EXAMINATION REPORT OF

LE MARS INSURANCE COMPANY

LE MARS, IOWA

AS OF DECEMBER 31, 2014

Le Mars, Iowa
April 8, 2016

Honorable Nick Gerhart
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an Examination has been made of the records, business affairs and financial condition of

LE MARS INSURANCE COMPANY

LE MARS, IOWA

AS OF DECEMBER 31, 2014

at the administrative office of its ultimate parent, Donegal Mutual Insurance Company, located at 1195 River Road, Marietta, PA 17547, and the following Examination Report is submitted.

SCOPE OF EXAMINATION

This is the regular risk-focused financial examination of Le Mars Insurance Company, hereinafter referred to as the "Company". The last examination covered the period of January 1, 2006 through December 31, 2010. This examination, covering the period from January 1, 2011 to the close of business on December 31, 2014, including any material transactions and/or events occurring and noted subsequent to the examination period, was conducted by examiners of the Iowa Insurance Division.

The examination was coordinated with the examination of the Company's parent, Donegal Mutual Insurance Company, conducted by the Pennsylvania Insurance Department, as well as the examinations of the Company's affiliated insurance companies, with the Pennsylvania Insurance Department functioning as the lead state in the coordinated examination. The Examination Reports of Donegal Mutual Insurance Company and the affiliated insurance companies will be issued by the respective domiciliary insurance departments under separate cover.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The Handbook requires that the examination be planned and performed 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 included 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 was identified, the impact of such adjustment will be documented separately following the Company's financial statements later in this Report.

This Examination Report includes 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.

SUMMARY OF SIGNIFICANT FINDINGS

The examination included a review to determine the current status of the exception condition regarding the maintenance of the complaint register that was commented upon in our preceding Examination Report, dated January 4, 2012, which covered the period from January 1, 2006 through December 31, 2010. We determined that the Company had satisfactorily addressed this finding. There are no findings or recommendations being made in this Report as a result of the current examination.

HISTORY

The Company was incorporated on February 18, 1901, as a mutual assessment association called the German Mutual Insurance Association.

The name of the Company was changed to the Le Mars Mutual Insurance Association on October 18, 1918.

The Articles of Incorporation were amended and substituted and new Bylaws adopted on February 14, 1957 permitting the Company perpetual existence and authorizing the issuance of non-assessable policies and the transaction of business under Chapter 515, Code of Iowa. In addition, the Company adopted the name of Le Mars Mutual Insurance Company of Iowa.

In June of 2002, the Company consummated an affiliation with Donegal Mutual Insurance Company (Donegal Mutual). As part of the affiliation, Donegal Mutual entered into a management agreement with and made a $4,000,000 surplus note investment in the Company. During 2003, the Company's board of directors adopted a plan of conversion to convert to a stock insurance company. Following policyholder and regulatory approval of the plan of conversion, Donegal Group, Inc. acquired all of the outstanding common stock of the company as of January 1, 2004 in exchange for payment of the surplus note and accrued interest to Donegal Mutual. Donegal Group, Inc. (DGI) contributed additional capital in the amount of $8,200,000 on January 2, 2004 to maintain the Company's surplus position following the issuance of surplus payments to policyholders pursuant to the plan of conversion. As part of the demutualization process, the Articles of Incorporation and the Bylaws were amended and restated and the Company changed its name to Le Mars Insurance Company.

CAPITAL STOCK

Authorized capital of the Company shall be 10,000,000 shares of common stock, with a par value of $1.00 per share. Issued and outstanding capital consists of 4,392,740 shares with paid in and contributed surplus of $8,287,436.

The Company did not pay any stock dividends during any of the years covering the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a Holding Company System as defined by Chapter 521A, Code of Iowa. The appropriate forms, as mandated under the Iowa Code regarding insurance holding company systems, were filed for each year under review.

An organization chart is depicted below:

	Domicile
Donegal Mutual Insurance Company	PA
Southern Mutual Insurance Company^	GA
Commonwealth Insurance Services, Inc.	
Conestoga Title Insurance Company	PA
Abstracting Company of Berks County	
Lancaster Title Abstracting Company	
Donegal Financial Services Corporation*	
Union Community Bank	
Donegal Group, Inc.	DE
Atlantic States Insurance Company	PA
Southern Insurance Company of Virginia	VA
Le Mars Insurance Company	**IA**
The Peninsula Insurance Company	MD
Peninsula Indemnity Company	MD
Sheboygan Falls Insurance Company	WI
Michigan Insurance Company	MI

^Donegal Mutual is a Surplus Note Holder and controls the Board
*Ownership is 52% Donegal Mutual Insurance Company and 48% Donegal Group, Inc.

MANAGEMENT AND CONTROL

SHAREHOLDERS

The Bylaws state each shareholder shall have such rights and privileges as a Shareholder as are prescribed by law for shareholders under the laws of the State of Iowa, the Amended and Restated Articles of Incorporation of the Corporation as the same may be in effect from time to time and these Bylaws as the same may be in effect from time to time.

The regular annual meeting of the Shareholders shall be held at the Home Office Corporation in Le Mars, Iowa, at 9:00 a.m. on the third Friday of April of each year. Special meetings of the Shareholders may be called by the Chief Executive Officer and shall be called upon the written request of a majority of the members of the Board of Directors or upon the written request of one-fifth of the shareholders entitled to vote thereat.

At all meetings of the Shareholders, a Shareholder entitled to vote may vote in person or by proxy appointed in writing within 120 days prior to the meeting and limited to 30 days subsequent to the meeting date.

BOARD OF DIRECTORS

The Amended and Restated Articles of Incorporation stipulate that the business and affairs of the Company shall be managed by a Board of Directors of no less than five nor more than twelve members.

Directors shall be elected by one of four classes for a period of four years and shall hold office until their successors are elected and qualified or until his or her death, resignation or removal. Nominations for membership on the Board of Directors shall not be considered unless presented in writing, signed by the shareholder(s) and filed with the Nominating Committee of The Board of Directors at least 90 days prior to the date of the annual meeting at which said nominations are to be voted on.

The members of the Board of Directors serving as of December 31, 2014 were as follows:

Name and Address	Principal Affiliation	Term Expires
Larry D. Heemstra Le Mars, Iowa	Vice President Finance/HR Quattro Composites-Tec Industries	2015
Dennis J. Bixenman Le Mars, Iowa	Retired	2015
Matthew J. Ahlers Le Mars, Iowa	President Primebank	2016
Patricia A. Gilmartin Marietta, Pennsylvania	Retired	2016
Richard D. Wampler, II Harrisburg, Pennsylvania	Retired	2016
Philip H. Glatfelter, II Columbia, Pennsylvania	Retired	2017
Kevin M. Kraft, Sr. Columbia, Pennsylvania	Chief Executive Officer Clyde W. Kraft Funeral Home	2017
Frederick W. Dreher, III Gladwyne, Pennsylvania	Counsel Duane Morris LLP	2018
Donald H. Nikolaus Silver Spring, Pennsylvania	President & Chief Executive Officer Donegal Mutual Insurance Company	2018

Directors shall be compensated and reimbursed for their expenses of attendance at meetings as authorized by the Board of Directors. A fixed fee is paid of $900 per regular and special meetings of the Board.

COMMITTEES

The Board of Directors may from time to time designate committees of the Board of Directors as provided in the Bylaws.

Executive Committee

Donald H. Nikolaus, Chairman
Philip H. Glatfelter, II
Dennis J. Bixenman
Richard D. Wampler, II

Nominating Committee

Frederick W. Dreher, Chairman
Philip H. Glatfelter, II
Richard D. Wampler, II
Donald H. Nikolaus, ex officio

Compensation Committee

Dennis J. Bixenman, Chairman
Philip H. Glatfelter, II
Richard D. Wampler, II
Donald H. Nikolaus, ex officio

OFFICERS

The Articles provide that the officers of the Company shall be elected annually by the Board of Directors and shall consist of a Chief Executive Officer, a President, a Secretary and a Treasurer. The Board of Directors may also elect one or more Vice Presidents and such other officers as it shall deem necessary. The offices of Chief Executive Officer, Secretary and Treasurer must be held by different persons.

The officers appointed and serving as of December 31, 2014 were as follows:

Name	Title
Donald H. Nikolaus	President and Chief Executive Officer
Jeffrey D. Miller	Senior Vice President & Chief Financial Officer
Kevin G. Burke	Executive Vice President
Robert G. Shenk	Senior Vice President, Claims
Daniel J. Wagner	Senior Vice President & Treasurer
Richard A. Mason, Jr.	Sr. Vice President, Director of Marketing & Sales
Cyril J. Greenya	Vice President, Underwriting
Robert R. Long, Jr.	Vice President, House Counsel
Sanjay Pandey	Vice President, Information Technology
Jerry W. Demastus	Vice President & Assistant Treasurer
Connie M. Sudtelgte	Corporate Secretary & Accounting Manager
Vincent A. Viozzi	Senior Vice President & Chief Investment Officer
Jason M. Crumbling	Vice President & Controller
Mark D. Floy	Assistant Vice President, Research & Development
Daniel F. Hystad	Assistant Vice President & Claims Manager
Sheri O. Smith	Assistant Secretary
Renae D. Strand	Vice President, Personal Lines Underwriting

Officers compensation is disclosed in Exhibit A, attached to this report.

CONFLICT OF INTEREST STATEMENTS

The Company required annual conflict of interest statements from the Board of Directors and appropriate officers. The review of the statements disclosed that the

Company’s President and Chief Executive Officer, Mr. Donald H. Nikolaus, is a partner in the law firm of Nikolaus & Hohenadel, which has provided legal services to Donegal Group in the past. No additional potential conflicts of interest were noted during the examination.

CORPORATE RECORDS

The minutes of the shareholder, Board of Directors and Committee meetings held during the period covered by this examination were reviewed. All the minutes under review were signed by the Secretary and President of the Company.

The minutes of the meeting of the Board of Directors held April 20, 2012 reflected the approval of the Examination Report of the Iowa Insurance Division (IID) as of December 31, 2010.

The Bylaws were amended effective April 18, 2014 and filed with the IID on October 22, 2015. The amendment named the Audit Committee of Donegal Group Inc., the sole shareholder, as the Audit Committee of the Company.

SERVICES AGREEMENT

Effective June 12, 2002, the Company entered into a services agreement with Donegal Mutual Insurance Company, Donegal Group, Inc. and the then existing insurance subsidiaries of Donegal Group, Inc. The agreement has been amended several times since, to include companies acquired by Donegal Mutual. The current Amended and Restated Services Allocation Agreement, was amended on December 1, 2010, to include the acquired Michigan Insurance Company. The Board of Directors approved the amendment during its regular meeting on April 29, 2011. Per the agreement, Donegal Mutual shall provide the following services:

- Underwriting
- Claims
- Reinsurance Management
- Investment Management
- Information Services
- Actuarial Services
- Marketing, Sales, and Advertising
- Personnel and Professional Services
- Financial Reporting
- Tax Administration
- Accounting Services
- Policyholder Services
- Internal Audit and Compliance Services

The Company shall pay for its own operating costs and expenses. In addition, the Company shall pay Donegal Mutual for all costs and expenses incurred in providing the named services. Direct expenses of the Company that are paid by Donegal Mutual will be reimbursed based upon the actual costs incurred. Services shall be reimbursed at the actual cost incurred by Donegal Mutual plus an administrative fee.

FIDELITY BONDS AND OTHER INSURANCE

The Donegal Group, Inc. and named affiliates, including the Company, are protected by a $2,000,000 financial institution bond, which meets the NAIC’s suggested minimum amount of coverage.

Other insurable interests of the Company appear to be adequately protected through coverage afforded by policies in force with admitted insurers.

EMPLOYEES’ WELFARE

The Company does not have employees. All operations of the Company are provided by Donegal Mutual under the Services Allocation Agreement. Eligible employees are provided with the following core benefits by Donegal Mutual:

- Medical, Dental and Vision Benefits
- Flexible Spending Account – Health and Dependent Care
- Basic Life and Accidental Death & Dismemberment Insurance
- Voluntary Life Insurance
- Short and Long Term Disability Benefits
- 401(k) Plan - 100% Company Match of 3% pre-tax, 50% Company Match on additional 6% pre-tax
- Stock Purchase Plan
- Cash Incentive Plan
- Educational Program
- Paid Time Off
- Paid Sick Days
- Wellness Programs

REINSURANCE

The Company relies on reinsurance to limit its maximum net loss from large single catastrophic risks or excess of loss risks in areas where it may have a concentration of policyholders, and to increase its capacity to write insurance.

Pursuant to the Services Allocation Agreement, Donegal Mutual is responsible for the review, negotiation, monitoring and coordination of all reinsurance contracts and placements, including the determination of the amounts, terms, types and structure of reinsurance to be obtained, and the selection of the reinsurers. The reinsurance strategy of the company includes the purchasing of both treaty and facultative reinsurance.

Le Mars’ reinsurance program consists of both agreements entered into as a member of the Donegal insurance group and as a stand-alone entity. In addition, the Company has reinsurance agreements in place with its parent company, Donegal Mutual.

As a member company of the Donegal insurance group, Le Mars is party to third party reinsurance contracts including:

- Excess of Loss Reinsurance: Losses are automatically reinsured, through a series of contracts, over a set retention (generally $1,000,000).
- Property Catastrophe Reinsurance: Through a series of reinsurance agreements, the member companies can recover 100% of the accumulation of many losses from a single catastrophe event, over a set retention ($5,000,000) and after exceeding an annual aggregate deductible.

As a stand-alone entity, Le Mars has a separate reinsurance program that provides certain coverage, in addition to the coverage that the Donegal insurance group provides, that is appropriate for the Company’s size and exposures. Also, Le Mars purchases facultative reinsurance to cover exposures from property and casualty losses that exceed limits provided by the Donegal insurance group’s treaty reinsurance.

In addition, Le Mars has a workers' compensation excess of loss reinsurance agreement and a catastrophe reinsurance agreement with Donegal Mutual. The purpose of the reinsurance agreements with the parent company is to lessen the effects of a single large loss, or an accumulation of smaller losses arising from a single event, to levels that are appropriate with Le Mars' size, underwriting profile, and amount of surplus.

The reinsurance programs and strategy are approved by Donegal Mutual's Board of Directors each year and are reviewed by the Company's Board of Directors. The most recent review prior to the examination date by the Company's Board of Directors was at the April 18, 2014 Board meeting.

CEDED

Multiple Line Excess of Loss

This agreement was in place during the previous examination. For each year covering the current examination period, the agreement has been renewed on an annual basis. In addition, the terms of agreement relating to reinsurance coverages are consistent with prior arrangements with the exception of changes made to the composition of reinsurers in 2013.

The contract covers business classified as Homeowners, Farm Owners, Commercial Multiple Peril, Business Owners, Inland Marine, Fire and Allied Lines, Commercial Automobile Physical Damage (Fleet only), Automobile Liability business (including but not limited to Uninsured/ Underinsured Motorists, No-Fault and other statutorily required coverages), Garage Keepers Legal Liability, Other Liability, General Liability and Workers' Compensation and Employer's Liability business. The contract through broker Holborn Corporation was effective on October 1, 2014. The reinsurers to the contract and portion of accepted risk are Hannover Ruck SE, (50%), Mutual Reinsurance Bureau, comprised of Church Mutual Insurance Company (9.375%), Employers Mutual Casualty Company (9.375%), Kentucky Farm Bureau Mutual Insurance Company (9.375%), and Motorists Mutual Insurance Company (9.375%), and Toa Reinsurance Company of America (12.50%).

<u>Coverage A – Property</u>: $1,650,000 all risks per occurrence and $550,000 in excess of $450,000 retention of the ultimate net loss each risk, each loss.

<u>Coverage B – Casualty</u>: $550,000 in excess of $450,000 retention of the ultimate net loss each occurrence.

<u>Coverage C – Property and Casualty</u>: $450,000 in excess of $450,000 retention per occurrence. Recoveries under Coverage A and B shall inure to the benefit of Coverage C.

Workers' Compensation and Employers Liability Excess of Loss

This agreement was in place during the previous examination. For each year covering the current examination period, the agreement has been renewed on an annual basis. In addition, the terms of agreement relating to reinsurance coverages are consistent with prior arrangements.

The reinsurer shall be liable for Workers' Compensation coverage in excess of the Multiline treaty limits. The Company is included in the external $9,000,000 excess of $1,000,000 treaty covering Donegal Mutual and other companies within the Donegal insurance group.

Cyber Coverage Quota Share

The contract for the Donegal insurance group of companies to cede to BF Re Underwriters, LLC on behalf of Berkley Insurance Company was effective on June 1, 2013. The contract covers all business classified as Cyber Coverage underwritten by the Company. The reinsurer shall be liable for an amount equal to 90% quota share of the Company's ultimate net liability under new and renewal cyber coverage policies, up to a maximum limit of $1,000,000.

Liability Quota Share

The contract with Swiss Reinsurance America Corporation was effective September 1, 2002 and amended on August 18, 2008 to add the Company to the list of companies. The contract covers personal, farm and commercial umbrella liability policies, excess liability on business owners policies and commercial general liability quota share cover.

Exhibit A - The Company shall cede 85% Quota Share of the first $1,000,000, and 100% Quota Share of the next $9,000,000 of the Company's Ultimate Net Liability, each Loss Occurrence on all Commercial Umbrella Policies reinsured under this Agreement and 100% Quota Share of the next $4,000,000 of the Company's Ultimate Net Liability, each loss Occurrence on all Farm Umbrella Policies reinsured under this agreement. However, the Reinsurer's liability hereunder shall not exceed 85% of the first $1,000,000 nor 100% of the next $9,000,000, as respects all Commercial Umbrella Policies, nor 100% of the next $4,000,000, as respects all Farm Umbrella Policies, each Loss Occurrence and in the aggregate where applicable.

Exhibit B - The Company shall cede 85% Quota Share of the first $1,000,000, and 100% Quota Share of the next $4,000,000 of the Company's Ultimate Net Liability, each Loss Occurrence on all Personal Umbrella Policies reinsured under this Agreement. However, the Reinsurer's liability hereunder shall not exceed 85% of the first $1,000,000 and 100% of the next $4,000,000 each Loss Occurrence and in the aggregate where applicable.

Exhibit C - The Company shall cede 0% Quota Share of the first $1,000,000, and 100% Quota Share of the next $1,000,000 of the Company's Ultimate Net Liability, each Loss Occurrence on all Business Owners Policies reinsured under this Agreement. However, the Reinsurer shall have no liability hereunder as respects the first $1,000,000 and the Reinsurer's liability shall not exceed 100% of the next $1,000,000 each Loss Occurrence and in the aggregate where applicable.

Exhibit D - The Company shall cede 0% Quota Share of the first $1,000,000, and 100% Quota Share of the next $1,000,000 of the Company's Ultimate Net Liability, each Loss Occurrence on all Commercial General Liability coverages under all Commercial Package Policies reinsured under this Agreement. However, the Reinsurer shall have no liability hereunder as respects the first $1,000,000 and the Reinsurer's liability shall not exceed 100% of the next $1,000,000 each Loss Occurrence and in the aggregate where applicable.

Catastrophe Excess of Loss

The contract with Donegal Mutual was effective June 1, 2004. The contract covers business classified as property, multi-peril and automobile policies. The reinsurer shall be liable for $500,000 of the ultimate net loss, each risk, each loss, in excess of $500,000 retention. The limit of the reinsurer's liability relating to each loss was changed from $500,000 to $750,000 in 2014.

Workers Compensation Excess of Loss

The contract with Donegal Mutual was effective January 1, 2013. The contract covers business classified as workers compensation policies. The reinsurer shall be liable for 100% of the ultimate net loss, each risk, each loss, up to an annual limit of $1,000,000 in total loss.

Property Catastrophe Excess of Loss

This agreement was in place during the previous examination. For each year covering the current examination period, the agreement has been renewed on an annual basis. During the examination period, there was one change made to terms of the agreement relating to reinsurance coverages.

The contract covers business classified as Fire and Allied Lines, Inland Marine, Section I of Homeowners, Farm Owners, and Business Owners, Commercial Multiple Peril (property coverage only), Commercial Automobile Physical Damage (comprehensive coverage only), and Personal Automobile Physical Damage (comprehensive coverage only). The most recent renewal of the contract through broker Guy Carpenter & Company LLC was effective January 1, 2014.

First Excess: From 2011-2012, the insurer was liable for $1,000,000 of the ultimate net loss per occurrence in excess of $1,000,000 in retention, not to exceed an annual aggregate limit of $2,000,000. In 2013, the terms of reinsurance coverage changed to that the reinsurer shall be liable for $750,000 of the ultimate net loss per occurrence in excess of $1,250,000 retention, not to exceed an annual aggregate limit of $1,500,000.

Second Excess: The reinsurer shall be liable for $3,000,000 of the ultimate net loss per occurrence in excess of $2,000,000 retention, not to exceed an annual aggregate limit of $6,000,000.

Equipment Breakdown Coverage

The contract cedes to The Hartford Steam Boiler Inspection and Insurance Company 100% of the Equipment Breakdown liability of the Company, effective as respects Accidents. The contract was effective January 1, 2000 and amended to add the Company to the contract on August 1, 2005. The agreement was renewed in April of 2013. The reinsurer’s limit of liability for any one accident is $50,000,000.

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Property Per Risk Excess of Loss Reinsurance Contract

The contract, through broker Guy Carpenter & Company LLC, was effective January 1, 2014 covering the property portion of Multi-Peril Policies. This agreement was in place during the previous examination. For each year covering the current examination period, the agreement has been renewed on an annual basis. During the examination period, there were a few changes made to terms of the agreement relating to reinsurance coverages. The contract limits and retentions are outlined in the following sections.

SECTION A: No claim shall be made upon the Reinsurer unless and until the Reinsured shall have first sustained an Ultimate Net Loss in excess of $1,000,000 any one risk, each and every loss and then the Reinsurer shall be liable for one hundred percent (100%) of the Ultimate Net Loss sustained by the Reinsured in excess of $1,000,000 any one risk in respect of each such loss. The limit of liability of the Reinsurer in respect of any risk any one such loss shall be $4,000,000 (a change from 2010 amount of $1,500,000), subject to a Loss Occurrence limit of $12,000,000 (a change from 2010 amount of $3,000,000).

SECTION B: Three hundred thousand dollars ($300,000) each risk excess of five million dollars ($5,000,000) each risk as respects Excess of Original Policy Limits, Extra Contractual Obligations and Loss Adjustment Expenses, including Declaratory Judgment Expenses, for risks with Policy limits of five million dollars ($5,000,000) or less. The current retention limit of $5,000,000 represented a change from $2,500,000 noted in the 2010 agreement.

Liquor Liability

The contract for the Donegal insurance group of companies to cede to BF Re Underwriters, LLC on behalf of Berkley Insurance Company was effective on November 6, 2009. The contract covers the liquor liability policies or endorsements written by the Company. The reinsurer shall be liable for an amount equal to 85% of the policy limits up to $1,000,000 each common cause and $2,000,000 aggregate. The reinsurer shall also be liable for an amount equal to 85% of the original policy limit, but not to exceed a total of $850,000 each occurrence, for extra contractual obligations and loss in excess of original policy limits combined.

ASSUMED

Quota Share Reinsurance Agreement

The Company assumes from Donegal Mutual 100% of the net liability for loss and loss expense for all binders, policies and contracts issued or entered into by the reinsured. The contract was effective as of November 1, 2009.

The agreement was amended on May 1, 2011 to include Atlantic State Insurance Company as a named reinsured party.

In addition, due to Le Mars’ recent conversion onto Donegal’s mainframe system, the agreement was amended to exclude policies written under other companies on the Donegal mainframe from Le Mars’ financial results. The amendment was effective as of June 1, 2014.

STATUTORY DEPOSIT

The statement value of securities held in a custodial account, and vested in the Iowa Commissioner of Insurance for the benefit of all policyholders, totaled $1,705,616.

TERRITORY AND PLAN OF OPERATION

The Company is a multi-line carrier. Primary lines written include private passenger automobile liability, auto physical damage, homeowners and commercial multi-peril coverages. The Company is authorized to transact business in the states of Illinois, Iowa, Nebraska, North Dakota, Oklahoma, South Dakota, and Wisconsin. During 2014, the Company wrote business in the states of Iowa, Nebraska, Oklahoma, and South Dakota. However, in October of 2014, Le Mars withdrew from the State of Oklahoma.

The Company uses an independent agency system to solicit business. At December 31, 2014, 1,830 producers associated with 189 agencies are authorized on behalf of Le Mars. The agents are compensated on a commission basis, which varies depending on the line of business written. Either party may terminate the agency agreement at any time by giving written notice to the other party as provided for in the agreement.

GROWTH OF COMPANY

The following information was obtained from filed annual statements.

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2011	$51,820,463	$24,720,327	$26,158,490	$19,133,908	$1,461,094
2012	56,298,356	26,803,140	25,937,572	13,857,075	1,440,167
2013	59,663,223	27,627,914	28,555,587	18,010,020	1,443,507
2014	61,685,494	27,251,245	29,810,202	19,793,179	1,448,782

ACCOUNTS AND RECORDS

The Company's general ledgers are maintained on an electronic accrual basis. Trial balances were prepared for all the years of the examination period.

KPMG, an independent CPA who has audited the Company's financials on a statutory basis since 2002, conducted reviews on the general ledger, nonstandard journal entries, and entries to prepare the annual statements as of December 31, 2014 for DGI and all its subsidiaries. Utilizing work performed by the external auditor, amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on filed annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no differences with the amounts in the financial statements as presented in the annual statement at December 31, 2014 were noted.

FINANCIAL STATEMENTS

AND COMMENTS THEREON

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2014 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

Assets

	Ledger	Not Admitted	Admitted
Bonds	$43,169,633	$	$43,169,633
Common stocks	207,261		207,261
Real Estate			
Properties occupied by the company	494,207		494,207
Cash & Short term investments	4,301,344		4,301,344
Other invested assets	115,072	115,072	0
Investment income due and accrued	290,549		290,549
Premiums and considerations:			
Uncollected premiums	9,079,379	132,534	8,946,845
Deferred premiums	43,127		43,127
Reinsurance			
Amounts recoverable	997,526		997,526
Funds held	457		457
Current federal taxes	762,334		762,334
Net deferred tax asset	4,069,543	1,626,396	2,443,147
EDP	64,562	35,498	29,064
Furniture and equipment	64,670	64,670	0
Total assets	$63,659,664	$1,974,170	$61,685,494

Liabilities, Surplus and Other Funds

Losses	$13,741,505
Reinsurance payable on paid losses and loss adjustment expenses	9,517
Loss adjustment expenses	1,993,000
Commissions payable	375,000
Other expenses	511,086
Taxes, licenses and fees	238,348
Unearned premiums	14,889,102
Advance premium	137,210
Ceded reinsurance premium payable	442,694
Remittances and items not allocated	146,022
Drafts outstanding	1,950,765
Total Liabilities	$34,434,249
Common capital stock	$4,392,740
Gross paid in and contributed surplus	8,287,436
Unassigned funds (surplus)	14,571,069
Surplus as regards policyholders	$27,251,245
Total liabilities, surplus and other funds	$61,685,494

STATEMENT OF INCOME

ONE-YEAR PERIOD ENDING DECEMBER 31, 2014

Underwriting income		
Premiums earned		$29,810,202
Deductions		
Losses incurred	$19,793,179	
Loss adjustment expenses incurred	3,227,967	
Other underwriting expenses incurred	9,490,102	
Total underwriting deductions		32,511,248
Net underwriting gain (loss)		$(2,701,046)
Investment income		
Net investment income earned	$1,448,782	
Net realized capital gains (losses)	58,129	
Net investment gain (loss)		1,506,911
Other revenue		
Finance and service charges not included in premium	$244,997	
Miscellaneous income	5,725	
Total other income		250,722
Net income (loss) before dividends and federal income tax		$(943,413)
Dividends to policyholders		415,169
Net income (loss) after dividends and before federal income tax		$(1,358,582)
Federal & foreign income taxes		(767,340)
Net income (loss)		$(591,242)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2013	$27,627,914
Gains and (Losses) in Surplus	
Net Income	$(591,242)
Change in net unrealized capital gains	16,884
Change in net deferred income tax	(80,131)
Change in nonadmitted assets	193,186
Aggregate Write-ins for gains and losses in surplus	84,634
Change in surplus as regards policyholders for the year	$(376,669)
Surplus as regards policyholders, December 31, 2014	$27,251,245

CASH FLOW

Cash from Operations		
Premiums collected net of reinsurance	$28,285,072	
Net investment income	1,511,473	
Miscellaneous income	250,722	
Total		$30,047,267
Benefit and loss related payments	$18,350,645	
Commissions, expenses paid and aggregate write-ins	12,216,040	
Dividends paid to policyholders	415,169	
Federal income taxes paid (recovered)	(31,064)	
Total		30,950,790
Net cash from operations		$(903,523)
Cash from investments		
Proceeds from investments sold, matured or repaid:		
Bonds	$6,203,724	
Stocks	5,672,450	
Other invested assets	21,663	
Total investment proceeds		$11,897,837
Cost of investments acquired (long-term only):		
Bonds	$11,263,513	
Real Estate	30,028	
Total investments acquired		$11,293,541
Net cash from investments		$604,296
Cash from Financing and Miscellaneous Sources		
Cash provided (applied):		
Other cash provided (applied)	$373,476	
Net cash from financing and miscellaneous sources		$373,476
RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
Net change in cash and short-term investments		$74,249
Cash and short-term investments:		
Beginning of year		4,227,095
End of year		$4,301,344

STATEMENT OF INCOME

FOUR-YEAR PERIOD ENDING DECEMBER 31, 2014

Underwriting income		
Premiums earned		$110,461,851
Deductions		
Losses incurred	$70,794,182	
Loss adjustment expenses incurred	9,698,538	
Other underwriting expenses incurred	36,306,345	
Total underwriting gain (loss)		116,799,065
Net underwriting gain (loss)		$(6,337,214)
Investment income		
Net investment income earned	$5,793,550	
Net realized capital gains (losses)	450,182	
Net investment gain (loss)		6,243,732
Other income		
Finance and service charges not included in premiums	$1,269,501	
Miscellaneous income	22,170	
Total other income		1,291,671
Net income before dividends and federal income tax		$1,198,189
Dividends to policyholders		763,747
Net income after dividends and before federal income tax		$434,442
Federal and foreign income taxes		(526,361)
Net income		$960,803

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010	$25,539,580
Gains and (Losses) in Surplus	
Net income	$960,803
Change in unrealized capital gains	54,776
Change in net deferred income tax	257,636
Change in nonadmitted assets	57,894
Aggregate write-ins for gains and losses in surplus	380,556
Change in surplus as regards policyholders for the period	$1,711,665
Surplus as regards policyholders, December 31, 2014	$27,251,245

ADJUSTMENTS/RECLASSIFICATIONS TO THE FINANCIAL STATEMENTS

There were no adjustments of the financial statements required as a result of this examination.

SUBSEQUENT EVENTS

Based upon review of the Company’s general ledgers as subsequent to December 31, 2014, there did not appear to be any unusual transactions that would materially impact the financial statements subsequent to the examination date.

Le Mars’ reinsurance agreements were appropriately extended and renewed for years 2015 and 2016. No significant changes were made to the contracts with the exception of the Property Catastrophe Reinsurance Contract. In 2015, when the agreement was renewed, the Company’s retention limit, the reinsurer’s per occurrence limit, and the reinsurer’s annual limit for the First Excess changed from $1,250,000 to $1,500,000, from $750,000 to $500,000, and from $1,500,000 to $1,000,000, respectively.

SUMMARY OF RECOMMENDATIONS

During the examination, the examiners did not identify any material/significant findings or have any recommendations for the insurer. However, 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.

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company is hereby acknowledged.

In addition to the undersigned, the following participated in the examination and preparation of this Report: Lester C. Schott, CPA, CFE and Changyi Song, from Baker Tilly Virchow Krause LLP, representing the Iowa Insurance Division.

Respectfully submitted,

/s/ James B. Morris
James B. Morris, CPA, CFE
Examiner in Charge
Baker Tilly Virchow Krause LLP on behalf of the Iowa Insurance Division