

REPORT ON EXAMINATION
OF
WILMINGTON INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

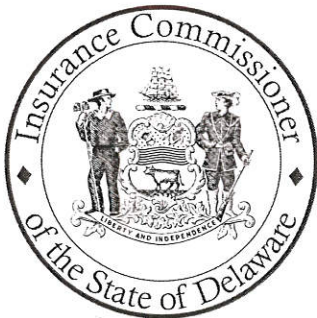
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2014 of the

WILMINGTON INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By:  _____

Date: May 31, 2016

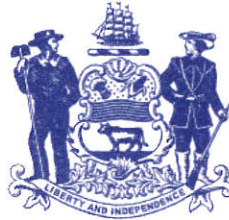


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 31st day of May, 2016.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
WILMINGTON INSURANCE COMPANY
AS OF
DECEMBER 31, 2014

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 31st day of May, 2016

TABLE OF CONTENTS

<u>SALUTATION</u>	1
<u>SCOPE OF EXAMINATION</u>	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u>	2
<u>COMPANY HISTORY</u>	3
<u>MANAGEMENT AND CONTROL</u>	5
<u>TERRITORY AND PLAN OF OPERATION</u>	8
<u>REINSURANCE</u>	9
<u>FINANCIAL STATEMENTS</u>	12
<u>ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM</u> <u>EXAMINATION</u>	16
<u>COMMENTS ON FINANCIAL STATEMENT ITEMS</u>	16
<u>SUBSEQUENT EVENTS</u>	18
<u>SUMMARY OF RECOMMENDATIONS</u>	18
<u>CONCLUSION</u>	18

SALUTATION

May 16, 2016

Honorable Karen Weldin Stewart, CIR-ML
Delaware Insurance Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 15.036 dated April 25, 2015, an examination has been made of the affairs, financial condition and management of

WILMINGTON INSURANCE COMPANY

hereinafter referred to as the “Company” or “WIC” and incorporated under the laws of the State of Delaware as a stock company. The examination was conducted at the statutory home office of the Company, located at 1403 Silverside Road, Suite 3B, Wilmington, Delaware. The report for this examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination covered the period of January 1, 2006 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2014.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook). The Handbook

requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and/or the company.

During the course of this examination, consideration was given to work performed by the Company's external auditing firm, Brown Schultz Sheridan & Fritz ("BSSF"). Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendation for non-adverse findings.

COMPANY HISTORY

General

WIC was incorporated in August, 1995, and received its Certificate of Authority from the Delaware Insurance Commission in January, 1997. WIC is a wholly owned subsidiary of Wilmington Holdings Corporation (“WHC”) whose parent company is The Trident Commercial Corporation. WIC is a middle market property and casualty privately held insurance company, domiciled in Delaware, which currently writes business only in Delaware. All underwriting and claim processing are performed in the Wilmington, Delaware office. The company is organized on a legal entity basis. One non-functional legal entity in the group is Wilmington Insurance Agency (“WIA”), a Delaware corporation that is currently a shell, but is intended to be activated at a later date as an insurance agency,

The Company’s principal lines of business are homeowners, commercial multi-peril and fire. WIC predominately writes residential and business exposures in the State of Delaware located along the Delaware shoreline. The Company is seeking admission to the State of Maryland in order to write similar exposures along that state’s Atlantic shoreline.

Capitalization

The Company has 20,000 shares of common stock, \$10 par value, authorized and 14,800 shares issued and outstanding. The Company has no preferred stock.

The following table reflects the Company’s capitalization activity since the prior examination:

	<u>Capital Stock</u>	<u>Gross Paid in and Contributed Capital</u>	<u>Unassigned Surplus</u>	<u>Total</u>
Beginnng				
Balance	\$ 1,480,000	\$ 1,627,405	\$ (51,689)	\$ 3,055,716
2011 1			201,059	201,059
2011 2			52,573	52,573
2012 1			95,369	95,369
2012 3			(150,220)	(150,220)
2013 1			124,065	124,065
2013 3			(79,920)	(79,920)
2014 1			133,280	133,280
2014 3			(114,996)	(114,996)
Total	<u>\$ 1,480,000</u>	<u>\$ 1,627,405</u>	<u>\$ 209,521</u>	<u>3,316,926</u>

- 1- - Defined as Net income, Changes in unrealized gains and (losses), change in deferred income tax
- 2- Prior Period adjustment
- 3- Dividends paid, described below

Dividends

According to Company records for the years indicated, and as reflected in minutes to the Board of Directors' meetings, the following dividends were paid to the shareholder:

<u>Type</u>	<u>Amount</u>	<u>Date Declared</u>	<u>Paid Date</u>
Ordinary	\$150,220	March 5, 2012	March 15, 2012
Ordinary	79,920	February 27, 2013	February 27, 2013
Ordinary	<u>114,996</u>	February 28, 2014	March 21, 2014
	<u>\$345,136</u>		

The Company properly notified the Delaware Department of Insurance and is in compliance with 18 Del. C. §5005(b).

MANAGEMENT AND CONTROL

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board). Directors shall be elected annually by the sole shareholder, and the number of directors, which shall be fixed from time to time by the shareholder shall consist of three (3) members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The persons elected and serving as Directors of the Company at December 31, 2014 were:

<u>Name</u>	<u>Primary Business Affiliation</u>
Manual San Juan, III	Lawyer, Private Practice
Daniel Koch	Wilmington Insurance Company
Ignacio Rivera	Lawyer, Private Practice

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board of Directors), a Secretary, a Treasurer and other officers as may from time to time be appointed by the Board of Directors. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2014, are as follows:

<u>Individual</u>	<u>Office</u>
Daniel Koch	Chairman and President
Scott Foltz	Vice President
Kate Wright Menase	Treasurer

Ignacio Rivera

Secretary

Corporate Records

The recorded minutes of the shareholders and Board of Directors (Board), were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the approval of investment transactions in accordance with 18 Del. C. §1304.

Inspection of Company files indicated that an ethics statement/conflict of interest statement was completed by all directors and employees for the examination period.

A review was performed for compliance with Code 18 Del. C. § 4919 “any change of directors, officers”; notice, and “Every domestic stock or mutual insurer shall promptly notify the Commissioner in writing of any change of personnel among its directors or principal officers”. The Company is in compliance.

Insurance Holding Company System

The Company is a wholly owned subsidiary of Wilmington Holding Corporation (WHC). Trident Commercial Corporation (“TCC”) (controlling entity) is a holding company for the various business interests of its stockholders as defined under 18 Del. C. §5001 of the Delaware Insurance Code.

18 Del. C. §5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person”. The Trident Commercial Corporation is the ultimate controlling person in the Insurance Holding Company System by virtue of its 65% ownership in WHC. TCC’s owners, each with 33 1/3% shares of the issued and outstanding common stock are: Manual San Juan III, Dr. Victoria San Juan, MD and Constance E. San Juan.

In addition to WHC, these interests include two insurance agencies and an import/export trading company. The remaining owners of WHC consist of eight individuals or corporations. The following is a holding Company chart for the TCC;

Trident Commercial Corporation (PR)	
American Foreign Underwriters (VI)	100%
American Foreign Underwriters (PR)	100%
Micro Juris Corporation (PR)	1.9%
Great Caribbean Corporation (PR)	0.9%
Wilmington Holdings Inc. (US)	65%
Wilmington Insurance Company	100%

Affiliated Agreements

At December 31, 2014, WIC was party to the following affiliated tax, service and agency agreements:

Tax Sharing Agreement

Effective January 1, 2014, WIC and WHC entered into a consolidated tax allocation agreement whereby both parties agree to consolidate their tax returns. Allocation of taxable income and taxes incurred are based upon separate return calculations for each company. Any company having a current year net loss will receive credit for such losses and any intercompany tax balances from the allocation must be settled annually.

Trident Management Agreement

Trident and WIC have a consultative agreement whereby WIC may provide consultative services to Trident or any of Trident's non-WIC affiliates and be paid for such consultations. Trident and WIC have an agreement whereby WIC may receive consultative and audit services from Trident or its affiliates and pay for such services.

All of the preceding agreements have been approved by the Delaware Insurance Department.

Unaffiliated Agreements

PNC Bank Custodian Agreement

On May 16, 2000, the Company entered into a custody agreement with PNC Bank. Pursuant to the agreement, PNC Bank acts as the custodian for the Company's portfolio of investment securities. A review of the terms of the custodian agreement indicates that the agreement contains the minimum standards required under the NAIC Handbook.

Fidelity Investments Customer Agreement

Effective June 28, 2014, the Company entered into an investment advisory/service agreement with Fidelity Investments. Fidelity Investments acts as a broker and advisor for certain WIC investments.

Wilmington Trust Escrow Agreement

Effective June 1, 2000, the Company entered into an Escrow Agreement with Wilmington Trust Company. Pursuant to 18 Del. C. § 513, WIC is required to maintain on deposit in the State of Delaware funds for the protection of all its policyholder.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2014, the Company has certificates of authority to write business Delaware, North Dakota and the District of Columbia, and is awaiting the approval of a Maryland license. WIC is a middle market property and casualty privately held insurance company. For 2014, the Company wrote 100.0% of its direct business in Delaware.

Plan of Operation

All underwriting and claim processing are performed in the Wilmington, Delaware office. There are five full time and two part-time employees. The Company uses a third party adjuster to process all claims. The Company currently writes Fire, Homeowners, Commercial

Multiple Peril, Inland Marine and Other liability-occurrence. WIC predominately writes coastal exposures in the State of Delaware for properties located more than 3 miles and less than 10 miles from the ocean.

WIC distributes its products through independent agencies in Delaware, with over 30 appointed producers. The Company does not use a TPA or MGA. There are no exclusive agency agreements.

In 2014, WIC reported the following distribution of premiums, with all direct business being written in the State of Delaware:

Direct	\$3,401,780
Assumed	0
Ceded	<u>\$2,727,376</u>
Net Premiums Written	<u>\$ 674,404</u>

Direct written premiums in 2014 by line of business were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Fire	\$ 88,349	2.6%
Homeowners multiple peril	\$ 1,373,518	40.4%
Commercial multiple peril	\$ 1,900,071	55.9%
Inland marine	\$ 10,957	0.3%
Other liability - occurrence	\$ 28,895	0.8%
Total	<u>\$ 3,401,790</u>	<u>100.0%</u>

REINSURANCE

General

The Company writes the majority of its business in Sussex County, Delaware. Due to Sussex County's close proximity to the Atlantic Ocean, these risks present an increased risk of catastrophic losses from hurricanes and major storms.

The Company reported the following distribution of net premiums written for 2014:

Direct	\$	3,401,780
Reinsurance assumed from affiliates		\$0
Total gross (direct and assumed)	\$	<u>3,401,780</u>
Reinsurance ceded to non-affiliates	\$	<u>2,727,376</u>
Total ceded		
Net premiums written		<u><u>\$674,404</u></u>

The Company retained approximately 10% of its gross business.

Assumed

The Company did not assume any business in 2014.

Ceded

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. Cessions are to unaffiliated third parties.

As of December 31, 2014, the Company had two significant non-affiliated reinsurance agreements covering the general book of business. Of the Company's \$2.7 million in premiums ceded to non-affiliates in 2014, \$2.3 million was ceded to Lloyd's of London syndicates and \$381 thousand was ceded to Maiden Reinsurance Company (Maiden Re). The Company protects itself through the following agreements:

Lloyd's of London

Multi-line Property Quota Share Reinsurance Treaty - Effective January 1, 2014, five Lloyds' syndicates participate in a treaty that provides a 90% Quota Share of all premiums and losses with a limit of \$3 million any one location.

Maiden Reinsurance Company

Multi-line Umbrella Quota Share Reinsurance Agreement - Effective January 1, 2007, (continuous contract), the Company reinsured 90% of its umbrella business. It writes \$900,000 per occurrence and \$1,000,000 per one location. Maiden Re will allow WIC to write a \$2,000,000 umbrella with prior approval. Maiden Re will write 100% of the additional \$1,000,000 layer and has stipulated a \$1,500 minimum premium would apply to any \$2,000,000 umbrella policy.

Multi-line Casualty Treaty - Effective January 1, 2007, and amended January 1, 2014. The reinsurer will provide excess of loss coverage totaling \$850,000 in excess of the Company's retention of \$150,000. Additionally, the Company's coverage includes a \$1,000,000 excess of \$1,000,000 loss for Clash coverage. .

Property Catastrophe

The Company obtains coverage for property catastrophe business in two layers. Effective July 1, 2013, the reinsurers provide 95% of \$500,000 in excess of the Company's retention of \$300,000 per occurrence. Effective July 1, 2013, the reinsurers provide 100% of \$500,000 in excess of the Company's retention of \$300,000 per occurrence.

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the State Department of Insurance, are reflected in the following:

- o Statement of assets, liabilities and surplus
- o Statement of income
- o Reconciliation of surplus for the period since the last examination
- o Supporting schedules and exhibits to the extent needed

**WILMINGTON INSURANCE COMPANY
STATEMENT OF ASSETS
DECEMBER 31, 2014**

	Assets	Nonadmitted Assets	Net Admitted Assets	Note
Bonds	\$1,201,106		\$1,201,106	1
Preferred Stocks	240,535		240,535	
Common Stocks	71,737		71,737	
Properties occupied by the company	427,099		427,099	
Cash and Short Term Investments	1,768,198		1,768,198	
Investment income due and accrued	21,537		21,537	
Premiums and Considerations:				
Uncollected premiums and agents balances	138,998	63,859	75,139	
Deferred premium	479,825		479,825	
Reinsurance:				
Amounts recoverable from reinsurers	205,892		205,892	
Net deferred tax asset	34,578		34,578	
EDP equipment and software	4,200		4,200	
Furniture and equipment	13,341	13,341	0	
Aggregate write-ins for other than	28,336	26,788	1,548	
Total Assets	\$4,635,382	\$103,988	\$4,531,394	

**WILMINGTON INSURANCE COMPANY
STATEMENT OF LIABILITES AND SURPLUS
DECEMBER 31, 2014**

		NOTES
Losses	\$160,075	2
Loss adjustment expenses	61,417	2
Commissions payable	113,177	
Other expenses	65,500	
Current federal or foreign income tax	13,411	
Unearned premiums	403,733	
Advance premiums	49,630	
Ceded reinsurance premiums payable	324,142	
Remittances and items not allocated	23,383	
 Total Liabilities	 <u>\$1,214,468</u>	
 Common capital stock	 \$1,480,000	
Gross paid in and contributed surplus	1,627,405	
Unassigned funds (surplus)	<u>209,521</u>	
 Surplus as regards policyholders	 <u>\$3,316,926</u>	
 Total liabilities, surplus and other funds	 <u><u>\$4,531,394</u></u>	

**WILMINGTON INSURANCE COMPANY
STATEMENT OF INCOME
DECEMBER 31, 2014**

Premiums earned	\$ 618,688
Deductions	
Losses incurred	\$ 151,753
Loss adjustment expenses incurred	184,055
Other underwriting expenses incurred	<u>184,705</u>
Total underwriting deductions	<u>\$ 520,513</u>
Net underwriting gain or (loss)	<u>\$ 98,175</u>
Investment Income	
Net investment income earned	\$ (5,647)
Net realized capital gains (losses) less capital gains tax of \$1,531,341	<u>15,294</u>
Net investment gain or (loss)	<u>\$ 9,647</u>
Other Income	
Net gain or (loss)	\$ (46,978)
Finance and service charges not included in premiums	56,553
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	<u>\$ 9,575</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 117,397
Federal and foreign income taxes incurred	<u>13,411</u>
Net Income	<u><u>\$ 103,986</u></u>

**WILMINGTON INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD
SINCE THE LAST EXAMINATION
DECEMBER 31, 2014**

<u>Description</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>	<u>Total Surplus</u>
<i>Balance as of January 1, 2010</i>	\$ 1,480,000	\$ 1,627,405	\$ (51,689)	\$ 3,055,716
2011 Operations (1)	-	-	253,632	3,309,348
2012 Operations (1)	-	-	(55,301)	3,254,047
2013 Operations (1)	-	-	44,145	3,298,192
2014 Operations (1)	-	-	18,284	3,316,476
<i>Balance as of December 31, 2014</i>	<u>\$ 1,480,000</u>	<u>\$ 1,627,405</u>	<u>\$ 209,071</u>	<u>\$ 3,316,476</u>

(1) Operations is defined as net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, dividends to stockholders, and aggregate write-ins for gains and losses to surplus.

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS RESULTING FROM
EXAMINATION**

There were no financial adjustments to the Company's financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

(Note 1) Bonds \$1,201,104

The Company's bonds represented 26.65% of admitted assets at year-end 2014. 78.23% of the Company's bonds are rated as Class 1, 19.34% Class 2, 1.21% Class 4 and 1.20% Class 5 by the NAIC. 33.02% of the bond portfolio is comprised of investments maturing in ten years or

more. During 2014, the Company recorded \$2.813 million in total realized capital gains from fixed income investment disposals.

Bonds were comprised of the following classes:

<u>Description</u>	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 62,267	5.18%
U.S. States, Territories & Possessions	200,844	16.72%
U.S. Political Subdivisions of States	103,865	8.65%
U.S. Special Revenues	602,389	50.15%
Industrial and Misellaneous	231,739	19.29%
Total	<u>\$ 1,201,104</u>	<u>100.00%</u>

(Note 2) Losses	\$ 160,075
Loss Adjustment Expenses	\$ 61,417

Reserves for incurred losses and loss adjusted expense attributed to insured events of prior years have decreased \$41,192 from 2013 to 2014 as a result of settlement and re-estimation of losses and loss adjustment expenses. This change is generally the result of ongoing analysis of recent loss development trends.

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2014.

SUBSEQUENT EVENTS

There were no significant subsequent events.

SUMMARY OF RECOMMENDATIONS

Compliance With Prior Exam Recommendations

The previous examination made one recommendation. Company is in compliance with recommendation during the period under examination.

Current Exam Recommendations

There were no recommendations as a result of this examination.

CONCLUSION


The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Wilmington Insurance Company

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2014</u>	<u>Increase (Decrease)</u>
Assets	\$ 4,351,887	\$ 4,531,394	\$ 179,507
Liabilities	\$ 1,296,171	\$ 1,214,468	\$ (81,703)
Common Capital Stock	1,480,000	1,480,000	-
Preferred Capital Stock	-	-	-
Gross Paid In and Contributed Surplus	1,627,405	1,627,405	-
Unassigned Funds (Surplus)	(51,689)	209,521	261,210
Total Surplus	\$ 3,055,716	\$ 3,316,926	\$ 261,210
Totals	\$ 4,351,887	\$ 4,531,394	\$ 179,507

In addition to the undersigned, Anthony Cardone, CPA, CFE, (Examination Supervisor), participated in the examination.

Respectfully submitted,



Albert M. Piccoli, Sr., CFE
 Examiner-In-Charge
 State of Delaware