

**REPORT ON EXAMINATION
OF THE
WILMINGTON INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2010**

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 ON EXAMINATION, made as of December 31, 2010 of the

WILMINGTON INSURANCE COMPANY

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

Attest By: Brant Biddle

Date: 15 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 15th day of June, 2012.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
WILMINGTON INSURANCE COMPANY
AS OF
DECEMBER 31, 2010

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 15th day of June, 2012

TABLE OF CONTENTS

<u>SALUTATION</u>	1
<u>EXAMINATION SCOPE</u>	1
<u>SUMMARY OF SIGNIFICANT FINDINGS</u>	2
<u>SUBSEQUENT EVENTS</u>	2
<u>COMPANY HISTORY</u>	3
<u>CORPORATE RECORDS</u>	4
<u>MANAGEMENT AND CONTROL</u>	4
<u>FIDELITY BONDS AND OTHER INSURANCE</u>	4
<u>PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS</u>	5
<u>TERRITORY AND PLAN OF OPERATION</u>	5
<u>GROWTH OF THE COMPANY</u>	6
<u>MORTALITY AND LOSS EXPERIENCE</u>	6
<u>REINSURANCE</u>	6
<u>ACCOUNTS AND RECORDS</u>	8
<u>STATUTORY DEPOSITS</u>	8
<u>FINANCIAL STATEMENTS</u>	8
<u>ASSETS</u>	9
<u>LIABILITIES, CAPITAL & SURPLUS</u>	10
<u>STATEMENT OF INCOME</u>	11
<u>RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION</u>	12
<u>ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS</u>	12
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	13
<u>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</u>	14
<u>SUMMARY OF RECOMMENDATIONS</u>	14
<u>CONCLUSION</u>	15

SALUTATION

January 13, 2012

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

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 11.031, an examination has been made of the affairs, financial condition and management of the

WILMINGTON INSURANCE COMPANY

hereinafter referred to as “Company” or “WIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1313 North Market Street, Suite 3230, Wilmington, Delaware. The examination report thereon is respectfully submitted.

EXAMINATION SCOPE

The last examination was as of December 31, 2005. This examination covered the period of January 1, 2006, through December 31, 2010, and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

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

SUMMARY OF SIGNIFICANT FINDINGS

The examination is making no financial adjustments and is proposing one recommendation. The Company is currently seeking admission to the State of Maryland.

SUBSEQUENT EVENTS

The examination noted no events subsequent to the examination date that would materially affect the Company.

COMPANY HISTORY

The Wilmington Insurance Company (WIC) was incorporated in August of 1995 and received its Certificate of Authority from the Delaware Insurance Commissioner in January of 1997. WIC is a wholly owned subsidiary of Wilmington Holdings Corporation, whose parent company is The Trident Commercial Corporation. Trident Commercial Corporation owns sixty-five percent of Wilmington Holdings and the following three individuals own Trident:

Manual San Juan III, Esq.
Dr. Victoria San Juan
Constance San Juan

Trident Commercial Corporation is a holding company for the various business interests of its stockholders. In addition to WIC, these interests include two insurance agencies and an import/export trading company. The remaining owners of Wilmington Holding Corporation consists of eight individuals or corporations, including Jose' del Valle, the Chairman and CEO of the Company.

WIC is a middle market property and casualty, privately held insurance company, domiciled in Delaware. The Company currently writes business only in Delaware. All underwriting and claim processing are performed at the Wilmington Home Office.

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.

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.

MANAGEMENT AND CONTROL

The operations of the Company are managed by the Board of Directors, elected by the stockholders. The persons elected and serving as Directors of the Company at December 31, 2010 were:

<u>Name</u>	<u>Primary Business Affiliation</u>
Jose' del Valle	Trident Commercial Corporation
Daniel Koch	Wilmington Insurance Company
Ignacio Rivera	Lawyer, Private Practice

The following principal officers were elected and serving as of December 31, 2010:

<u>Name</u>	<u>Title</u>
Jose' del Valle	Chairman and CEO
Daniel Koch	President and Assistant Secretary
Ignacio Rivera	Corporate Secretary

WIC has an agreement with Trident Commercial Corporation concerning the subleasing of office space at the Company's Wilmington Home Office. The Company also participates in a Federal Tax Allocation Agreement with its immediate parent, Wilmington Holdings Corporation.

FIDELITY BONDS AND OTHER INSURANCE

The Company maintained fidelity bond coverage, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained property-casualty, auto, umbrella and workers compensation insurance coverages.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has a “cafeteria” benefits program in which WIC provides a set amount of funding to each eligible employee on a monthly basis. The Company has no plans that call for guaranteed benefits to be paid in the future.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write insurance in Delaware, North Dakota and the District of Columbia. Since the previous examination, the Company has surrendered its license to write business in Puerto Rico. In 2010, WIC reported the following distribution of premiums, with all direct business being written in the State of Delaware.

Direct	\$3,053,717
Assumed	0
Ceded	<u>\$2,623,504</u>
Net Premiums Written	<u>\$ 430,213</u>

WIC distributes its products through independent agencies in Delaware, with over 30 appointed producers. The Company does not use third party administrators or managing general agents. There are no exclusive agency agreements.

The Company focuses on its core program: property and general liability insurance offered to specialty types of exposure, including: barber and beauty shops, exercise clubs, small home builders and contractors, small business owners, restaurants, funeral homes, and costal homeowners, including condominiums. The Company has found a niche market along the Delaware shoreline (Atlantic Ocean, Delaware Bay and Delaware River). Approximately 80% of the Company’s business is on exposures located within 5 miles of the shoreline.

GROWTH OF THE COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the five year period since the previous examination:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets	\$ 4,351,887	\$ 4,580,896	\$ 4,665,009	\$ 4,998,168	\$ 5,470,040
Policyholder surplus	\$ 3,055,716	\$ 3,218,432	\$ 3,257,534	\$ 2,418,135	\$ 3,018,407
Net income	\$ 35,446	\$ 46,138	\$ 17,685	\$ 145,235	\$ 86,645
Direct premiums	\$ 3,053,717	\$ 3,084,539	\$ 3,121,933	\$ 3,369,640	\$ 3,422,785
Assumed premiums	-	-	-	-	-
Ceded premiums	2,623,504	2,659,356	2,693,717	2,896,097	2,904,529
Net premiums	\$ 430,213	\$ 425,183	\$ 428,216	\$ 473,543	\$ 518,256

The Company reported stable results for the period under examination. Direct and net premiums decreased marginally. While WIC reported positive net income for the years under examination, the Company's heavy use of reinsurance limits the possibilities for growth.

LOSS EXPERIENCE

The Company's reliance on ceded reinsurance limits its loss exposures. The examination review of the Company's Losses Reserves at year-end, 2010, noted no exceptions.

REINSURANCE

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. As noted by the distribution of premiums, WIC utilizes ceded reinsurance to limit its exposures. In 2010, the Company ceded 85.9% of its direct written premium.

The Company protects itself from significant losses through the following agreements:

Multiline Property Quota Share

Effective January 1, 2010, five Lloyds' syndicates participate in a treaty that provides 90% participation of the reinsurers on all property losses. There are no limits as to what the reinsurers can pay for any one occurrence or in the aggregate. However, there are underwriting limits as to what WIC can insure on any one risk.

One of the warranties that WIC asserts in this treaty is that Scott Foltz, as Senior Vice President and Chief Operating Officer of the Company, accepts and approves all of the business that is ceded under the contract. Foltz was not elected to any officer position during the examination period. The 2005 examination noted the same exception.

It is again recommended that the Company either amend its Property Quota Share Reinsurance treaty to remove the assertion that Scott Foltz is an officer of the Company, or elect Scott Foltz to the officer position noted in the agreement.

Multiline Casualty Treaty

This treaty was effective January 1, 2005, and Motors Insurance Corporation was the original reinsurer. As per an amendment effective January 1, 2007, the reinsurer provides three layers of coverage, totaling \$1,350,000 in excess of the Company's retention of \$150,000. On January 1, 2010, the treaty was novated and assigned to Maiden Reinsurance Company.

Property Catastrophe Treaty

Effective July 1, 2010, the reinsurers provide 95% of \$500,000 in excess of the Company's retention of \$300,000 per occurrence.

Umbrella Quota Share Reinsurance Agreement

Effective January 1, 2007, the Company reinsured 90% of the umbrella business it writes with Motors Insurance Corporation providing the coverage. In 2008, the Company amended the

Agreement to increase the coverage for the \$2 million umbrella policies it writes. For these policies, 90% of the first \$1 million is reinsured and 100% of the second \$1 million is reinsured.

ACCOUNTS AND RECORDS

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure. The firm of INS Services, Inc. performed a limited review of the Company's IT systems and noted no exceptions. The independent certified public accounting firm, Brown Schultz Sheridan & Fritz audited the Company's records for the years under examination and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

STATUTORY DEPOSITS

The examination confirmed with the Delaware Insurance Department that at December 31, 2010, the Company had securities with an aggregate par value of \$882,590 on deposit with the Department for the benefit and protection of policyholders and creditors wherever located. Also at December 31, 2010, WIC had a security with a value of \$115,144 on deposit with the Delaware Insurance Department for the protection of Delaware policyholders only.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Reconciliation of Surplus for the period since the previous examination
Analysis of Financial Statement Changes resulting from the examination

Wilmington Insurance Company

	<u>ASSETS</u>			
	<u>Assets</u>	<u>Nonadmitted</u>	<u>Net Admitted</u>	
		<u>Assets</u>	<u>Assets</u>	<u>Note</u>
Bonds	\$ 1,601,383	-	\$ 1,601,383	1
Common stocks	56,482	-	56,482	
Cash, cash equivalents, short-term investments	2,173,688		2,173,688	
Investment income due and accrued	20,821		20,821	
Uncollected premiums and agents' balances in the course of collection	155,955	\$ 109,414	46,541	
Deferred premiums booked but not yet due	466,639	64,714	401,925	
Amounts recoverable from reinsurers	21,408		21,408	
Current federal income tax recov.	-		-	
Net deferred tax asset	91,870	62,815	29,055	
Guaranty funds receivable	(4,127)		(4,127)	
Electronic data processing equip.	2,711		2,711	
Furniture and equipment	8,867	8,867	-	
Receivable from parent, subsidiaries and affiliates	2,000	-	2,000	
Totals	<u>\$ 4,597,697</u>	<u>\$ 245,810</u>	<u>\$ 4,351,887</u>	

LIABILITIES, CAPITAL & SURPLUS

		<u>Notes</u>
Losses	\$ 168,595	2
Loss Adjustment Expenses	65,975	
Other Expenses	47,500	
Taxes, licenses and fees	(3,907)	
Unearned premiums	255,075	
Commissions payable	104,171	
Ceded reinsurance premiums payable	<u>658,762</u>	
Total Liabilities	<u>\$ 1,296,171</u>	
Common capital stock	\$ 1,480,000	
Gross paid in and contributed surplus	1,627,405	
Unassigned funds	<u>(51,689)</u>	
Surplus as regards policyholders	<u>\$ 3,055,716</u>	
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 4,351,887</u>	

STATEMENT OF INCOME

Premiums earned	\$ 434,329
Losses incurred	- 56,691
Loss adjustment expenses incurred	175,194
Other underwriting expenses incurred	<u>224,279</u>
Total underwriting deductions	<u>456,164</u>
Net underwriting gain	(21,835)
Net investment gain	5,458
Miscellaneous income	<u>51,823</u>
Net income before federal taxes	35,446
Federal taxes incurred	<u>-</u>
Net income	<u>\$ 35,446</u>
Surplus as regards policyholders-Prev Yr.	\$3,218,432
Net income	35,446
Change in unrealized capital losses	(2,764)
Change in non-admitted assets	(147,614)
Dividends to stockholders	(59,940)
Change in net deferred income tax	<u>12,156</u>
Change in surplus as regards policyholders	<u>\$ (162,716)</u>
Surplus as regards policyholders-current	<u>\$3,055,716</u>

RECONCILIATION OF SURPLUS SINCE THE PREVIOUS EXAMINATION

The amounts below reflect the Company's filed annual statements. The previous examination made financial adjustments totaling \$716,493 to WIC's Surplus as Regards Policyholders. Most of the changes involved non-admitting assets supporting a Letter of Credit that the Company provided to secure reinsurance that WIC had assumed. The Company terminated its assumed reinsurance program. Since the situation that prompted the financial adjustment made by the previous examination no longer exists, the current examination has utilized the Company's reported annual statement amounts.

Surplus as Regards Policyholders, December 31, 2005	\$ 2,967,948
Surplus as Regards Policyholders, December 31, 2010	<u>3,055,716</u>
Change in Surplus as Regards Policyholder for the period under examination	<u>\$ 87,768</u>
Analysis of change in Surplus as Regards Policyholders:	
Net Income	\$ 331,149
Change in non-admitted assets	(180,824)
Unrealized capital gains	(2,764)
Change in deferred income tax	(25,862)
Dividends to stockholders	(109,964)
Prior period adjustments	<u>76,033</u>
Total	<u>\$ 87,768</u>

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Invested Assets

While the examination noted no exceptions in the review of the Company's Invested Assets, two points are noteworthy:

- In anticipation of being admitted as a licensed insurer in the State of Maryland, WIC started purchasing various Maryland State Revenue bonds, which are a requirement for admission and licensing in that state. At year end 2010, WIC held a total of \$553,154 in Maryland Revenue bonds. This holding account for 34.5% of the bond portfolio.
- The Company maintains a significant portion (56.7%) of its invested assets in cash. Due to the low interest yields on money market funds, WIC reported an unusual (below the usual range) value on the NAIC IRIS Ratio, Investment Yield, for 2010.

Note # 2 Losses and LAE.

At December 31, 2010, the Company reported the following reserves for Unpaid Losses and Loss Adjustment Expenses (LAE):

Reported Losses

Direct	\$185,952
Assumed	0
Ceded	<u>(74,357)</u>
Net Reported Reserves	<u>\$111,595</u>

Incurred but not reported (IBNR)

Direct	\$260,000
Assumed	0
Ceded	<u>(203,000)</u>
Net IBNR	<u>\$ 57,000</u>

Total reserve for Losses	<u>\$168,595</u>
--------------------------	------------------

Also as of December 31, 2010, WIC reported the following reserves for Unpaid Loss Adjustment Expenses (LAE):

Defense and Cost Containment	\$ 0
Adjusting and Other Expense	<u>65,975</u>
Total reserve for LAE	<u>\$ 65,975</u>

WIC retains the firm of Kufera Consulting, Inc. to issue the required actuarial opinion and report to the Delaware Insurance Department.

The actuarial firm of INS Consultants, Inc. was retained by the Delaware Insurance Department to conduct an independent review of the Company's Loss and LAE Reserves as of December 31, 2010. The examiners tested the validity of the Company's loss data and noted no exceptions. After its review, INS Consultants, Inc. concluded that the Company's Loss and LAE reserves were reasonably stated at December 31, 2010.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The previous examination made nine recommendations. The current examination noted sufficient compliance with all of the previous examination's findings, except one, which is repeated below.

SUMMARY OF RECOMMENDATIONS

The Company's attention is directed to the following:

It is again recommended that the Company either amend its Property Quota Share Reinsurance treaty to remove the assertion that Scott Foltz is an officer of the Company, or elect Foltz to the officer position noted in the agreement. (See Reinsurance, Page 7).

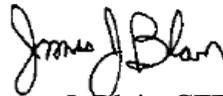
CONCLUSION

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

	December 31, 2010 <u>Examination</u>	December 31, 2005 <u>Examination</u>	Changes <u>Increase/(Decrease)</u>
Assets	\$4,351,887	\$4,530,673	\$(178,786)
Liabilities	\$1,296,171	\$2,279,218	\$(983,047)
Surplus as Regards Policyholders	\$3,055,716	\$2,251,455	\$804,261

The assistance of INS Services, Inc. is acknowledged.

Respectfully submitted,



James J. Blair, CFE, CPA
Examiner In-Charge
State of Delaware