u>	<u>\$ 2,056,658</u>

See notes to statutory financial statements.

## **WILMINGTON INSURANCE COMPANY**

### NOTES TO STATUTORY FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

#### **1. Description of business:**

Wilmington Insurance 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 2014 and 2013, 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;

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**2. Summary of significant accounting policies (continued):**

*Principles of accounting (continued):*

- (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;
- (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.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**2. Summary of significant accounting policies (continued):**

*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 \$308,106, accounts for 6.8% of total admitted assets at December 31, 2014.

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, 2014.

As of December 31, 2014, the Company had uncollateralized net reinsurance balances of approximately \$215,000 due from Maiden Reinsurance Company and \$1,560,000 due from various Lloyd's syndicates which generally have an A. M. Best rating of A- or better.

*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.

## WILMINGTON INSURANCE COMPANY

### NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

#### 2. Summary of significant accounting policies (continued):

##### *Investments (continued):*

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.

##### *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.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**2. Summary of significant accounting policies (continued):**

*Losses and loss adjustment expenses (continued):*

The liability for losses includes 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 \$75,000 at December 31, 2014 and 2013.

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.

As of December 31, 2014, the Company has no tax positions for which management believes a provision for uncertainty is necessary. The Company is no longer subject to U.S. federal income tax examination by tax authorities for the years before 2011.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**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 2014 and 2013 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 22, 2015, the date which the financial statements were available to be issued.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. Investments:**

The statement value, gross unrealized gains, gross unrealized losses and fair value of investments in bonds at December 31, 2014 and 2013 are as follows:

<u>2014</u>	<u>Statement value</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
U.S. government securities	\$ 62,267	\$ 7,059		\$ 69,326
States, territories and possessions	211,093		\$ 16,591	194,502
Political subdivisions	103,865	3,906		107,771
Special revenue	602,389	27,221	3,910	625,700
Industrial and miscellaneous	<u>231,740</u>	<u>4,132</u>	<u>5,081</u>	<u>230,791</u>
	1,211,354	<u>\$ 42,318</u>	<u>\$ 25,582</u>	<u>\$ 1,228,090</u>
Adjustment for bonds stated at fair value	<u>(10,248)</u>			
	<u>\$ 1,201,106</u>			
<u>2013</u>				
States, territories and possessions	\$ 257,777	\$ 88	\$ 48,534	\$ 209,331
Political subdivisions	152,018	6,842		158,860
Special revenue	<u>709,045</u>	<u>19,829</u>	<u>21,003</u>	<u>707,871</u>
	<u>\$ 1,118,840</u>	<u>\$ 26,759</u>	<u>\$ 69,537</u>	<u>\$ 1,076,062</u>



**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. Investments (continued):**

The amortized cost and fair value of bonds at December 31, 2014, by contractual 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 after one year through five years	\$ 293,177	\$ 307,695
Due after five years through ten years	236,156	236,640
Due after ten years	<u>682,021</u>	<u>683,755</u>
	<u>\$ 1,211,354</u>	<u>\$ 1,228,090</u>

Proceeds from sales or maturities of bonds in 2014 were \$195,000. There were no gross gains or gross losses realized on sales or maturities in 2014. There were no sales or maturities of bonds in 2013.

At December 31, 2014 and 2013, gross unrealized gains and losses pertaining to stocks carried at fair value were as follows:

	<u>2014</u>	<u>2013</u>
Gains	\$ 7,824	\$ 5,718
Losses	<u>3,324</u>	<u>18,603</u>
Net	<u>\$ 4,500</u>	<u>\$ (12,885)</u>

Proceeds from sales of stocks in 2014 were \$56,128 with a gross gain of \$15,294. There were no gross realized losses on sales of stock in 2014. There were no sales of stocks in 2013.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. Investments (continued):**

In 2013, the Company recognized other than temporary impairment loss of \$41,627, which is included in net realized capital loss in the statutory statements of income. There were no other than temporary impairment losses in 2014.

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, 2014 and 2013 are as follows:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
<u>2014</u>						
States, territories and possessions			\$ 194,502	\$ 16,591	\$ 194,502	\$ 16,591
Special revenue			112,175	3,910	112,175	3,910
Industrial and miscellaneous	\$ 50,225	\$ 5,081			50,225	5,081
Subtotal, bonds	<u>50,225</u>	<u>5,081</u>	<u>306,677</u>	<u>20,501</u>	<u>356,902</u>	<u>25,582</u>
Preferred stock	53,295	396			53,295	396
Common Stock	<u>23,070</u>	<u>2,928</u>			<u>23,070</u>	<u>2,928</u>
Subtotal, stock	<u>76,365</u>	<u>3,324</u>			<u>76,365</u>	<u>3,324</u>
Total temporarily impaired securities	<u>\$ 126,590</u>	<u>\$ 8,405</u>	<u>\$ 306,677</u>	<u>\$ 20,501</u>	<u>\$ 433,267</u>	<u>\$ 28,906</u>
<u>2013</u>						
States, territories and possessions	\$ 19,670	\$ 725	\$ 184,541	\$ 47,809	\$ 204,211	\$ 48,534
Special revenue	<u>119,982</u>	<u>7,363</u>	<u>207,418</u>	<u>13,640</u>	<u>327,400</u>	<u>21,003</u>
Subtotal, bonds	139,652	8,088	391,959	61,449	531,611	69,537
Preferred stock	<u>104,556</u>	<u>18,603</u>			<u>104,556</u>	<u>18,603</u>
Total temporarily impaired securities	<u>\$ 244,208</u>	<u>\$ 26,691</u>	<u>\$ 391,959</u>	<u>\$ 61,449</u>	<u>\$ 636,167</u>	<u>\$ 88,140</u>

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. Investments (continued):**

At December 31, 2014, the Company held securities with gross unrealized losses of \$28,906. 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. The Company has performed other than temporary impairment analysis on all securities scheduled above, and this analysis does not warrant any write-downs. Accordingly, the Company believes the declines in the above schedule are temporary in nature.

*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 from 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.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**3. Investments (continued):**

The following table presents the fair value measurements for investments as of December 31, 2014 and 2013:

2014	Fair value measurements using		Total fair value	Carrying value
	Level 1	Level 2		
Bonds:				
U.S. government securities	\$ 69,326		\$ 69,326	\$ 62,267
States, territories and possessions		\$ 194,502	194,502	200,845
Political subdivisions		107,771	107,771	103,865
Special revenue		625,700	625,700	602,389
Industrial and miscellaneous		230,791	230,791	231,740
Total bonds	69,326	1,158,764	1,228,090	1,201,106
Preferred stock	240,535		240,535	240,535
Common stock	71,737		71,737	71,737
Total stocks	312,272		312,272	312,272
Total	\$ 381,598	\$ 1,158,764	\$ 1,540,362	\$ 1,513,378
<hr/>				
2013				
Bonds:				
States, territories and possessions		\$ 209,331	\$ 209,331	\$ 257,777
Political subdivisions		158,860	158,860	152,018
Special revenue		707,871	707,871	709,045
Total bonds		1,076,062	1,076,062	1,118,840
Preferred stock	\$ 104,556		104,556	104,556
Common stock	46,552		46,552	46,552
Total stocks	151,108		151,108	151,108
Total	\$ 151,108	\$ 1,076,062	\$ 1,227,170	\$ 1,269,948

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**4. Property and equipment:**

The following is a schedule of admitted property and equipment at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Estimated useful life</u>
Building and improvements	\$ 451,983	\$ 451,983	7-39 years
Less accumulated depreciation	<u>24,884</u>	<u>8,421</u>	
	<u>\$ 427,099</u>	<u>\$ 443,562</u>	
Data processing equipment and software	\$ 51,913	\$ 48,030	5 years
Less accumulated depreciation	<u>47,713</u>	<u>45,540</u>	
	<u>\$ 4,200</u>	<u>\$ 2,490</u>	

The following is a schedule of nonadmitted equipment at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Estimated useful life</u>
Furniture, equipment and automobiles	\$ 57,355	\$ 57,355	5 years
Less accumulated depreciation	<u>44,014</u>	<u>38,472</u>	
	<u>\$ 13,341</u>	<u>\$ 18,883</u>	

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**4. Property and equipment (continued):**

Depreciation expense for 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Real estate	\$ 16,462	\$ 8,421
Data processing equipment and software	2,174	526
Furniture, equipment and automobiles	<u>5,542</u>	<u>5,784</u>
	<u>\$ 24,178</u>	<u>\$ 14,731</u>

**5. Liabilities for losses and loss adjustment expenses:**

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

	<u>2014</u>	<u>2013</u>
Net balance, January 1	<u>\$ 219,911</u>	<u>\$ 198,799</u>
Incurred related to:		
Current year	380,418	240,578
Prior years	<u>(44,610)</u>	<u>(1,969)</u>
Total incurred	<u>335,808</u>	<u>238,609</u>
Paid related to:		
Current year	221,924	120,927
Prior years	<u>112,303</u>	<u>96,570</u>
Total paid	<u>334,227</u>	<u>217,497</u>
Net balance, December 31	<u>\$ 221,492</u>	<u>\$ 219,911</u>

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**5. Liabilities for 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 \$44,610 and \$1,969 in 2014 and 2013, respectively.

**6. Reinsurance:**

In the 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 \$150,000 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 2014 and 2013 is as follows:

	2014		2013	
	Written	Earned	Written	Earned
Direct	\$ 3,401,780	\$ 3,386,067	\$ 3,434,684	\$ 3,268,884
Ceded	<u>2,727,376</u>	<u>2,767,379</u>	<u>2,612,739</u>	<u>2,581,397</u>
Net	<u>\$ 674,404</u>	<u>\$ 618,688</u>	<u>\$ 821,945</u>	<u>\$ 687,487</u>

The effect of reinsurance on unearned premiums as of December 31, 2014 and 2013 is as follows:

	2014	2013
Direct	\$ 1,696,884	\$ 1,681,171
Ceded	<u>1,293,151</u>	<u>1,333,154</u>
	<u>\$ 403,733</u>	<u>\$ 348,017</u>

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**6. Reinsurance (continued):**

The effect of reinsurance on the liabilities for losses and loss adjustment expenses as of December 31, 2014 and 2013 and losses and loss adjustment expenses incurred for 2014 and 2013 is as follows:

	Liabilities for losses and loss adjustment expenses		Losses and loss adjustment expenses incurred	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Direct	\$ 497,070	\$ 432,870	\$ 914,771	\$ 361,015
Ceded	<u>275,578</u>	<u>212,959</u>	<u>578,963</u>	<u>122,406</u>
Net	<u>\$ 221,492</u>	<u>\$ 219,911</u>	<u>\$ 335,808</u>	<u>\$ 238,609</u>

The maximum amount of return commission which would be due non-affiliated reinsurers if all of the Company's reinsurance was cancelled as of December 31, 2014 is \$358,290.



**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes:**

The provision for federal income tax for 2014 and 2013 varies 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>2014</u>	<u>2013</u>
Provision computed at statutory rate	\$ 39,915	\$ 91,749
Tax-exempt income	(8,273)	(15,696)
Nondeductible expenses	675	570
Other	<u>(16,973)</u>	<u>557</u>
Total	<u>\$ 15,344</u>	<u>\$ 77,180</u>
Current federal income taxes incurred	\$ 13,411	\$ 91,190
Change in deferred income taxes	<u>1,933</u>	<u>(14,010)</u>
Total statutory income taxes	<u>\$ 15,344</u>	<u>\$ 77,180</u>

As of December 31, 2014, the Company does not have any net operating loss carryforwards, capital loss carryforwards or minimum tax credit carryovers. Additionally, the Company does not have any deposits under Section 6603 of the Internal Revenue Code.

The Company has federal income taxes incurred in 2014 and 2013 of \$13,411 and \$90,190, respectively that are available for recoupment in the event of future net losses.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes (continued):**

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Gross deferred tax assets:		
Ordinary:		
Unearned and advance premiums	\$ 32,418	\$ 23,920
Loss discounting	3,319	4,143
Nonadmitted assets	<u>371</u>	<u>          </u>
Admitted deferred tax assets, ordinary	<u>36,108</u>	<u>28,063</u>
Capital:		
Unrealized investment losses		4,381
Other than temporary impairments		<u>14,153</u>
Admitted deferred tax assets, capital		<u>18,534</u>
Total admitted deferred tax assets	<u>36,108</u>	<u>46,597</u>
Deferred tax liabilities:		
Ordinary, other		7,659
Capital, unrealized investment gains	<u>1,530</u>	<u>          </u>
Total deferred tax liabilities	<u>1,530</u>	<u>7,659</u>
Net admitted deferred tax asset	<u>\$ 34,578</u>	<u>\$ 38,938</u>

All deferred tax liabilities have been recognized in 2014 and 2013.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes (continued):**

The change in net deferred income taxes for 2014 and 2013 is as follows:

	December 31,		
	2014	2013	Change
Total gross deferred tax assets	\$ 36,108	\$ 46,597	\$ (10,489)
Total deferred tax liabilities	1,530	7,659	(6,129)
Net deferred tax asset	\$ 34,578	\$ 38,938	(4,360)
Tax effect of unrealized investment gains			2,427
Change in net deferred income tax			\$ (1,933)
	December 31,		
	2013	2012	Change
Total gross deferred tax assets	\$ 46,597	\$ 33,016	\$ 13,581
Total deferred tax liabilities	7,659	551	7,108
Net deferred tax asset	\$ 38,938	\$ 32,465	6,473
Tax effect of unrealized investment gains			7,537
Change in net deferred income tax			\$ 14,010

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes (continued):**

The components of all deferred tax assets and liabilities at December 31, 2014 and 2013 are as follows:

	<u>2014</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross admitted deferred tax assets	\$ 36,108	\$ -	\$ 36,108
Deferred tax liabilities		1,530	1,530
Net admitted deferred tax asset	<u>\$ 36,108</u>	<u>\$ (1,530)</u>	<u>\$ 34,578</u>
Admission Calculation Components of SSAP No. 101:			
Federal income taxes paid in prior years recoverable through loss carrybacks	<u>\$ 36,108</u>	<u>\$ -</u>	<u>\$ 36,108</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	XXX	XXX	<u>-</u>
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	<u>492,352</u>
Additional adjusted gross deferred tax assets offset by gross deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Admitted deferred tax assets	<u>\$ 36,108</u>	<u>\$ -</u>	<u>\$ 36,108</u>

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes (continued):**

	2013		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross admitted deferred tax assets	\$ 28,063	\$ 18,534	\$ 46,597
Deferred tax liabilities	7,659	-	7,659
Net admitted deferred tax asset	<u>\$ 20,404</u>	<u>\$ 18,534</u>	<u>\$ 38,938</u>
Admission Calculation Components of SSAP No. 101:			
Federal income taxes paid in prior years recoverable through loss carrybacks	<u>\$ 23,089</u>	<u>\$ 18,534</u>	<u>\$ 41,623</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	XXX	XXX	<u>-</u>
2. Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	<u>488,956</u>
Additional adjusted gross deferred tax assets offset by gross deferred tax liabilities	<u>4,974</u>	<u>-</u>	<u>4,974</u>
Admitted deferred tax assets	<u>\$ 28,063</u>	<u>\$ 18,534</u>	<u>\$ 46,597</u>

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**7. Federal income taxes (continued):**

The Company determined the amount of its admitted deferred tax assets based upon a realization threshold limitation table for risk-based capital (RBC) (Note 13) 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 is as follows:

	<u>2014</u>	<u>2013</u>
RBC ratio percentage used to determine recovery period and threshold limitation amount.	3359%	3570%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 3,282,348	\$ 3,259,704

**8. Leases:**

The Company leased office space through June 7, 2013. Total lease expense, net of reimbursements from related parties, amounted to \$37,229 in 2013.

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:

2015	\$ 7,209
2016	7,209
2017	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.

**WILMINGTON INSURANCE COMPANY**

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2014 AND 2013

**9. Dividends and capital and surplus (continued):**

Dividend payments are limited by the Insurance Code of the State of Delaware. Ordinary dividends can only be paid out of accumulated capital and surplus derived from net operating profits and realized capital gains. At December 31, 2014, the maximum amount of dividends that may be paid without prior approval of the insurance commissioner is \$331,693. The Company paid an ordinary dividend to WHC of \$114,996 and \$79,920 in 2014 and 2013, respectively.

**10. Major producers:**

In 2014 and 2013, five insurance agency groups produced approximately 82% and 81% of the Company's direct premium volume, respectively.

**11. Related parties:**

Wilmington Insurance Company has an agency agreement with American Foreign Underwriters Corporation which is owned by Trident.

**12. 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 has a monthly allowance for each employee of \$600 for 2014 and 2013. 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 \$9,479 and \$4,042 for 2014 and 2013, respectively.

**13. 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, 2014, the Company's capital and surplus was in excess of the RBC requirements.

**WILMINGTON INSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

YEAR ENDED DECEMBER 31, 2014

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, 2014 are \$4,531,394.

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 are as follows:

1 Issuer	2 Description of exposure	3 Amount	4 Percentage of total admitted assets
Maryland St. Health & High	Bond	\$ 308,106	6.799 %
Delaware St. Health Facs	Bond	165,000	3.641
Popular Cap Tri I	Preferred stock	136,200	3.006
Puerto Rico Comwith Hwy	Bond	115,361	2.546
Maryland St. Trans Authority	Bond	104,230	2.300
Delaware State General	Bond	103,865	2.292
US West	Bond	50,548	1.116
Puerto Rico Municipal	Bond	50,452	1.113
Motorola Solutions	Bond	41,585	0.918
Safeway Inc.	Bond	34,295	0.757

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

Bonds	1	2	Preferred stocks	3	4
NAIC-1	\$ 939,695	20.737 %	P/RP-1	\$ 240,535	5.308 %
NAIC-2	231,739	5.114			
NAIC-4	14,898	0.329			
NAIC-5	14,774	0.326			

(continued)



**WILMINGTON INSURANCE COMPANY**

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)**

**YEAR ENDED DECEMBER 31, 2014**

*Investment risks interrogatories (continued):*

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

<u>1</u> Name of issuer	<u>2</u>	<u>3</u>
Popular Cap Tri I	\$ 136,200	3.006 %
iShares US Preferred Stock	29,580	0.653
Deutsche Bk Cap Fdg	25,550	0.564
Morgan Stanley Cap Tr	25,490	0.563
Maiden Holdings LTD	23,715	0.523
Global X Funds	23,070	0.509
SPDR S&P 500 ETF	20,554	0.454
SPDR Dow Jones Indl	17,788	0.393
Powershares QQQ TR	10,325	0.228

**WILMINGTON INSURANCE COMPANY**

SUMMARY INVESTMENT SCHEDULE

YEAR ENDED DECEMBER 31, 2014

	Gross investment holdings*		Admitted assets as reported in the annual statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. treasury securities	\$ 62,267	1.679 %	\$ 62,267	1.679 %
Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
States, territories and possessions general obligations	200,845	5.416	200,845	5.416
Political subdivisions of states, territories and possessions	103,865	2.801	103,865	2.801
Revenue and assessment obligations	602,389	16.243	602,389	16.243
Other debt and other fixed income securities, unaffiliated domestic securities	231,740	6.249	231,740	6.249
Equity interests:				
Investments in mutual funds	23,070	0.622	23,070	0.622
Preferred stocks, unaffiliated	240,535	6.486	240,535	6.486
Publicly traded equity securities, unaffiliated	48,667	1.312	48,667	1.312
Real estate investments, property occupied by Company	427,099	11.516	427,099	11.516
Cash and short-term investments	1,768,198	47.676	1,768,198	47.676
<b>Total invested assets</b>	<b>\$ 3,708,675</b>	<b>100.000 %</b>	<b>\$ 3,708,675</b>	<b>100.000 %</b>

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