MISSISSIPPI INSURANCE DEPARTMENT

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

501 N. WEST STREET, SUITE 1001
WOOLFOLK BUILDING
JACKSON, MISSISSIPPI 39201
www.mid.state.ms.us

MAILING ADDRESS
Post Office Box 79
Jackson, Mississippi 39205-0079
TELEPHONE: (601) 359-3569
FAX: (601) 359-2474

May 21, 2014

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. John Wilson Mullen, CEO & President
Direct General Insurance Company of Mississippi
1281 Murfreesboro Road
Nashville TN 37217-2432

RE: Report of Examination as of December 31, 2012

Dear Mr. Mullen:

In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY
COMMISSIONER OF INSURANCE

BY ______________________
Christina J. Kelsey
Senior Attorney

MC/CJK/bs
Encls. Order w/exhibit

BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI

IN RE: REPORT OF EXAMINATION OF DIRECT GENERAL INSURANCE COMPANY OF MISSISSIPPI **CAUSE NO. 14-6754**

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011).

II.

That Direct General Insurance Company of Mississippi is a Mississippi-domiciled Company licensed to write Accident & Health; Automobile Physical Damage/Liability; Casualty/Liability; Fire/Allied Lines; Home/Farm Owners; Inland Marine; Plate Glass; and Trip Accident and Baggage coverages.

FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 2011), called for an examination of Direct General Insurance Company of Mississippi and appointed Dale Miller, Examiner-In-Charge, to conduct said examination.

IV.

That on or about March 11, 2014, the draft Report of Examination concerning Direct General Insurance Company of Mississippi for the period of January 1, 2010 through December 31, 2012, was submitted to the Department by the Examiner-In-Charge, Dale Miller.

V.

That on or about April 7, 2014, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 2011), the Department forwarded to the Company a copy of the draft report and allowed the Company a 15-day period to submit any rebuttal to the draft report. The Department received the Company's response to the report in a letter on or about April 23, 2014, and in response thereto, no revisions were made to the report.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 2011), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of Direct General Insurance Company of Mississippi, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 2011).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 2011), that within thirty (30) days of the issuance of the adopted report, Direct General Insurance Company of Mississippi shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that Direct General Insurance Company of Mississippi take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 21st day of May 2014.

J. Mark Haire

J. MARK HAIRE
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI

CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 21st day of May 2014, to:

Mr. John Wilson Mullen, CEO & President
Direct General Insurance Company of Mississippi
1281 Murfreesboro Road
Nashville, TN 37217-2432

Christina J. Kelsey
Senior Attorney

Christina J. Kelsey
Senior Attorney
Counsel for the Mississippi Department of Insurance
Post Office Box 79
Jackson, MS 39205-0079
(601) 359-3577
Miss. Bar No. 9853

Mississippi Insurance Department

Report of Examination

of

DIRECT GENERAL INSURANCE COMPANY OF MISSISSIPPI

4734 North State Street
Jackson, MS 39206

As of December 31, 2012

NAIC Group Code 1213
NAIC Company Code 10889
NAIC FEETS No. 10889-MS-2012-3

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

State of Mississippi,

County of Madison,

R. Dale Miller, being duly sworn, states as follows:

1. I have authority to represent the Mississippi Insurance Department in the examination of Direct General Insurance Company of Mississippi as of December 31, 2012.

2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Direct General Insurance Company of Mississippi was performed in a manner consistent with the standards and procedures required by the National Association of Insurance Commissioners and the Mississippi Insurance Department.

The affiant says nothing further.

R Dale Miller

R. Dale Miller, CPA, CFE, CFF
Examiner-in-charge

Subscribed and sworn before me by R. Dale Miller on this 4th day of April, 20 14.

STATE OF MISSISSIPPI
NOTARY PUBLIC
ID # 103679
APRIL D. McDONALD
Commission Expires
Oct. 10, 2016
RANKIN COUNTY

(SEAL)

April McDonald

Notary Public

My commission expires October 10, 2016 [date].

MIKE CHANEY
Commissioner of Insurance
State Fire Marshal

MARK HAIRE
Deputy Commissioner of Insurance

MISSISSIPPI INSURANCE DEPARTMENT

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January 31, 2014

Honorable Mike Chaney
Commissioner of Insurance
Mississippi Insurance Department
1001 Woolfolk Building
501 North West Street
Jackson, Mississippi 39201

Dear Commissioner Chaney:

Pursuant to your instructions and authorization and in compliance with statutory provisions, an examination has been conducted, as of December 31, 2012, of the affairs and financial condition of:

DIRECT GENERAL INSURANCE COMPANY OF MISSISSIPPI
4734 North State Street
Jackson, MS 39206

License #	NAIC Group #	NAIC #	FEETS#
9700042	1213	10889	10889-MS-2012-3
9700042	1213	10889	MS120-M24

This examination was commenced in accordance with Miss. Code Ann. § 83-5-201 *et seq*. and was performed in Nashville, Tennessee, and Irving, Texas, at the Administrative Office and Claims Center for Direct General Insurance Company along with Carr, Riggs and Ingram’s office in Ridgeland, MS. The report of examination is herewith submitted.

SCOPE OF EXAMINATION

We have performed our full-scope financial examination of Direct General Insurance Company of Mississippi ("Company") at the direction of the Mississippi Insurance Department ("MID"). For purposes of this examination report, the examination date is defined as December 31, 2012. The examination period is defined as January 1, 2010 through December 31, 2012, including material transactions and/or events occurring subsequent to the examination date through December 31, 2013.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"). The 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. An examination also includes 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.

COMMENTS AND RECOMMENDATIONS OF PREVIOUS EXAMINATION

The following comment and recommendation was included within the previous financial examination report as of December 31, 2009.

1. Affiliated Agreements

   Finding:

   During the review of the Inter-party Cost Sharing Agreement and Federal Tax Agreement it was noted that the agreements did not contain settlement dates. SSAP No. 96, Paragraph 2, of the *Accounting Practices and Procedures Manual as of March 2009* published by NAIC states as follows:

   > "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be non-admitted. If a due date is not addressed by the written agreement, any uncollected receivable is non-admitted."

   As the inter-company receivables and payables under the above agreements were immaterial as of December 31, 2009, no adjustments were made in the examination report.

Previous Examination Report Recommendation No. 1:
It is recommended the Company amend related party contracts to comply with the requirements SSAP No. 96, paragraph 2, which pertain to a specific settlement date, as the Mississippi Insurance Code §83-5-205 provides that the examination of Insurers shall be conducted based on the criteria set forth in *Examiners' Handbook* adopted by NAIC which utilizes the *Accounting Practices and Procedures Manual* as its standard in the conduct of Examination.

Current Status:
The Company amended the Intercompany Tax Allocation and the Cost Allocation Agreements during the examination and properly included settlement terms per SSAP No. 96 which has been replaced by SSAP 25. The Company's amended agreements are in compliance with SSAP 25.

The following comments and recommendations were included within the previous market conduct examination report as of December 31, 2009:

2. Operations/Management

Finding:

The Company Standards practice memorandum for privacy included no language addressing information of former customers.

Previous Examination Report Recommendation No. 2:
It is recommended the Company amend their Privacy Notice to include information about the Company's former customer as required be Section 7 (A) (4) of Mississippi Regulation 2001-1.

Current Status:
The Company properly amended their Privacy Notice and Standard Practice Memorandum to include information about the Company's former customer as required by Section 7 (A) (4) of Mississippi Regulation 2001-1.

3. Records Retention

Finding:

In a sample of paid claims, seven (7) claim files could not be produced, resulting in an exception for records retention. The Company's record retention policy allowed physical claim files to be purged or destroyed in a time frame before an examination covering these claims might be completed.

The practice in effect through the examination date of December 31, 2009, was to keep claims files for three (3) years from the date of loss. The policy was revised but not implemented on April 1, 2009, to establish records retention for claims at five (5) years from the end of the policy (longer periods were stipulated for bodily injury claims and lifetime structured settlements).

Previous Examination Report Recommendation No. 3:
It is recommended the Company follow its record retention policy in effect to ensure records are destroyed in accordance with the approved schedule.

Current Status:
In 2010, Direct General's claims organization began the process of imaging claim file documents into Image Right. Also, the record retention policy was revised in 2011 to increase the closed claims retention policy to seven years. Starting in December 2011, the Company transitioned to a new claims management system, Guidewire, resulting in a better tracking and retention system for claims. The exam team determined the Company had properly resolved the records retention issue based on the changes described above in addition to the exam team having no issues receiving documentation requested throughout the examination process.

HISTORY OF THE COMPANY

On October 10, 1997, the Company was incorporated under the laws of the State of Mississippi and commenced business on May 7, 1998, with its principal office located in Nashville, Tennessee.

The original Articles of Incorporation authorized 100,000 shares of $50 par value capital stock. The Company's initial capitalization consisted of Direct General Corporation ("DGC") purchasing 12,000 shares of the authorized capital stock for an aggregate purchase price of $2,002,698. On December 28, 2001, the Articles of Incorporation were amended to increase the Company's capital stock par value to $100 per share.

Effective December 31, 2001, all outstanding shares of the Company were contributed in the form of a capital contribution from DGC to one of its property and casualty insurance subsidiaries, Direct General Insurance Company ("DGIC").

On March 28, 2007, MID approved a merger with Elara Holdings, Inc. ("Elara"). The ultimate controlling entities of Elara are Calera Capital Investors Ill, L.L.C and TPG Advisors V, Inc. Under the terms of this agreement, Elara Holdings, Inc. acquired all of the outstanding common stock of DGC. This merger removed the DGC and affiliates from U.S. Security and Exchange Commission regulatory authority since they are no longer public.

During the fourth quarter 2010, the Company ceased issuing business in the State of Kentucky. With the approval of MID, the Company paid $3,000,000 of extraordinary dividends in 2011 and 2012, respectively, in order to meet dividend requirements to Elara.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws and amendments thereto were reviewed and duly applied in other sections of this report where appropriate. Minutes of the meetings of the stockholders and Board of Directors ("Board"), as recorded during the period covered by this examination, were reviewed and appeared to be complete and in order with regard to actions brought up at the meetings for deliberation and appropriate action, which included the approval and support of the Company's transactions and events. It was noted that the annual meetings and other regular Board meetings were held in accordance with the Company's Bylaws. The Company made no amendments to its Articles of Incorporation during the examination period. The Bylaws were updated on December 10, 2010.

MANAGEMENT AND CONTROL

Capital Stock

As of December 31, 2012, the Company had issued and outstanding twelve thousand (12,000) shares of common capital stock with a par value of $100 per share. DGIC owned 100% of the outstanding shares. During the examination period, $3,000,000 in extraordinary dividends was paid to DGIC in 2011 and 2012, respectively.

Board of Directors

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board. All members of the Board are executive management of the Company and other companies within the Direct General Holding Company. The members of the duly elected Board, along with their place of residence, year elected/appointed, and principal occupation, at December 31, 2012, were as follows:

Name and Residence	Year Elected/ Appointed	Principal Occupation
John Wilson Mullen Nashville, TN	2011	President & Chief Executive Officer
John Todd Hagely Franklin, TN	2007	Executive Vice President & Chief Financial Officer
Scott Jerome Bojczuk Franklin, TN	2007	Executive Vice President, General Counsel & Secretary
John Francis Campbell, Jr. Murfreesboro, TN	2012	Executive Vice President and Chief Operations Officer

Other Board members during the exam period included, Dan Tarantin and Carey Benson.
Subsequent Event: Scott Bojczuk resigned on March 28, 2013.

Committees

The Company does not have appointed committees. The following committees of Elara, also serve as committees for the Company at December 31, 2012:

Audit Committee	Compensation & Governance Committee
Phil Guthrie, Chairman	Mark Williamson, Chairman
Craig Kelly	Robert Sandler
David Lorsch	Richard Schifter

Prior to June 2009, the Company had an investment committee. The board meeting held on June 9, 2009 resolved that investment matters were routinely addressed by the board of Elara and there was no need to maintain a separate investment committee. Following the discussion, the board unanimously adopted a resolution to discontinue the investment committee at the Company's level.

Officers

The officers of the Company at December 31, 2012, were as follows:

Name	Number of Years with Company	Title
John Wilson Mullen	2	Chairman, Chief Executive Officer & President
Scott Jerome Bojczuk	5	Executive Vice President, General Counsel & Secretary
John Francis Campbell, Jr.	3	Executive Vice President & Chief Operations Officer
John Todd Hagely	11	Executive Vice President & Chief Financial Officer
Austin Gregory Bonn	1	Senior Vice President Store Sales Channel
Thomas Anthony Kaschalk	2	Senior Vice President & Chief Claims Officer
William Mobley Smith, III	2	Senior Vice President Human Resources
Jonathan Garnet Walters	5	Senior Vice President & Chief Information Officer
Jeffery Ray Bankston	17	Vice President Program Management
Randy Charles Chetko	<1	Vice President Application Development
Marc Edmond DiGiacomo	3	Vice President Product Management
Kenneth Anthony Hampton	14	Vice President Operations & Customer Experience
Brian Timothy Hanrahan	15	Vice President Actuarial Group
Josh Lyle Jarrett	2	Vice President Product Management
Paul Charles Smith	2	Vice President Claims Process Control & Operations Analytics

Jobie Glenn Williams	3	Vice President & Treasurer
Johanna Joyce Thompson Belford	1	Assistant Secretary
Constance Ann Collins	16	Assistant Secretary
Jonathan Ray Dowell	5	Assistant Secretary
Kelly Kathleen Gray	2	Assistant Secretary
Erin Lynn Hostetler	2	Assistant Secretary
LaJoy Nicole James	<1	Assistant Secretary

Conflict of Interest

The Company had in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any Director, Officer or key employee, which is likely to conflict with their official duties. Signed statements for Officers and Directors serving as of December 31, 2012 were reviewed without exception.

Corporate Governance

The Company has no employees. All operations of the Company are handled by related parties through written agreements.

The minutes of the meeting of the Stockholder and Board taken during the period covered by the examination, were reviewed and appeared to be complete and in order with regard to recording action on matters brought up at these meetings for deliberation, included the approval and support of the Company's transactions and events.

Management activities reviewed and approved by the Board include performance/financial reports, legal and regulatory update, reinsurance programs, market conduct reports, Company performance, budgets, claims, investment results and other reports. Each member of the Board also serves as an executive officer and/or on the Boards for certain affiliated companies in the holding company organization.

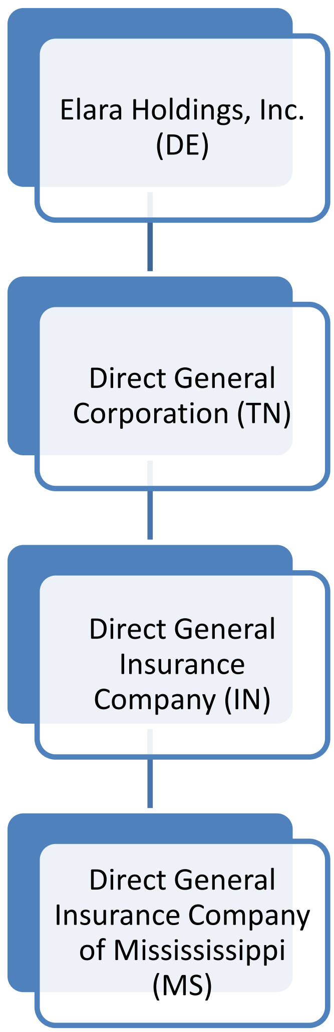
Management reviews various data in an effort to identify trends and ensure accurate disclosure in the financial statement. Budget and actual operating results are compared monthly by Management.

The Chief Executive Officer & President meets with his executive staff on a weekly basis facilitating the dissemination of information on key issues impacting the organization. The Chief Executive Officer & President also sits on the parent company's board of directors so they are able to report on matters directly to and from the board as appropriate.

HOLDING COMPANY STRUCTURE

During the time period covered by this examination, the Company reported as a member of an insurance company holding system as defined by Miss. Code Ann. §83-6-1. Holding Company Registration Statements, for the period under examination, were filed with the MID in accordance with Miss. Code Ann. §83-6-5 and §83-6-9. These filed statements were reviewed and it appeared that any changes and material transactions by and between the Company and its affiliates, as defined in the filed statements, were appropriately disclosed.

Organizational Chart



Elara Holdings, Inc.: Elara is a privately-held financial services holding company whose principal operating subsidiaries provides non-standard personal automobile insurance, term life insurance, premium finance and other consumer products and services primarily in the southeastern United States. Elara was formed in 2006 to acquire all of the outstanding common stock of Direct General Corporation which was publicly traded prior to the transaction.

Elara owns five property/casualty insurance companies, two life/health insurance companies, two premium finance companies, twelve insurance agencies, two administrative service companies and one company that provides non-insurance consumer products and services.

Elara had no assets, liabilities, or operations prior to the acquisition of DGC on March 30, 2007. As a result, Elara essentially continued as the same organization after the transaction. The company was purchased by two venture capital firms, TPG and Calera Capital on April 1, 2007.

Direct General Corporation: This Company was incorporated on September 28, 1993, for the purpose of serving as the ultimate parent company for the Company's holding Company System. Through its subsidiaries, DGC's core business involved the issuance of nonstandard personal automobile insurance policies throughout most of the southeastern United States. Through its premium finance operations, the premium charges for the majority of the insurance policies sold by the Company were financed, with collateral being the related unearned premium associated with the policy sold.

Direct General Insurance Company: DGIC was incorporated under the laws of the State of Florida on December 15, 1990 as Independent Property and Casualty Insurance Company ("IPC"), and began operations on January 1, 1991. Effective March 6, 1997, in contemplation of the company being sold to DGC, IPC redomesticated to the State of Tennessee. On March 14, 1997, DGC acquired all of the outstanding capital stock of IPC and its name was changed to its present title. Effective December 27, 2000, DGIC was redomesticated to South Carolina. Effective December 20, 2007, DGIC was redomesticated from South Carolina to Indiana. At December 31, 2009, DGIC was authorized to write one or more lines of business in the State of Alabama, Florida, Georgia, Illinois, Indiana, Kansas, Mississippi, Missouri, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas and Virginia.

Affiliated and Related Party Transactions

Below is a description of inter-company agreements to which the Company is a party.

Cost Sharing Agreement: The Company was party to an inter-company cost sharing agreement, whereby affiliates of the Company provided underwriting and policy issuance, claims settlement, premium financing, and administrative service for the Company. A copy of the Intercompany Cost Allocation Agreement was provided with the Annual Registration Statement for December 31, 2012. Per this agreement the Company paid $6,430,624 for 2012. The agreement was revised as of October 2011 in order to address certain issues noted during the previous examination (lack of settlement date as required by SSAP 25).

Reinsurance Settlement Agreement: The Company was party to a Reinsurance Settlement Agreement with the other property and casualty parent and affiliates. Because from time to time certain third party reinsurers who participate in the Direct General Group reinsurance program may remit settlements on a consolidated basis to an individual participating insurer, the Reinsurance Settlement Agreement was drafted to document the procedures for distributing funds received from reinsurers to ensure that each participating insurer in the Direct General Group obtains the proceeds to which it is entitled under applicable reinsurance agreements. The Company filed a copy of the intercompany Reinsurance Settlement Agreement and a Notice of Prior Transaction on Form D with the MID as of June 30, 2006.

Intercompany Producer Agreements: The Company was party to a producer agreement with its affiliated insurance agencies, Direct General Insurance Agency, and Right Choice Insurance Agency, whereby management could pay commission up to 15% on written premiums to its agencies. By letter dated November 18, 2005, the MID advised it had determined the intercompany producer agreements are outside the purview of Miss. Code. Ann. 83-6-21(2)(d) and therefore are not required to be filed for approval.

Premium Finance Agreements: The Company and Direct General Group premium finance companies are party to a premium finance settlement agreement. This agreement documents the duties and obligations between the parties relating to the settlement of accounts for financed insurance premiums and return unearned premium arising out of insurance premium finance agreements. The Company filed a copy of the intercompany Premium Finance Settlement Agreement and a Notice of Prior Transaction on Form D with the MID on June 30, 2006. In June of 2011, the Company switched from premium financing to premium installment billing. At the end of the exam period, policies under premium finance were immaterial.

Intercompany Tax Allocation Agreements: Direct General Corporation's subsidiaries that are greater than 80% owned are consolidated for federal income tax purposes. The agreement went into effect September 14, 1995 with supplements to the agreement dated September 10, 1996, November 9, 2000, and September 20, 2012. The 2012 supplement was drafted to add Direct General Life Insurance Company and Direct Life Insurance Company as participants under the Agreement under I.R.C. sec. 816 retroactively to cover the tax years 2007 and to clarify that Elara Holdings, Inc. replaced Direct General Corporation as the ultimate parent company as of March 2007. The Mississippi Department of Insurance approved the Company's September 20, 2012 Form D Filing and revised agreement by letter dated October 9, 2012.

FIDELITY BOND AND OTHER INSURANCE

Through its holding company, Elara, the Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company of Pittsburgh, PA. The bond has an aggregate loss coverage limit of $15 million, and a single loss limit of $7.5 million with a $150,000 deductible. This bond meets the suggested minimum coverage prescribed by the NAIC. Also through Elara, the Company has professional liability coverage with a $10 million limit and $1 million retention.

PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS

Benefits provided to directors or officers were provided through DGIC's administrative service subsidiary, Direct Administration, Inc. The Company did not have any direct employees or agents.

TERRITORY AND PLAN OF OPERATION

The Company commenced writing nonstandard private passenger automobile insurance policies in Mississippi in May 1998 and in Kentucky in August 2002. These policies, which are generally issued for the minimum limits of coverage required by state laws, provide coverage to drivers who cannot obtain insurance from standard carriers due to a variety of factors, including the lack of flexible payment plan, the failure to maintain continuous coverage, age, prior accidents, driving violations, occupation and type of vehicle. Affiliate insurance agencies sell the Company's products directly through neighborhood sales offices. In early part of 2006, the Company introduced telephone sales as a new distribution system. In May 2007, the Company introduced web sales as another distribution system.

The Company stopped writing business in Kentucky after fourth quarter 2010 due to extraordinary losses associated with claims fraud. In June of 2011, the Company switched from premium financing to installment billing. During 2012, the Company changed their accounting for installment processing fees from earning the fees over the life of the policy and recording unearned processing fees as a liability to recognizing the fees as fully earned at the inception of the policy.

GROWTH OF COMPANY

Following is selected financial information as reported by the Company within the filed annual statements.

	2012	2011	2010
Total admitted assets	$ 33,433,491	$ 36,857,264	$ 46,706,026
Total liabilities	$ 21,394,071	$ 22,868,213	$ 31,437,018
Total capital and surplus	$ 12,039,420	$ 13,989,051	$ 15,269,008
Net cash from operations	$ (3,208,652)	$ (11,553,629)	$ (1,052,643)
Total adjusted capital	$ 12,039,420	$ 13,989,051	$ 15,269,008
Authorized control level risk-based capital	$ 1,720,682	$ 1,616,062	$ 1,396,028
Direct premiums written	$ 21,845,701	$ 19,458,433	$ 32,468,639
Assumed premium written	$ -	$ -	$ -
Ceded premiums written	$ 89,449	$ 81,793	$ 107,731
Net premiums written	$ 21,756,252	$ 19,376,640	$ 32,360,908
Net underwriting gain (loss)	$ (963,574)	$ 1,224,015	$ (2,019,223)
Investment income	$ 863,072	$ 1,251,921	$ 1,592,808
Other income	$ 1,411,394	$ 99,727	$ 198,320
Net income	$ 916,761	$ 2,025,524	$ 103,621
Net loss ratio	74.1%	69.6%	85.9%
Expense ratio	30.2%	31.3%	21.3%
Investment yield	3.2%	3.1%	2.3%

REINSURANCE

Prior to 2006, the Company ceded premium and losses to other insurance companies under various quota share and excess of loss reinsurance agreements in order to provide the Company with increased capacity to write larger volumes of business while limiting its exposure to losses. The Company's income from operations, coupled with capital contributions from its parent, DGIC, has enabled it to increase its retention of direct business written over the past three years. In 2006, the quota share reinsurance program was eliminated.

Reinsurance Assumed

As of December 31, 2012, the Company did not assume any business.

Reinsurance Ceded

The Company maintained joint reinsurance agreements with all property and casualty members of the Direct General Group. Effective January 1, 2012, the Company entered into a property catastrophic excess loss reinsurance treaty that provides a limit of $10 million of coverage in excess of $2 million retention on gross losses. The treaty covers in force, new, renewed, and assumed private passenger automobile physical damage business. The reinsurers for 2012 are Lloyd's Syndicate 2001, 2987, 2007, & 2010, QBE Reinsurance Corporation, Scor Reinsurance Company, XL RE LTD, R+V Versicherung AG, and Endurance Specialty Insurance Limited.

Reinsurance Intermediary

The Company used the services of Guy Carpenter and Company, Inc., a reinsurance intermediary, to place reinsurance with various reinsurers. Guy Carpenter and Company, Inc. was licensed and authorized by the MID and had the authority to procure placement certificates from various reinsurers in the Company's reinsurance ceded program.

Reserves:

Benny Yuen, ACAS, MAAA, Senior Manager with the firm of Ernst & Young, L.L.P., is the Company's Appointed Actuary. Mr. Yuen was appointed by the Board of Directors on June 28, 2012 to render an opinion on the reserves of the Company. Mr. Yuen has provided the Company's actuarial opinion for the years ended December 31, 2010, 2011 and 2012.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2012 opinion stated the reserves: A) meet the requirements of the insurance laws of MID; B) are consistent with estimates of unpaid losses and loss adjustment expenses computed in accordance with standards and principles established by the Actuarial Standards Board; and C) make a reasonable provision for all unpaid loss and loss expense obligations, gross and net as to reinsurance ceded, under the terms of the Company's contracts and agreements. Mr. Yuen estimated loss and LAE reserves for the company were estimated net of salvage and subrogation.

During the examination, it was determined by the MID consulting actuary, Robert Daniel, FCAS, MAAA, of Merlinos & Associates, Inc., that the significant actuarial items in the Company's 2012 Annual Statement are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the MID.

ACCOUNTS AND RECORDS

The Company's trial balances covering the examination period were compared and agreed to the respective financial statements and schedules in the Annual Statement without exception.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers which were reviewed during the examination.

The Company holds investments through U.S. Bank Institutional Trust & Custody with the Investment Manager being Goldman Sachs Asset Management, LLP. During the examination period, the Company had a Custodial and an Investment Manager agreement with the custodian and investment manager that was in compliance with the NAIC Financial Condition Examiner Handbook.

The Company's independent auditors issued unqualified opinions on the Company's audited financial statements for each year during the examination period. No material exceptions were noted when comparing the Company's audited financial statements to the respective annual statements. All of the independent audit work papers were made available to the examiners during the examination.

STATUTORY DEPOSITS

The Company's statutory deposits with the State of Mississippi complied with Miss. Code Ann. § 83-19-31 (2). The following chart displays the Company's deposits at December 31, 2012.

Description	State Deposited	Par Value	Carrying Value	Fair Value
Oxford MS School District Bond	MS	$ 370,000	$ 370,000	$ 415,103
Ridgeland MS Tax Increment Bond	MS	45,000	45,729	48,071
MS Dev Special Obligation Revenue Bond	MS	260,000	270,955	278,751
MS Home Corp Revenue Bond	MS	95,000	94,295	99,516
MS State University Bond	MS	310,000	322,586	346,124
University Southern MS Bond	MS	35,000	35,609	36,969
Total for all states		$ 1,115,000	$ 1,139,174	$ 1,224,534

DIRECT GENERAL INSURANCE COMPANY OF MISSISSIPPI
FINANCIAL STATEMENTS
EXAMINATION AS OF DECEMBER 31, 2012

Introduction

The following financial statements consist of a Statement of Assets, Liabilities, Capital and Surplus – Statutory at December 31, 2012, a Statement of Income – Statutory for year ended December 31, 2012, a Reconciliation of Capital and Surplus – Statutory for examination period ended 2012, and a Reconciliation of Examination Adjustment to Surplus – Statutory at December 31, 2012.

December 31, 2012

Admitted Assets		
Bonds	$	20,509,686
Cash and short term investments		137,966
Subtotals, cash and invested assets		20,647,652
Investment income due and accrued		243,516
Uncollected premiums and agents' balances in the course of collection		1,723,596
Deferred premiums, agents' balances and installments booked but deferred and not yet due		9,801,400
Net deferred tax asset		833,771
Aggregate write-ins for other than invested assets		183,556
Total admitted assets	$	33,433,491
Liabilities, Surplus and Other Funds		
Losses	$	9,126,404
Loss adjustment expenses		377,625
Other expenses (excluding taxes, licenses and fees)		51,448
Current federal and foreign income taxes (including $57,555 on realized capital gains (losses))		398,826
Unearned premiums		10,708,161
Advance premium		22,510
Remittances and items not allocated		11,033
Payable to parent, subsidiaries, or affiliates		697,845
Aggregate write-ins for liabilities		219
Total liabilities		21,394,071
Common capital stock		1,200,000
Gross paid in and contributed surplus		5,852,698
Unassigned funds (surplus)		4,986,722
Surplus as regards policyholders		12,039,420
Total Liabilities, Surplus and Other Funds	$	33,433,491

For the Year Ended December 31, 2012		
Underwriting Income		
Premiums earned	$	21,629,566
DEDUCTIONS		
Loss incurred		13,190,565
Loss adjustment expenses incurred		2,842,687
Other underwriting expenses incurred		6,559,888
Total underwriting deductions		22,593,140
Net Underwriting loss		(963,574)
Investment Income		
Net investment income earned		756,183
Net realized capital gains less capital gains tax of $57,555		106,889
Net investment gains		863,072
Other Income		
Net gain from agents' or premium balances charged off		(791,153)
Finance and service charges not included in premiums		1,601,537
Aggregate write-ins for miscellaneous items		601,010
Total other income		1,411,394
Federal and foreign income taxes incurred		394,131
Net Income	$	916,761

Direct General Insurance Company of Mississippi
Reconciliation of Capital and Surplus – Statutory

For the Examination Period Ended December 31, 2012	**2010**	**2011**	**2012**
Surplus as regards policyholders, December 31 prior year	$15,185,606	$15,269,008	$13,989,051
Net income	103,621	2,025,524	916,761
Change in deferred income tax	(114,257)	(288,203)	(34,743)
Change in nonadmitted assets	70,619	(17,278)	(176,776)
Cumulative effect of changes in accounting principles	-	-	112,120
Dividends to stockholders	-	(3,000,000)	(3,000,000)
Aggregate write-ins for gains and losses in surplus	23,418	-	233,007
Change in surplus as regards policyholders for the year	83,401	(1,279,957)	(1,949,631)
Surplus as regards policyholder, December 31 current year	$15,269,008	$13,989,051	$12,039,420

Reconciliation of Examination Adjustments to Surplus – Statutory

There were no changes made to the assets, liabilities, or surplus balances reported by the Company for the year ended December 31, 2012. The surplus as regards to policyholders, which totaled $12,039,420 as of the examination date, was determined to be reasonably stated and in compliance with Miss. Code Ann. §83-19-31.

COMMENTS ON FINANCIAL STATEMENTS

There were no comments on financial statements deemed necessary for purposes of this examination report.

MARKET CONDUCT ACTIVITIES

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included operations/management, complaint handling, producer licensing, underwriting and rating, and claims. No significant exceptions with regard to the limited procedures performed were noted.

COMMITMENTS AND CONTINGENT LIABILITIES

The Company's management and attorneys confirmed that there was no pending material non-policy related litigation or unreported commitments or contingent liabilities incurred through the examination date.

SUBSEQUENT EVENTS

The examination team assessed material transactions and/or events occurring subsequent to the examination date through December 31, 2013. The following items were deemed noteworthy:

1. A hail storm occurred on March 18, 2013 that resulted in total losses that exceeded the holding company's retention and triggered a recovery under the property catastrophe reinsurance agreement. The CAT coverage is for the benefit of all the Direct General companies so losses are accumulated from all states of operations from this same event to determine the ultimate recovery amount. The Company's estimated gross losses, including loss adjustment expenses, related to this storm were approximately $2.9 million. The holding company's retention under the reinsurance agreement is $2 million and then 5% on losses from $2 million to $10 million. The holding company would also owe a reinstatement premium for the portion of the coverage used so the full reinsurance coverage would be available if another event were to exceed retention in 2013. After deducting retention, co-participation, and reinstatement premium, the Company expects to receive a total of approximately $700,000 in net reinsurance recoverable.
2. The Board declared $1.2 million in extraordinary dividends October 1, 2013 to be paid after October 23, 2013. The MID approved the payment of the extraordinary dividend on November 8, 2013.

3. The Board amended the Company’s investment policy and guidelines to include collateralized loan obligations as an eligible investment as part of the asset class that is subject to an aggregate cap of 10% of the Company’s portfolio.

COMMENTS AND RECOMMENDATIONS

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

ACKNOWLEDGMENT

The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-charge:	R. Dale Miller, CPA, CFE, CFF
Supervising Examiner:	Joseph R. May, CPA, CMA, CFE, CIE, FAHM
Lead Actuary:	Robert Daniel, ACAS, MAAA
Examiner:	Andrea Harbison, CPA
Examiner:	Sara Schumacher, CPA, AFE
Examiner:	Angie Plunkett
Examiner:	Larry Knight, Jr., CFE

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

R. Dale Miller

R. Dale Miller, CPA, CFE, CFF
Examiner-in-charge