

WILMINGTON INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**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 statement of admitted assets, liabilities and capital and surplus as of December 31, 2015, and the related statements of income, capital and surplus, and cash flows for the year 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 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 financial statements based on our audit. We conducted our audit 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 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.

62 Rockford Road, Suite 200 • Wilmington, DE 19806
302-656-6632 • 800-656-6632 • Fax: 302-656-1811
www.CoverRossiter.com

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, 2015 or the results of its operations or its cash flows for the year 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

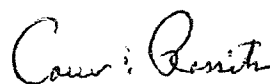
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of Wilmington Insurance Company as of December 31, 2015, and the results of its operations and its cash flows for the year then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

Other Matter

The financial statements of the Wilmington Insurance Company for the year ended December 31, 2014 were audited by another auditor who expressed an adverse opinion under U.S generally accepted accounting principles and an unmodified opinion on the regulatory basis of accounting on May 22, 2015. In our opinion, the comparative information presented is consistent, in all material respects, with those financial statements.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The investment risk interrogatories and the summary investment schedule is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.



Certified Public Accountants

May 24, 2016

WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND
CAPITAL AND SURPLUS
DECEMBER 31, 2015 AND 2014

	2015	2014
<u>ADMITTED ASSETS</u>		
Bonds, at statement value (fair value \$1,101,486 and \$1,228,090 in 2015 and 2014, respectively)	\$ 1,106,984	\$ 1,201,106
Preferred stock, at fair value (cost, \$231,207 and \$236,850 in 2015 and 2014, respectively)	216,018	240,535
Common stock, at fair value (cost, \$350,685 and \$70,922 in 2015 and 2014, respectively)	342,153	71,737
Real estate, at cost less accumulated depreciation	411,155	427,099
Cash and short-term investments	2,052,853	1,768,198
Total cash and invested assets	4,129,163	3,708,675
Accrued investment income	21,537	21,537
Premiums in course of collection	645,485	554,964
Reinsurance recoverable on paid losses	73,294	205,892
Net deferred tax asset	49,863	34,578
Data processing equipment, at cost less accumulated depreciation	2,763	4,200
Other	866	1,548
TOTAL ASSETS	\$ 4,922,971	\$ 4,531,394
<u>LIABILITIES AND CAPITAL AND SURPLUS</u>		
Losses	\$ 330,903	\$ 160,075
Loss adjustment expenses	152,931	61,417
Commissions payable	136,927	113,177
Accounts payable and accrued expenses	62,500	65,500
Taxes, licenses & fees payable	5,866	-
Current federal income taxes	43,889	13,411
Unearned premiums	461,467	403,733
Advance premiums	54,349	49,630
Ceded reinsurance premiums payable	401,017	324,142
Remittances and items not allocated	10,167	23,383
TOTAL LIABILITIES	1,660,016	1,214,468
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	155,550	209,521
TOTAL CAPITAL AND SURPLUS	3,262,955	3,316,926
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	\$ 4,922,971	\$ 4,531,394

See accompanying notes to statutory financial statements

**WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
UNDERWRITING GAIN		
Net premiums earned	\$ 1,002,654	\$ 618,688
Expenses:		
Net loss incurred	278,106	151,753
Net loss adjustment expenses incurred	273,353	184,055
Net commissions and brokerage	(340,289)	(468,594)
Other underwriting expenses	711,718	653,299
	<u>922,888</u>	<u>520,513</u>
Net underwriting gain	<u>79,766</u>	<u>98,175</u>
INVESTMENT ACTIVITY		
Interest	79,622	48,522
Dividends	21,503	13,638
Real estate (Company occupancy of home office)	42,080	42,080
	<u>143,205</u>	<u>104,240</u>
Investment expenses	110,394	109,887
	<u>32,811</u>	<u>(5,647)</u>
Net realized capital gain (loss)	<u>(17,173)</u>	<u>15,294</u>
Net investment gain	15,638	9,647
OTHER INCOME (EXPENSE)		
Balances charged off	2,971	(46,978)
Other income	58,277	56,553
	<u>61,248</u>	<u>9,575</u>
Net other income	61,248	9,575
INCOME BEFORE FEDERAL INCOME TAXES	156,652	117,397
Federal income taxes	<u>37,544</u>	<u>13,411</u>
NET INCOME	<u>\$ 119,108</u>	<u>\$ 103,986</u>

See accompanying notes to statutory financial statements

WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF CAPITAL AND SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Balance, beginning of year	\$ 3,316,926	\$ 3,298,642
Net income	119,108	103,986
Change in		
Unrealized capital gain, net of deferred income		
tax benefit (expense), (\$67,173) and \$2,427		
in 2015 and 2014, respectively	1,635	4,712
Net deferred income tax	(3,516)	(1,933)
Non admitted assets	(21,126)	26,515
Dividends to parent company	(150,072)	(114,996)
Balance, end of year	\$ 3,262,955	\$ 3,316,926

See accompanying notes to statutory financial statement

**WILMINGTON INSURANCE COMPANY
STATUTORY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
CASH AND SHORT-TERM INVESTMENTS FROM OPERATIONS		
Premiums collected, net of reinsurance	\$ 1,042,329	\$ 794,120
Net investment income	25,884	16,501
Other income	61,248	9,575
Benefit and loss related payments	25,319	(298,867)
Commissions and expenses paid	(526,652)	(378,947)
Federal and foreign income taxes paid	(13,411)	(90,190)
Net cash and short-term investments from operations	614,717	52,192
CASH AND SHORT-TERM INVESTMENTS FROM INVESTMENTS		
Proceeds from sale of bonds	79,416	195,000
Proceeds from sale of stocks	26,755	56,128
Cost of bonds acquired	-	(292,595)
Cost of stocks acquired	(301,203)	(184,612)
Net cash and short-term investments from investments	(195,032)	(226,079)
CASH AND SHORT-TERM INVESTMENTS FROM FINANCING AND MISCELLANEOUS SOURCES		
Dividends to parent company	(150,072)	(114,996)
Other cash and short-term investments provided	15,042	423
Net cash and short-term investments from financing and miscellaneous sources	(135,030)	(114,573)
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS	284,655	(288,460)
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	1,768,198	2,056,658
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 2,052,853	\$ 1,768,198

See accompanying notes to statutory financial statements

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2015 and 2014, 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, 2015 AND 2014

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 \$306,218 and \$308,106, accounts for 6.2% and 6.8% of total admitted assets at December 31, 2015 and 2014, 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, 2015 and 2014.

As of December 31, 2015, the Company had uncollateralized net reinsurance balances of approximately \$300,000 due from Maiden Reinsurance Company and \$1,534,000 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, 2015 AND 2014

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, 2015 AND 2014

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 \$75,000 at December 31, 2015 and 2014.

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, 2015 and 2014, the Company had no tax positions for which management believes a provision for uncertainty is necessary.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 2015 and 2014 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 24, 2016, the date which the financial statements were available to be issued.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS

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

2015	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government securities	\$ -	\$ -	\$ -	\$ -
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>			
2014	Statement Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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	231,740	4,132	5,081	230,791
	<u>1,211,354</u>	<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>			

The amortized cost and fair value of bonds at December 31, 2015, 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.

	Amortized cost	Fair value
Due after one year through five years	\$ 366,146	\$ 379,355
Due after five years through ten years	154,929	149,122
Due after 10 years	612,984	573,009
	<u>\$ 1,134,059</u>	<u>\$ 1,101,486</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS (CONTINUED)

Proceeds from sales or maturities of bonds in 2015 and 2014 were \$79,416 and \$195,000, respectively. There was \$16,596 gains realized on sales or maturities in 2015. There were no gains or losses realized on sales or maturities in 2014.

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

	<u>2015</u>	<u>2014</u>
Gains	\$ 14,749	\$ 7,824
Losses	<u>38,470</u>	<u>3,324</u>
Net	<u>\$ (23,721)</u>	<u>\$ 4,500</u>

Proceeds from sales of stocks in 2015 and 2014 were \$26,755 and \$56,128 with a gain (loss) of (\$326) and \$15,294, respectively.

The Company has performed other than temporary impairment analysis on all securities and has recognized an other than temporary impairment loss of \$27,098, which is included in net realized capital loss in the statutory statements of income as of December 31, 2015. There were no other than temporary impairment losses in 2014.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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:

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	118,441	23,698	4,300	826	122,741	24,524
Subtotal, bonds	118,441	23,698	230,464	19,705	348,905	43,403
Preferred stock	135,100	17,309	29,138	539	164,238	17,848
Common stock	115,816	11,974	49,300	8,648	165,116	20,622
Subtotal, stock	250,916	29,283	78,438	9,187	329,354	38,470
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>

2014	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	\$ -	\$ -	\$ 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	50,225	5,081	306,677	20,501	356,902	25,582
Preferred stock	53,295	396	-	-	53,295	396
Common stock	23,070	2,928	-	-	23,070	2,928
Subtotal, stock	76,365	3,324	-	-	76,365	3,324
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>

At December 31, 2015 and 2014, the Company held securities with gross unrealized losses of \$81,873 and \$28,906, 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, 2015 AND 2014

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 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.

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

<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:				
U.S. government securities	\$ -	\$ -	\$ -	\$ -
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	<u>\$ 558,171</u>	<u>\$ 1,122,349</u>	<u>\$ 1,680,520</u>	<u>\$ 1,665,155</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

3. INVESTMENTS (CONTINUED)

Fair value measurements (continued)

<u>2014</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:				
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	<u>69,326</u>	<u>1,158,764</u>	<u>1,228,090</u>	<u>1,201,106</u>
Preferred stock	240,535	-	240,535	240,535
Common stock	<u>71,737</u>	<u>-</u>	<u>71,737</u>	<u>71,737</u>
Total stocks	<u>312,272</u>	<u>-</u>	<u>312,272</u>	<u>312,272</u>
Total	<u>\$ 381,598</u>	<u>\$ 1,158,764</u>	<u>\$ 1,540,362</u>	<u>\$ 1,513,378</u>

4. PROPERTY AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Building and improvements	\$ 451,983	\$ 451,983	7-39 years
Less accumulated depreciation	<u>(40,828)</u>	<u>(24,884)</u>	
	<u>\$ 411,155</u>	<u>\$ 427,099</u>	
Data processing equipment and software	\$ 41,777	\$ 51,913	5 years
Less accumulated depreciation	<u>(39,014)</u>	<u>(47,713)</u>	
	<u>\$ 2,763</u>	<u>\$ 4,200</u>	

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

4. PROPERTY AND EQUIPMENT (CONTINUED)

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

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Furniture, equipment and automobiles	\$ 57,355	\$ 57,355	5 years
Less accumulated depreciation	<u>(47,713)</u>	<u>(44,014)</u>	
	<u>\$ 9,642</u>	<u>\$ 13,341</u>	

Depreciation expense for 2015 and 2014 was as follows:

	<u>2015</u>	<u>2014</u>
Real estate	\$ 15,944	\$ 16,462
Data processing equipment and software	2,456	2,174
Furniture, equipment and automobiles	<u>3,699</u>	<u>5,542</u>
	<u>\$ 22,099</u>	<u>\$ 24,178</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>2015</u>	<u>2014</u>
Net balance, January 1	\$ 221,492	\$ 219,911
Incurred related to:		
Current year	519,000	380,418
Prior years	32,459	<u>(44,610)</u>
Total incurred	<u>551,459</u>	<u>335,808</u>
Paid related to:		
Current year	144,000	221,924
Prior years	145,117	<u>112,303</u>
Total paid	<u>289,117</u>	<u>334,227</u>
Net balance, December 31	<u>\$ 483,834</u>	<u>\$ 221,492</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

**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 increased by \$32,460 in 2015 and decreased by and \$44,610 in 2014.

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 2015 and 2014 was as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 3,727,507	\$ 3,577,733	\$ 3,401,780	\$ 3,386,067
Ceded	<u>(2,667,118)</u>	<u>(2,575,079)</u>	<u>(2,727,376)</u>	<u>(2,767,379)</u>
Net	<u>\$ 1,060,389</u>	<u>\$ 1,002,654</u>	<u>\$ 674,404</u>	<u>\$ 618,688</u>

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

	<u>2015</u>	<u>2014</u>
Direct	\$ 1,846,346	\$ 1,696,884
Ceded	<u>(1,384,879)</u>	<u>(1,293,151)</u>
	<u>\$ 461,467</u>	<u>\$ 403,733</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

6. REINSURANCE (CONTINUED)

The effect of reinsurance on the liabilities for losses and loss adjustment expenses as of December 31, 2015 and 2014 and losses and loss adjustment expenses incurred for 2015 and 2014 were as follows:

	Liabilities for losses and loss adjustment expenses		Losses and loss adjustment expenses incurred	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Direct	\$ 866,775	\$ 497,070	\$ 993,404	\$ 914,771
Ceded	(382,941)	(275,578)	(441,945)	(578,963)
	<u>\$ 483,834</u>	<u>\$ 221,492</u>	<u>\$ 551,459</u>	<u>\$ 335,808</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 2015 and 2014 was \$417,635 and \$358,290.

7. FEDERAL INCOME TAXES

The provision for federal income tax for 2015 and 2014 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>2015</u>	<u>2014</u>
Provision computed at statutory rate	\$ 55,419	\$ 39,915
Tax-exempt income	(9,714)	(8,273)
Nondeductible expenses	678	675
Other	1,022	(16,973)
Total	<u>\$ 47,405</u>	<u>\$ 15,344</u>
Current federal income taxes incurred	\$ 37,544	\$ 13,411
Realized capital gains tax	6,345	-
Change in deferred income taxes	3,516	1,933
Total statutory income taxes	<u>\$ 47,405</u>	<u>\$ 15,344</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

7. FEDERAL INCOME TAXES (CONTINUED)

As of December 31, 2015, 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 2015 and 2014 of \$37,544 and \$13,411, 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>2015</u>	<u>2014</u>
Gross deferred tax assets:		
Ordinary:		
Unearned and advance premiums	\$ 35,767	\$ 32,418
Loss discounting	6,443	3,319
Fixed assets	3,278	371
Receivables - admitted	24,817	-
Other	1,478	-
Nonadmitted assets	<u>(17,362)</u>	<u>-</u>
Admitted deferred tax assets, ordinary	<u>54,421</u>	<u>36,108</u>
Capital:		
Unrealized investment losses	<u>20,771</u>	<u>-</u>
Nonadmitted deferred tax assets, capital	<u>20,771</u>	<u>-</u>
Total admitted deferred tax assets	<u>54,421</u>	<u>36,108</u>
Deferred tax liabilities:		
Ordinary, fixed assets	4,558	-
Capital, Unrealized investment gains	<u>-</u>	<u>1,530</u>
Total deferred tax liabilities	<u>4,558</u>	<u>1,530</u>
Net admitted deferred tax asset	<u>\$ 49,863</u>	<u>\$ 34,578</u>

All deferred tax liabilities have been recognized in 2015 and 2014.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

7. FEDERAL INCOME TAXES (CONTINUED)

The change in net deferred income taxes for 2015 and 2014 was as follows:

	<u>December 31,</u>		<u>Change</u>
	<u>2015</u>	<u>2014</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>

	<u>December 31,</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
Total gross deferred tax assets	\$ 36,108	\$ 46,597	\$ (10,489)
Total deferred tax liabilities	<u>1,530</u>	<u>7,659</u>	<u>(6,129)</u>
Net deferred tax asset	<u>\$ 34,578</u>	<u>\$ 38,938</u>	(4,360)
Tax effect of unrealized investment gains			<u>2,427</u>
Change in net deferred income tax			<u>\$ (1,933)</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

7. FEDERAL INCOME TAXES (CONTINUED)

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

	2015		Total
	Ordinary	Capital	
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):	<u>-</u>	<u>-</u>	<u>-</u>
1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	<u>-</u>	<u>-</u>	<u>-</u>
2. Adjusted gross deferred tax assets allowed per limitation threshold	<u>-</u>	<u>-</u>	<u>481,549</u>
Additional adjusted gross deferred tax assets offset by gross deferred tax liabilities	<u>4,558</u>	<u>-</u>	<u>4,558</u>
Admitted deferred tax assets	<u>\$ 54,421</u>	<u>\$ -</u>	<u>\$ 54,421</u>

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

7. FEDERAL INCOME TAXES (CONTINUED)

	<u>2014</u>		
	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
Gross admitted deferred tax assets	\$ 36,108	\$ -	\$ 36,108
Deferred tax liabilities	<u>-</u>	<u>(1,530)</u>	<u>(1,530)</u>
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	<u>-</u>	<u>-</u>	<u>-</u>
2. Adjusted gross deferred tax assets allowed per limitation threshold	<u>-</u>	<u>-</u>	<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>

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:

	<u>2015</u>	<u>2014</u>
RBC ratio percentage used to determine recovery period and threshold limitation amount	2324%	3359%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 3,210,329	\$ 3,282,348

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 month. Minimum annual payments due under the terms of the lease are:

2016	\$	7,209
2017		1,802
2018		-
2019		-
2020		-
Thereafter		-
		-
	\$	9,011

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, 2015 and 2014, the balance of earned surplus was \$155,550 and \$209,521, respectively. The Company paid an ordinary dividend to WHC of \$150,072 and \$114,996 in 2015 and 2014, respectively. Dividend payments made by the Company were from earned surplus.

10. MAJOR PRODUCERS

In 2015 and 2014, five insurance agency groups produced approximately 81% and 82% 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 had a monthly allowance for each employee of \$630 and \$600 for 2015 and 2014, respectively.

WILMINGTON INSURANCE COMPANY
NOTES TO THE STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

12. 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 \$10,838 and \$9,479 for 2015 and 2014, 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, 2015 and 2014, the Company's capital and surplus was in excess of the RBC requirements.

WILMINGTON INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES
DECEMBER 31, 2015

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 Risk Interrogatories

The Company's total admitted assets as of December 31, 2015 were \$4,922,971.

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 & High	Bond	\$ 306,218	6.220%
Delaware St. Health Facs	Bond	165,000	3.352%
Popular Cap Tri I	Preferred Stock	135,100	2.744%
Puerto Rico Comwlth Hwy	Bond	109,507	2.224%
Maryland St. Trans Authority	Bond	102,961	2.091%
Delaware State General	Bond	103,037	2.093%
US West	Bond	50,541	1.027%
Puerto Rico Municipal	Bond	50,000	1.016%
Motorola Solutions	Bond	41,588	0.845%
Safeway Inc.	Bond	32,200	0.654%

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	\$ 872,216	17.717%	P/RP-1	\$ 231,207	4.696%
NAIC-2	147,265	2.991%			
NAIC-3	31,407	0.638%			
NAIC-4	32,200	0.654%			
NAIC-5	9,322	0.189%			
NAIC-6	14,574	0.296%			

WILMINGTON INSURANCE COMPANY
SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (CONTINUED)
DECEMBER 31, 2015

Investment Risk 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
Popular Cap Tr I	\$ 135,100	2.744%
Global X Funds	49,300	1.001%
Spdr Index Shs Fds Euro Stoxx 50 Et	34,430	0.699%
Ishares US Preferred Stock Eft	29,138	0.592%
Maiden Holdings Ltd 7.25%	26,300	0.534%
Morgan Stanley Cap Tr III Cap Secs	25,480	0.518%
Spdr S&P 500 Etf	20,387	0.414%
Spdr Dow Jones Indl	17,399	0.353%
Berkshire Hathaway Inc Cl B New	13,204	0.268%
Powershares QQQ Tr	11,186	0.227%

WILMINGTON INSURANCE COMPANY
SUMMARY INVESTMENT SCHEDULE
DECEMBER 31, 2015

	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	\$ 193,896	4.696%	\$ 193,896	4.696%
Political subdivisions of states, territories and possessions	103,037	2.495%	103,037	2.495%
Revenue and assessment obligations	599,179	14.511%	599,179	14.511%
Other debt and other fixed income securities, unaffiliated domestic securities	210,872	5.107%	210,872	5.107%
Equity interests:				
Investments in mutual funds	132,702	3.214%	132,702	3.214%
Preferred stocks, unaffiliated	216,018	5.232%	216,018	5.232%
Publicly traded equity securities, unaffiliated	209,451	5.072%	209,451	5.072%
Real estate investments, property occupied by Company	411,155	9.957%	411,155	9.957%
Cash and short-term investments	2,052,853	49.716%	2,052,853	49.716%
Total invested assets	\$ 4,129,163	100.000%	\$ 4,129,163	100.000%

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