STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Direct General Insurance Company
201 North Illinois Street FL 16 South Tower
Indianapolis, Indiana 46204

Examination of **Direct General Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Direct General Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on November 9, 2011, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Direct General Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

December 12, 2011
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8905

STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Direct General Insurance Company)
201 North Illinois Street FL 16 South Tower)
Indianapolis, Indiana 46204)

Examination of **Direct General Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Direct General Insurance Company** (hereinafter "Company") for the time period January 1, 2006 through December 31, 2010.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on October 26, 2011.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on November 9, 2011 and was received by the Company on November 14, 2011.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS:**

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **Direct General Insurance Company** as of December 31, 2010.
2. That the Examiner's Recommendations are reasonable and necessary in order for the **Direct General Insurance Company** to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.

2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.

3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 12th day of December, 2011.

Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

DIRECT GENERAL INSURANCE COMPANY

NAIC COMPANY CODE 42781

As of

December 31, 2010

TABLE OF CONTENTS

STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

October 26, 2011

Honorable Joseph Torti III, Chairman
Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Department of Business Regulation
Division of Insurance
1511 Pontiac Avenue, Bldg 69-2
Cranston, Rhode Island 02920

Honorable Sharon P. Clark, Commissioner
Kentucky Department of Insurance
Secretary, Southeast Zone
PO Box 517
Frankfort, Kentucky 40602-0517

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
Secretary, Midwest Zone
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Superintendent and Commissioners:

Pursuant to the authority vested in Appointment Number 3661, an examination has been made of the affairs and financial condition of:

Direct General Insurance Company
201 North Illinois Street, 16th Floor South Tower
Indianapolis, Indiana 46204

hereinafter referred to as the "Company", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at its administrative office located at 1281 Murfreesboro Road, Nashville, Tennessee.

The Report of Examination, reflecting the status of the Company as of December 31, 2010, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the South Carolina Division of Insurance as of the period ending December 31, 2005. The present risk-focused examination was conducted by Huff, Thomas & Company (Huff Thomas) and covered the period from January 1, 2006, through December 31, 2010, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

This was a coordinated risk-focused examination in which the State of Indiana was designated as the lead state. Examiners from the states of Arkansas, Louisiana, South Carolina and Tennessee participated in the examination which included the following affiliated companies:

- Direct General Insurance Company of Louisiana (LA) - NAIC #14630
- Direct General Life Insurance Company (SC) - NAIC #97705
- Direct Insurance Company (TN) - NAIC #37220
- Direct National Insurance Company (AR) - NAIC #23736

In conducting the risk-focused exam, the Indiana Department of Insurance (IDOI), by its representatives, has relied upon the independent audit reports and the opinions contained therein rendered by Ernst & Young LLP for the exam period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., a consulting actuary appointed by the IDOI, conducted a review of the Company's reserves as of December 31, 2010.

The risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

The Company was incorporated under the laws of Florida on December 15, 1990, as Independent Property and Casualty Insurance Company and began operations on January 1, 1991, after receiving a Certificate of Authority from the Florida Department of Insurance. Effective March 6, 1997, in contemplation of the Company being sold to Direct General Corporation (DGC), the Company was re-domesticated to Tennessee. On March 14, 1997, upon receipt of approval from the Tennessee Commissioner of Insurance, DGC acquired all of the outstanding capital stock of the Company. Prior to or simultaneously with the closing of the acquisition, 100% of the Company's existing business was transferred to an affiliate of its former owner, primarily by bulk assumption reinsurance. Following the closing, the Company changed its name to Direct General Insurance Company. On December 27, 2000, the Company re-domesticated to South Carolina. On March 30, 2007, Elara Holdings, Inc., an affiliate of Calera Capital, TPG Capital and Elara Merger Corporation, acquired all of the outstanding common stock of DGC. This merger removed DGC and its affiliates from U.S. Security and Exchange Commission regulatory authority since they are no longer public companies. The Company re-domesticated to the State of Indiana from South Carolina effective December 20, 2007.

CAPITAL AND SURPLUS

As of December 31, 2010, the Company had ten million (10,000,000) shares of $25 par value common stock authorized and 180,000 shares issued and outstanding. DGC owns 100% of the issued and outstanding shares. During the examination period, $74,785,000 in dividends were paid to DGC. All dividends paid during the examination period were properly authorized by the Board of Directors and all extraordinary dividends as defined by Indiana Code (IC) 27-1-23-4(4) were approved by the IDOI. The following exhibit depicts the Company's dividends paid throughout the examination period:

	2010	2009	2008	2007	2006
Total Dividends	$11,185,000	$34,200,000	$13,700,000	$13,700,000	$2,000,000

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed in fourteen (14) states but writes 66.9% of its business in Florida and the remainder in Georgia, Missouri, South Carolina, Texas and Virginia.

The Company writes nonstandard private passenger automobile insurance policies. 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. Affiliated insurance agencies sell the Company's products directly through neighborhood sales offices. In the 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. Approximately 65% of the policies sold are financed by an affiliated premium finance company.

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	2010	2009	2008	2007	2006
Total admitted assets	$310,182,490	$340,211,242	$385,385,209	$373,762,435	$378,061,049
Total liabilities	204,883,684	228,352,539	246,158,174	235,334,907	239,124,278
Policyholder surplus	105,298,806	111,858,703	139,227,035	138,427,528	138,936,771
Net income	9,569,593	7,465,148	9,695,024	10,411,111	15,021,996
Net premiums written	222,529,687	245,087,128	271,096,537	290,218,552	307,308,976

The Company has reported positive net income in each of the five (5) years under examination.

LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination. The amounts were compiled from the Company's filed Annual Statements and from examination results:

Year	*Premiums Earned*	*Losses & LAE Incurred*	*Expenses Incurred*	*Combined Ratio*
2010	$234,867,719	$201,253,082	$47,840,768	106.1%
2009	259,320,101	242,626,092	49,181,514	112.5%
2008	278,093,685	216,701,601	55,005,578	97.7 %
2007	296,216,764	250,297,644	51,672,879	101.9%
2006	281,920,876	224,021,350	53,598,321	98.5%

The increase in the Company's combined ratio during 2009 was a result of the increase in PIP fraud in Florida.

MANAGEMENT AND CONTROL

Board of Directors

The following persons served as Directors of the Company as of December 31, 2010:

Name	Residence	Affiliation
Carey D. Benson	Southlake, TX	President, CEO Elara Holdings, Inc.
John T. Hagely	Franklin, TN	Executive VP, CFO Elara Holdings, Inc.
Scott J. Bojczuk	Franklin, TN	Executive VP, General Counsel Elara Holdings, Inc.
Gregory L. Thomas	Fishers, IN	Attorney Resident Director
Jonathan G. Walters	Franklin, TN	Senior VP, CIO DGC

Officers

The following persons served as officers of the Company as of December 31, 2010:

Name	Title
Carey D. Benson	President and Chief Executive Officer
Scott J. Bojczuk	Executive VP - General Counsel and Secretary
John T. Hagely	Executive VP and Chief Financial Officer
Craig E. Hamway	Executive VP - Marketing & Business Development
Paul F. DiFrancesco	Executive VP - Operations
John F. Campbell Jr.	Executive VP – Products Mgmt
Jonathan G. Walters	Senior VP and Chief Information Officer
David J. Newman	Senior VP – Finance
Kimberley W. Nowell	Senior VP - Human Resources
Thomas A, Kaschalk	Senior VP - Insurance Chief Claim Officer
Marc E. DiGiacomo	VP - Product Management
Brian T. Hanrahan	VP - Actuarial Group
Jobie G. Williams	VP – Treasurer
Kyle G. Morse	VP and Corporate Controller
Timothy G. Thomas	VP - Insurance Operations
Amy M. Sanford	VP and Assistant Secretary
Josh L. Jarrett	VP – Product Mgmt
Ronna F. Ruppelt	Assistant Secretary
Constance A. Collins	Assistant Secretary
Jonathan R. Dowell	Assistant Secretary

James Dickson III, Chief Executive Officer, resigned on February 26, 2010. Daniel Tarantin, President, resigned on September 1, 2010. On September 1, 2010, Carey D. Benson was appointed President and Chief Executive Officer. Carey D. Benson resigned on February 28, 2011, subsequent to the period under examination. On March 29, 2011, the Company appointed John Mullen as President and Chief Executive Officer. Mr. Mullen is the former President of Unitrin Specialty Insurance Company and has thirty-five (35) years of insurance experience.

CONFLICT OF INTEREST

The Company has 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, 2010, were reviewed without exception.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination that one Board member did not subscribe to an "Oath of Office". **See the "Other Significant Findings" section of this report for further explanation on this exception.**

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended and restated its Articles of Incorporation and Bylaws on December 14, 2007, and December 20, 2007, respectively, to reflect that it re-domesticated to the State of Indiana from South Carolina on December 20, 2007.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. The Company was not in compliance with IC 27-1-7-7(b) which states that the annual meeting of the shareholders will be held within five (5) months after the close of each fiscal year. **See the "Other Significant Findings" section of this report for further explanation on this exception.**

AFFILIATED COMPANIES

Organizational Structure

The ultimate parent company, Elara Holdings, Inc., was incorporated in Delaware on November 21, 2006, for the purpose of holding an investment in DGC. DGC was incorporated in Tennessee on September 28, 1993, and owns all of the outstanding shares of the Company. The Company, as part of an insurance holding company system, is required to file an insurance holding company system registration disclosure statement (Form B) with the IDOI on an annual basis. The following organizational chart depicts the Company's relationship within the holding company system:

Elara Holdings, Inc. (DE)

- Direct General Corporation (TN)
  - Direct Insurance Company (TN)
  - Direct General Insurance Company of Louisiana (LA)
  - **Direct General Insurance Company (IN)**
    - Direct Life Insurance Company (GA)
    - Direct General Life Insurance Company. (SC)
    - Direct General Insurance Company of Mississippi (MS)
  - Direct National Insurance Company (AR)

Affiliated Agreements

Intercompany Cost Allocation Agreement

The Company was party to an Intercompany Cost Allocation Agreement with DGC and affiliates, whereby affiliates of the Company provided underwriting, policy issuance, claims settlement, premium financing, and administrative services for the Company. A copy of the Intercompany Cost Allocation Agreement was provided with the Annual Registration Statement for December 31, 2010. Under this agreement, the Company paid a total of $38,358,862 and $36,562,594 for 2010 and 2009, respectively. On January 18, 2008, this agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4). During the course of the examination it was identified that the agreement was not in compliance with SSAP #96 of the NAIC Accounting Practices and Procedure Manual. **See the "Other Significant Findings" section of this report for further explanation on this exception.**

Reinsurance Settlement Agreement

The Company was party to a Reinsurance Settlement Agreement with Direct Insurance Company and its other property and casualty affiliates. Due to the fact that 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. On January 18, 2008, this agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Producer Agreements

The Company was party to producer agreements with its affiliated insurance agencies, Direct General Insurance Agency of Tennessee, Inc., Direct General Insurance Agency of South Carolina, Inc., Direct General Insurance Agency of Georgia, Inc. and Right Choice Insurance Agency, whereby management could pay commission up to 15% on written premiums to its agencies. Under these agreements the Company paid total commissions of $11,483,073 and $13,711,831 for 2010 and 2009, respectively. On January 18, 2008, these agreements were filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Premium Finance Agreement

The Company and the Direct General Group premium finance companies were party to an Intercompany Premium Finance Account Settlement Agreement. This agreement documents the duties and obligations between the parities relating to the settlement of accounts for financed insurance premiums and return unearned premium arising out of insurance premium finance agreements. Under these agreements a net total of $183,011,983 was settled for 2010. On January 18, 2008, this agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

Intercompany Tax Allocation Agreement

With the exception of Direct General Life Insurance Company and Direct Life Insurance Company, Direct General Corporation's subsidiaries that are greater than 80% owned are consolidated for federal income tax purposes. A consolidated federal income tax allocation agreement for 1995 and subsequent years was entered into by the companies. On January 18, 2008, this agreement was filed with the IDOI in accordance with IC 27-1-23-4(b)(4). During course of the examination it was identified that this intercompany tax allocation agreement was not in compliance with SSAP #96 of the NAIC Accounting Practices Procedure Manual. **See the "Other Significant Findings" section of this report for further explanation on this exception.**

Intercompany Recurring ETF Florida Only Agreement

The Company and Direct General Insurance Agency (DGIA) were party to an Intercompany Electronic Transaction Funds Agreement with regards to net written premium (written premium less commission) in Florida. Under this agreement DGIA transferred to the Company a total net written premium of $136,724,240 for 2010. On January 18, 2008, these agreements were filed with the IDOI in accordance with IC 27-1-23-4(b)(4).

FIDELITY BOND AND OTHER INSURANCE

The Company through its holding company, Elara Holdings, Inc., protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by the American International Group. The bond has an aggregate loss coverage limit of $15 million, and a single loss limit of $7.5 million with a $100,000 deductible. This bond meets the suggested minimum coverage prescribed by the NAIC. The Company, also through Elara Holdings, Inc., has professional liability coverage with a $10 million limit and $1 million retention. Other major insurance coverages in force at December 31, 2010, were as follows:

Commercial Umbrella	Commercial Property
Commercial Automobile	Workers' Compensation
Directors & Officers	

STATUTORY DEPOSITS

The Company reported the following statutory deposits with various states consisting of U.S. Treasury Notes, cash and cash equivalent funds as of December 31, 2010:

State		Book Value		Fair Value
For all Policyholders				
Indiana	$	599,892	$	630,162
Total for all Policyholders	$	599,892	$	630,162
All Other Special Deposits				
Florida	$	2,604,058	$	2,613,720
Georgia		25,006		25,006
Oklahoma		350,000		350,000
South Carolina		286,685		310,444
Tennessee		228,165		228,165
Virginia		360,000		360,000
Reinsurance with Old American County Mutual		4,473,957		4,473,957
Reinsurance with State National Insurance Company		8,619,208		8,776,448
Total Other Special Deposits	$	16,947,079	$	17,137,740

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 has enabled it to increase its retention of direct business written over the past three years. In 2006, the quota share reinsurance agreement was eliminated.

Reinsurance Assumed

At December 31, 2010, the Company assumed a 100% quota share percentage of certain personal automobile liability and physical damage business in Texas underwritten by Old American Country Mutual Fire Insurance Company, an unaffiliated insurance company, domiciled in Texas. The agreement commenced effective January 1, 2003, and is continuous until terminated. The Company also assumed a 100% quota share percentage of certain personal automobile physical damage business in North Carolina underwritten by an unaffiliated insurance company domiciled in Texas, States National Insurance Company. This agreement became effective on October 1, 2002, and is continuous until terminated. It was originally between the Company and State National Specialty Insurance Company and it was later amended to include State National Insurance Company. The affiliates of the Company are responsible for sales, service and claims administration related to the assumed business in Texas and North Carolina. The Company primarily entered into these agreements to establish a presence in the territories where it was not licensed at the time. Since the agreements were executed, the Company has become licensed as a property and casualty insurer in Texas, and the majority of its business is now being written on the Company's policy forms.

Reinsurance Ceded

The Company maintains joint reinsurance agreements with all members of the Direct General Group. Effective January 1, 2010, 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 with a maximum value per vehicle covered of $75,000. The reinsurers for 2010 are Endurance Specialty Insurance Ltd., QBE Reinsurance Corp., Re Ltd., and certain underwriters from Lloyds.

RESERVES

Benny Yuen, ACAS, MAAA, Senior Manager with the firm of Ernst & Young LLP, is the Company's Appointed Actuary. Mr. Yuen was appointed by the Board of Directors on June 14, 2010, 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, 2008, 2009, and 2010.

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 opinion as of December 31, 2010, stated the reserves: A) meet the requirements of the insurance laws of the State of Indiana; B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles; and C) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements. Mr. Yuen estimated loss and LAE reserves for the Company net of salvage & subrogation.

During the examination, it was determined by the IDOI consulting actuary, David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., that the significant actuarial items in the Company's 2010 Annual Statement are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the IDOI.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared from the Company's general ledger for the year ended December 31, 2010, was agreed to the 2010 Annual Statement without exception. The Annual Statement for the years ended December 31, 2006, through December 31, 2010, were agreed to each year's independent audit report with no exceptions noted. The Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

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. From a review of the internal controls and the

Company's disaster recovery plan, it was determined that the current information system possesses most of the physical and internal controls as prescribed by the NAIC.

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 agreeing 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.

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2010			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	$ 198,894,274	$ -	$ 198,894,274	$ 223,108,520
Preferrd stocks	3,000,000	-	3,000,000	3,000,000
Common stocks	47,455,108	-	47,455,108	48,168,506
Cash $ 1,853,727, cash equivalents $0 and short-term investments $2,966,373	4,820,100	-	4,820,100	1,698,364
Receivables for securities	3,326	-	3,326	-
Subtotals, cash and invested assets	$ 254,172,808	$ -	$ 254,172,808	$ 275,975,390
Investment income due and accrued	1,856,889	-	1,856,889	2,502,318
Uncollected premiums and agents' balances in the course of collection	14,527,582	-	14,527,582	16,335,545
Deferred premiums, agents' balances and installments booked but deferred and not yet due	21,170,380	-	21,170,380	14,557,034
Amounts recoverable from reinsurers	(2,493)	-	(2,493)	892,778
Funds held by or deposited with reinsured	9,009,201	-	9,009,201	9,898,885
Current federal and foreign income tax recoverable and interest thereon	646,867	-	646,867	7,523,512
Net deferred tax asset	8,609,205	-	8,609,205	11,702,081
Guaranty funds receivable or on deposit	757	-	757	757
Receivable from parent, subsidiaries and affiliates	94,187	-	94,187	265,821
Aggregate write-ins for other invested assets	97,107	-	97,107	557,121
Total Assets	**$ 310,182,490**	**$ -**	**$ 310,182,490**	**$ 340,211,242**

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	As of December 31, 2010			
Liabilities:	**Per Annual Statement**	**Examination Adjustments**	**Per Examination**	**December 31, Prior Year**
Losses	$ 85,043,351	$ -	$ 85,043,351	$ 97,126,834
Reinsurance payable on paid losses and loss adjustment expense	908,016		908,016	1,471,621
Loss adjustment expenses	3,819,434	-	3,819,434	3,620,198
Commissions payable, contingent commissions and similar charges	734,751	-	734,751	2,853,322
Other expenses	1,109,204	-	1,109,204	1,185,862
Taxes, licenses, and fees (excluding federal and foreign income taxes)	969,627	-	969,627	1,057,386
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $61)	105,355,042	-	105,355,042	117,693,074
Ceded reinsurance premiums payable	6,682	-	6,682	7,198
Amounts withheld or retained by company for account of others	83,269	-	83,269	106,278
Payable to parent, subsidiaries and affiliates	6,487,496	-	6,487,496	2,943,297
Aggregate write-ins for liabilities	366,812	-	366,812	287,469
Total Liabilities	**$ 204,883,684**	**$ -**	**$ 204,883,684**	**$ 228,352,539**
Aggregate write-ins for special surplus funds	$ 7,709,065	$ -	$ 7,709,065	$ 1,137,810
Common capital stock	4,500,000	-	4,500,000	4,500,000
Gross paid in and contributed surplus	81,162,358	-	81,162,358	81,162,358
Unassigned funds (surplus)	11,927,383	-	11,927,383	25,058,535
Surplus as regards policyholders	**$ 105,298,806**	**$ -**	**$ 105,298,806**	**$ 111,858,703**
Total liabilities and surplus	**$ 310,182,490**	**$ -**	**$ 310,182,490**	**$ 340,211,242**

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2010			
	Per Annual Statement	Exam Adjustments	Per Examination	December 31, Prior Year
Underwriting Income				
Premiums earned	$ 234,867,719	$ -	$ 234,867,719	$ 259,320,101
Deductions				
Losses incurred	$ 162,634,809	$ -	$ 162,634,809	$ 206,427,909
Loss adjustment expenses incurred	38,618,273	-	38,618,273	36,198,183
Other underwriting expenses incurred	47,840,768	-	47,840,768	49,181,514
Total underwriting deductions	$ 249,093,850	$ -	$ 249,093,850	$ 291,807,606
Net underwriting gain (loss)	**$ (14,226,131)**	**$ -**	**$ (14,226,131)**	**$ (32,487,505)**
Investment Income				
Net investment income	$ 14,641,950	$ -	$ 14,641,950	$ 29,389,619
Net realized capital gains or (losses)	5,492,362	-	5,492,362	58,030
Net investment gain	**$ 20,134,312**	**$ -**	**$ 20,134,312**	**$ 29,447,649**
Other Income				
Net gain (loss) from premium balances charged off	$ (35,631)	$ -	$ (35,631)	$ -
Aggregate write-ins for miscellaneous income	1,776,357	-	1,776,357	1,209,026
Total other income	**$ 1,740,726**	**$ -**	**$ 1,740,726**	**$ 1,209,026**
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 7,648,907	$ -	$ 7,648,907	$ (1,830,830)
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	$ 7,648,907	$ -	$ 7,648,907	$ (1,830,830)
Federal and foreign income taxes incurred	(1,920,686)	-	(1,920,686)	(9,295,978)
Net Income	**$ 9,569,593**	**$ -**	**$ 9,569,593**	**$ 7,465,148**

DIRECT GENERAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	As of December 31, 2010			
	Per Annual Statement	**Examination Adjustments**	**Per Examination**	**December 31, Prior Year**
Surplus Accounts:				
Surplus as regards policyholders, December 31 prior year	$ 111,858,703	$ -	$ 111,858,703	$ 139,227,035
Net income	$ 9,569,593	$ -	$ 9,569,593	$ 7,465,148
Change in net unrealized capital gains or (losses)	958,567	-	958,567	37,316
Change in net deferred income tax	824,589	-	824,589	(663,454)
Change in nonadmitted assets	(7,825,778)	-	(7,825,778)	(7,342)
Dividend to stockholders	(11,185,000)	-	(11,185,000)	(34,200,000)
Aggregate write-ins for gains and losses in surplus:	1,098,132	-	1,098,132	-
Change in surplus as regards policyholders for the year	**$ (6,559,897)**	**$ -**	**$ (6,559,897)**	**$ (27,368,332)**
Surplus as regards policyholders, December 31 current year	**$ 105,298,806**	**$ -**	**$ 105,298,806**	**$ 111,858,703**

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2010, based on the results of this examination.

OTHER SIGINIFICANT FINDINGS

The following accounts and records deficiencies or concerns were noted:

Oath of Office:

It was identified during the period under examination that one of the Company's board members did not subscribe to an "Oath of Office" as required by IC 27-1-7-10(i), stating he or she will faithfully, honestly and diligently administer the affairs of the Company as his or her duties may encompass and will not knowingly violate or willingly permit to be violated any of the provision of laws applicable to the Company.

It is recommended the Company comply with IC 27-1-7-10(i) by requiring each Director to subscribe to an "Oath of Office" when elected to the Board.

Minutes:

The annual meeting of the sole shareholder of the Company was held on June 15, 2010, and June 9, 2009, to elect Directors for the Company which was contrary to IC 27-1-7-7(b) which states "An annual meeting of shareholders, members or policyholders shall be held within five (5) months after the close of each fiscal year of the corporation and at such time within that period as the bylaws may provide."

It is recommended that the annual meeting of the sole shareholder of the Company be held within five (5) months after the close of each fiscal year as required by IC 27-1-7-7(b).

Affiliated Agreements:

During the review of the Intercompany Cost Allocation Agreement and the Intercompany Tax Allocation Agreement it was noted that the agreements did not contain settlement dates. SSAP #96, paragraph 2, of the NAIC Accounting Practices and Procedures Manual 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 the due date is not addressed by the written agreement, any uncollected receivable is non-admitted."

As the inter-company receivable under the above agreements was not material as of December 31, 2010, no adjustments were made in the Report of Examination.

It is recommended the Company amend its related party contracts to comply with the requirements

of SSAP #96, paragraph 2.

SUBSEQUENT EVENTS

Subsequent to the examination date and prior to the completion of fieldwork, Carey Benson, President and CEO, resigned February 28, 2011. On March 29, 2011, John Mullen was appointed to the position of President and CEO of the Company.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Huff, Thomas & Company, hereinafter collectively referred to as the "Examiners" performed an examination of the **Direct General Insurance Company** as of **December 31, 2010**.

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

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **Direct General Insurance Company** as of **December 31, 2010,** as determined by the undersigned.

David Daulton, CFE
Huff, Thomas & Company

State of:
County of:

On this 2 day of March, 2011, before me personally appeared, David Daulton, to sign this document.

IN WITNESS WHEROF, I have hereunto set my hand and affixed my notorial seal in said County and State, the day and year last above written.

My commission expires 5/31/2014 Rose Maria Chierchio
Notary Public

ROSE MARIA CHIERCHIO
Notary Public, State of New York
No. 01CH4803163
Qualified in Richmond County
Commission Expires 05/31/2014