Report
of the
Examination of
Sheboygan Falls Insurance Company
Sheboygan Falls, Wisconsin
As of December 31, 2014
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In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

SHEBOYGAN FALLS INSURANCE COMPANY
Sheboygan Falls, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Sheboygan Falls Insurance Company (SFIC or the company) was conducted in 2012 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 and 2016 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of Donegal Mutual Insurance Company (DMIC) and its insurance subsidiaries and affiliates. The Pennsylvania Insurance Department (PID) acted in the capacity as the lead state for the coordinated examinations. Work performed by PID was reviewed and relied on where deemed appropriate.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition,
either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant’s work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

**Independent Actuary’s Review**

An independent actuarial firm was engaged by the PID to review the Donegal Insurance Group’s loss and loss adjustment expense reserves. The loss and loss adjustment expense reserves of the company was included in the independent actuary’s review. The actuary’s results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary’s conclusion.
II. HISTORY AND PLAN OF OPERATION

Sheboygan Falls Insurance Company was organized in May 1899 as The Village of Sheboygan Falls Mutual Fire Insurance Company and commenced business on August 18, 1899. In 1934, the company adopted the name Sheboygan Falls Mutual Insurance Company. The Manitowoc Mutual Fire Insurance Company and the Mutual Fire Insurance Company of Bloomington were merged into the company on July 1, 1962, and November 1, 1966, respectively. Additionally, the business of German Mutual Fire Insurance Company was reinsured as of November 1, 1964.

On December 27, 2006, the company entered into an affiliation agreement with DMIC, a property and casualty insurer headquartered in Marietta, Pennsylvania. The Wisconsin Office of the Commissioner of Insurance (OCI) approved the affiliation agreement on June 7, 2007. As part of the affiliation agreement, DMIC purchased a contribution note in the amount of $3,500,000 issued by the company and acquired the majority of the seats on the company’s board of directors. Additionally, the company entered into several ancillary agreements with DMIC including services, technology license, and reinsurance and retrocession agreements. The main purpose of these agreements was to assist the company in reducing its expense ratio, make available certain information systems and applications licensed to or developed by DMIC and to assist the company in obtaining an improved A.M. Best rating. These agreements were terminated on January 1, 2009, after the company converted from a mutual to a stock company.

On April 30, 2008, the company adopted a plan to demutualize (i.e., to convert from a mutual company to a stock company), pursuant to s. 611.76, Wis. Stat. On December 1, 2008, the company completed its plan of conversion and changed its name to Sheboygan Falls Insurance Company. On that date, Donegal Group Inc. (DGI) purchased the $3,500,000 contribution note from DMIC. DGI is a publicly traded holding company, and it is owned in part and controlled by the majority of voting power by DMIC. DGI exchanged the contribution note for $1.00 par value shares of common stock issued by the company for each $1.00 of the principal amount and any accrued but unpaid interest of the note. In addition, DGI made a contribution to surplus of the company so that surplus was no less than $10,500,000.
The company only writes business in Wisconsin; in 2014 direct premium written totaled $19,646,659.

The major products marketed by the company include homeowner’s multiple peril, private passenger auto liability, auto physical damage, and commercial multiple peril. These lines comprise 84% of direct premium. The company also writes worker’s compensation. The major products are marketed through independent agents.

The following table is a summary of the net insurance premiums written by the company in 2014. The growth of the company is discussed in the “Financial Data” section of this report.

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Direct Premium</th>
<th>Reinsurance Ceded</th>
<th>Net Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>$ 119,513</td>
<td>$ 17,722</td>
<td>$ 101,791</td>
</tr>
<tr>
<td>Allied lines</td>
<td>33,971</td>
<td>4,920</td>
<td>29,051</td>
</tr>
<tr>
<td>Farmowner’s multiple peril</td>
<td>191,785</td>
<td>16,205</td>
<td>175,580</td>
</tr>
<tr>
<td>Homeowner’s multiple peril</td>
<td>6,220,577</td>
<td>831,132</td>
<td>5,389,445</td>
</tr>
<tr>
<td>Commercial multiple peril</td>
<td>2,046,133</td>
<td>347,381</td>
<td>1,698,752</td>
</tr>
<tr>
<td>Inland marine</td>
<td>290,256</td>
<td>39,957</td>
<td>250,299</td>
</tr>
<tr>
<td>Earthquake</td>
<td>1,277</td>
<td>53</td>
<td>1,224</td>
</tr>
<tr>
<td>Worker’s compensation</td>
<td>1,377,828</td>
<td>152,353</td>
<td>1,225,475</td>
</tr>
<tr>
<td>Other liability – occurrence</td>
<td>584,787</td>
<td>462,252</td>
<td>122,535</td>
</tr>
<tr>
<td>Private passenger auto liability</td>
<td>4,443,714</td>
<td>291,977</td>
<td>4,151,737</td>
</tr>
<tr>
<td>Commercial auto liability</td>
<td>464,198</td>
<td>3,393</td>
<td>460,805</td>
</tr>
<tr>
<td>Auto physical damage</td>
<td>3,818,670</td>
<td>243,949</td>
<td>3,574,721</td>
</tr>
<tr>
<td>Boiler and machinery</td>
<td>53,950</td>
<td>52,915</td>
<td>1,035</td>
</tr>
</tbody>
</table>

Total All Lines: $19,646,659 $2,464,209 $17,182,450
III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of ten members. Three to four directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting.

Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive an annual salary of $3,000 plus $500 for every board meeting attended. Committee members receive $75 per meeting.

Currently the board of directors consists of the following persons:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Principal Occupation</th>
<th>Term Expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scott A. Berlucchi, Auburn, NY</td>
<td>President and CEO, Auburn Community Hospital</td>
<td>2017</td>
</tr>
<tr>
<td>Dennis J. Bixenman, Le Mars, IA</td>
<td>Senior Consultant, Williams &amp; Company</td>
<td>2018</td>
</tr>
<tr>
<td>Frederick W. Dreher, III, Ardmore, PA</td>
<td>Senior Partner, Duane Morris LLP</td>
<td>2016</td>
</tr>
<tr>
<td>James H. Fasse, Sheboygan Falls, WI</td>
<td>President, Fasse Paint Company, Inc.</td>
<td>2017</td>
</tr>
<tr>
<td>Philip H. Glatfelter, II, Columbia, PA</td>
<td>Retired Vice President, Meridian Bank</td>
<td>2018</td>
</tr>
<tr>
<td>Kevin M. Kraft*, Columbia, PA</td>
<td>Funeral Director, Clyde W. Kraft Funeral Home, Inc.</td>
<td>2018</td>
</tr>
<tr>
<td>Kenneth F. Maurer, Sheboygan Falls, WI</td>
<td>Retired President, Community Banc-Corp.</td>
<td>2017</td>
</tr>
<tr>
<td>Donald H. Nikolaus, Silver Spring, PA</td>
<td>President and CEO, Donegal Mutual Insurance Co.</td>
<td>2016</td>
</tr>
<tr>
<td>Thomas A. Scribner, Sheboygan Falls, WI</td>
<td>Retired President, B&amp;B Ford Motors, Inc.</td>
<td>2016</td>
</tr>
<tr>
<td>Roy R. Sherbahn*, Millersville, PA</td>
<td>Retired Owner and Operator, Sherbahn Associates, Inc.</td>
<td>2015</td>
</tr>
</tbody>
</table>

*Roy R. Sherbahn retired from the board in 2015 and was replaced by Kevin Kraft.
Officers of the Company

The officers serving at the time of this examination are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
<th>2014 Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lee F. Wilcox</td>
<td>President and Treasurer</td>
<td>$ 79,869</td>
</tr>
<tr>
<td>Kenneth F. Maurer</td>
<td>Secretary</td>
<td>5,000</td>
</tr>
<tr>
<td>Robert R. Long</td>
<td>Vice President</td>
<td>178,254</td>
</tr>
<tr>
<td>Jeffrey D. Miller</td>
<td>Vice President</td>
<td>533,629</td>
</tr>
<tr>
<td>Sanjay Pandey</td>
<td>Vice President</td>
<td>479,681</td>
</tr>
<tr>
<td>Janice L. Tupper</td>
<td>Sr. Vice President</td>
<td>192,359</td>
</tr>
<tr>
<td>Vincent A. Viozzi</td>
<td>Vice President</td>
<td>357,772</td>
</tr>
<tr>
<td>Daniel J. Wagner</td>
<td>Vice President</td>
<td>490,435</td>
</tr>
<tr>
<td>Kevin G. Burke</td>
<td>Executive Vice President</td>
<td>521,330</td>
</tr>
</tbody>
</table>

The above compensation is gross compensation paid to each officer on behalf of all companies that are part of the Donegal Insurance Group.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

**Executive Committee**
Donald H. Nikolaus, Chair  
Philip H. Glatfelter, II  
Lee F. Wilcox

**Compensation Committee**
Frederick W. Dreher, III, Chair  
Philip H. Glatfelter, II  
Kenneth F. Maurer

**Nominating Committee**
Philip H. Glatfelter, II, Chair  
Frederick W. Dreher, III  
Thomas A. Scribner  
Donald H. Nikolaus (Non-voting)  
Lee F. Wilcox (Non-voting)
IV. AFFILIATED COMPANIES

The company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.
Organizational Chart
As of 12/31/14

All subsidiaries are 100% owned except as noted
---- Denotes affiliation

Donegal Mutual Insurance Company
Owner 44% of

Donegal Group Inc.
56% owned by public stockholders

Conestoga Title Insurance Company

Lancaster Title Abstracting Company

Commonwealth Insurance Services, Inc.

Southern Mutual Insurance Company

Donegal Financial Services Corporation

Union Community Bank

Atlantic States Insurance Company

Lancaster Title Abstracting Company

Southern Insurance Company of Virginia

Michigan Insurance Company

Le Mars Insurance Company

Sheboygan Falls Insurance Company

Conestoga Title Insurance Company

Abstracting Company of Berks County

Union Community Bank

Donegal Financial Services Corporation

Peninsula Indemnity Company

Holder of Surplus Notes of

Donegal Group Inc.

Optima Insurance Company

Lancaster Title Abstracting Company

Abstracting Company of Berks County

Atlantic States Insurance Company

Oregon Mutual Insurance Company

Southern Insurance Company of Virginia

Michigan Insurance Company

Sheboygan Falls Insurance Company

Le Mars Insurance Company

Peninsula Indemnity Company

All subsidiaries are 100% owned except as noted
---- Denotes affiliation
Donegal Mutual Insurance Company

DMIC provides personal and commercial property and casualty insurance. As of December 31, 2014, the audited financial statements of DMIC reported assets of $393,744,851 liabilities of $189,392,591 and surplus of $204,352,260. Operations for 2014 produced net income of $3,464,989.

DMIC’s growth strategy has included the acquisition of other insurance companies through DGI to expand its business.

Donegal Group Inc.

DGI is a publicly traded holding company. DGI owns several stock property and casualty insurance companies. As of December 31, 2014, the audited financial statements of DGI reported assets of $1,458,654,644, liabilities of $1,042,520,001 and stockholders’ equity of $416,134,643. Operations for 2014 produced net income of $14,539,018.

At December 31, 2014, DMIC owned approximately 36% of the 21.5 million outstanding shares of Class A common stock and approximately 76% of the 5.6 million outstanding shares of Class B common stock of DGI. Class B stock has 10 times the voting power of Class A stock, so DMIC owned approximately two-thirds of the aggregate voting power of DGI. DGI wholly owns the affiliated stock companies consisting of Atlantic States Insurance Company (PA), Southern Insurance Company of Virginia (VA), Le Mars Insurance Company (IA), Michigan Insurance Company (MI), Sheboygan Falls Insurance Company (WI), and The Peninsula Insurance Company (MD). The Peninsula Insurance Company owns 100% of Peninsula Indemnity Company (MD).

Donegal Financial Services Corporation

DGI owns 48.2% and DMIC owns 51.8% of Donegal Financial Services Corporation (DFSC), a unitary thrift holding company. On May 6, 2011, Union National Financial Corporation (UNNF), a bank holding company merged with and into DFSC, with DFSC as the surviving corporation. On the same date, Union National Community Bank, a national banking association and a subsidiary of UNNF, merged with and into Province Bank FSB, a federal savings bank and a subsidiary of DFSC. Upon the merger, Province Bank FSB changed its name to Union
Community Bank FSB (UCB) and continued its status as a federal savings bank. UCB converted to a Pennsylvania-chartered state savings bank in 2013. As of December 31, 2014, the consolidated audited financial statements of DFSC and UCB had total assets of $505.9 million, total deposits of $403.4 million and total loans of $305.9 million.

**Agreements with Affiliates**

**Capital Support Agreement**

The company and DGI entered into a Capital Support Agreement dated January 1, 2009. According to the terms of this agreement, DGI agrees to maintain sufficient capital and surplus to meet the company’s current and ongoing obligations to policyholders in order to be assigned the Donegal Insurance Group’s A.M. Best’s Financial Strength Rating. DGI agrees to provide capital or surplus to the company as necessary to maintain at least $10 million of capital and surplus and a leverage ratio of less than 150%. The agreement can be terminated by either party by providing a 365-day prior written notice to the other party.

**Services Allocation Agreement**

Effective December 1, 2010, the company entered into an Amended and Restated Services Allocation Agreement with DGI, DMIC and certain affiliated insurance companies. This agreement replaced the Amended and Restated Services Allocation Agreement dated October 15, 2009. According to this agreement, DMIC provides to DGI and to the subscribing affiliated companies certain services including: underwriting, claims, reinsurance, investments, information services, personnel and professional services, financial reporting, tax administration, accounting, policyholder services, internal audit and compliance, actuarial, and marketing, sales and advertising services. In consideration of the services provided, the parties will reimburse DMIC for the direct costs of the services related directly to each company.

Payments of amounts due shall be paid within 30 days of the calendar month in which the expenses are incurred. Within 90 days after the end of each calendar year, DMIC should provide a written statement of amounts received through the year and amounts expended throughout the year.
This agreement will terminate on December 31, 2015; however, on each December 31 after the effective date of this agreement, the term of this agreement shall be extended by one year. The agreement may be terminated by either party at any time by mutual written agreement. The agreement may be terminated by DMIC upon 180 days’ prior written notice to DGI and the affiliated insurance companies in the event of a change of control of DGI. The agreement may also be terminated by DGI and the affiliated insurance companies upon 30 days’ prior written notice to DMIC in the event DMIC becomes insolvent or subject to any conservatorship, receivership, reorganization, liquidation or bankruptcy cash or proceeding.

**Tax Sharing Agreement**

Effective December 1, 2010, the company entered into an Amended and Restated Tax Sharing Agreement with DGI and certain affiliated insurance companies. The agreement provides the basis for computation and the method of settlement of federal income tax payments and refunds among the parties to the agreement. Under this agreement, DGI prepares and files a consolidated federal income tax return that includes all affiliated insurance companies of DGI. Each party to the agreement is liable for the same amount of tax it would otherwise pay on a separate return basis. The agreement may be terminated at any time by mutual agreement of the parties.

**Multiple Cedent Reinsurance Allocation Agreement**

Effective September 1, 2013, the company entered into a Multiple Cedent Reinsurance Allocation Agreement with DMIC and certain affiliated insurance companies. The agreement was later amended, effective November 1, 2013. The agreement provides the basis for the allocation and settlement of the reinsurance premiums and reinsurance loss recoveries under third-party reinsurance agreements to which DMIC and its affiliates are party to.

DMIC shall enter into reinsurance agreements with third-party reinsurers on behalf of the group. Each affiliate shall provide timely information as may be necessary for the negotiation and execution of such reinsurance agreements. Payments of amounts due should be paid within 60 days after the end of each month. The agreement may be terminated at any time by mutual agreement of the parties.
V. REINSURANCE

The company’s reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

The company is a party to a number of ceding reinsurance agreements administered by DMIC on behalf of its subsidiaries and affiliates. All nonaffiliated ceding contracts, except contracts # 1 and # 3, are multi-cedent reinsurance contracts. On September 1, 2013, DMIC and eight of its affiliates entered into a Multiple Cedent Reinsurance Allocation Agreement, which provides terms and conditions for the allocation of reinsurance premiums and loss recoveries under reinsurance contacts to which DMIC and one or more of its affiliates are parties. According to the terms of this agreement, reinsurance premium and reinsurance loss recoveries of each affiliate are allocated based on the subject premium of the affiliate and on the claims the affiliate incurs under the terms of its insurance policies.

Affiliated Ceding Contracts

1. Type: Worker’s Compensation Excess of Loss
   Reinsurer: Donegal Mutual Insurance Company
   Scope: All losses resulting from application of an annual aggregate deductible under Worker’s Compensation Excess of Loss Reinsurance Contract (see Contract # 8 under the Nonaffiliated Ceding Contracts section below)
   Retention: $0
   Coverage: 100% of any portion of an annual aggregate deductible under the Worker’s Compensation Excess of Loss Reinsurance Contract (see Contract # 8 under the Nonaffiliated Ceding Contracts section below) that is applied to a loss sustained by SFIC. The annual limit of liability of the reinsurer in respect of all losses under the agreement shall be $1,000,000.
   Premium: 1.63% gross net earned premium
   Effective date: January 1, 2013
   Termination: Unlimited in duration. May be terminated at any time upon consent of the parties to the agreement.

Nonaffiliated Ceding Contracts

1. Type: First and Second Multiple Line Excess of Loss
Company: Sheboygan Falls Insurance Company

Reinsurer: Through intermediary – Axiom Re, Inc.

Participating Reinsurers: | 1st Layer | 2nd Layer |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers Mutual Casualty Co.</td>
<td>25.0%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Swiss Reinsurance America Corp.</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Mutual Reinsurance Bureau</td>
<td>55.0</td>
<td>55.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Scope: All policies classified by the company as fire, allied lines, inland marine, homeowner’s, mobile homeowner’s, business owners, special multiple peril, farmowner’s multiple peril, commercial package policies, general liability, worker’s compensation, employers liability, commercial automobile liability and physical damage and private passenger automobile liability physical damage (collision only)

Retention: Property: First Layer – $200,000 of ultimate net loss each risk, each loss Second Layer – $500,000 of ultimate net loss each risk, each loss

Casualty: First Layer – $200,000 of ultimate net loss from each loss occurrence Second Layer – $500,000 of ultimate net loss from each loss occurrence

Coverage: Property: First Layer – $300,000 excess of $200,000 retention of ultimate net loss each risk, each loss with maximum limit of $900,000 any one loss occurrence Second Layer – $500,000 excess of $500,000 retention of ultimate net loss each risk, each loss with maximum limit of $1,000,000 any one loss occurrence

Casualty: First Layer – $300,000 excess of $200,000 retention of each and every loss occurrence Second Layer – $500,000 excess of $500,000 retention of each and every loss occurrence

Premium: First Layer – 3.90% of net subject earned premium. Annual deposit premium of $723,488 with $578,790 minimum premium.

Second Layer – 1.0% of subject net earned premium. Annual deposit premium of $185,508 with $148,406 minimum premium.

Effective date: January 1, 2015

Termination: January 1, 2016
2. Type: Property per Risk Excess of Loss

Reinsurer: Through intermediary – Guy Carpenter & Company, LLC

<table>
<thead>
<tr>
<th>Reinsurer</th>
<th>Participation 1 Year</th>
<th>Participation 2 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Agricultural Ins. Co.</td>
<td>2.50%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Aspen Insurance U.K. Ltd.</td>
<td>15.00</td>
<td></td>
</tr>
<tr>
<td>Employers Mutual Casualty Co.</td>
<td>10.00</td>
<td></td>
</tr>
<tr>
<td>Everest Reinsurance Co.</td>
<td></td>
<td>7.50</td>
</tr>
<tr>
<td>Hannover Rück SE</td>
<td>10.00</td>
<td></td>
</tr>
<tr>
<td>Lloyd’s Syndicate 1084</td>
<td>3.50</td>
<td>0.00</td>
</tr>
<tr>
<td>Mapfre Re, Compania de Reaseguros S.A.</td>
<td>17.50</td>
<td></td>
</tr>
<tr>
<td>R+V Versicherung AG</td>
<td></td>
<td>20.00</td>
</tr>
<tr>
<td>Regional Treaty Service Facility*</td>
<td>6.50</td>
<td></td>
</tr>
<tr>
<td>The Toa Re Co. of America</td>
<td>7.50</td>
<td>0.00</td>
</tr>
<tr>
<td>Subtotal 1 and 2 Year</td>
<td>57.5%</td>
<td>42.5%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>


Scope: All policies classified as property including the property portion of multi-peril policies

Retention: $1,000,000 any one risk, each and every loss

Coverage: Section A: $4,000,000 excess of retention of $1,000,000, subject to a loss occurrence limit of $12,000,000

   Section B: $300,000 each risk excess of $5,000,000 each risk as respects Excess of Original Policy Limits, Extra Contractual Obligations and Loss Adjustment Expenses for risks with policy limits of $5,000,000 or less

Premium: 1 Year Placement (excluding Toa Re): rate 1.4% of gross net earned premium

1 Year Placement (The Toa Re): rate 1.6% of gross net earned premium

2 Year Placement: rate of 1.24% of gross net earned premium

Reinstatement: Six full free

Effective date: January 1, 2014, to January 1, 2016: 42.5% subscribed
January 1, 2015, to January 1, 2016: 57.5% subscribed

Termination: May be terminated by the reinsureds immediately under certain special circumstances
3. **Type:** Three Layers Property Catastrophe Excess of Loss

**Company:** Sheboygan Falls Insurance Company

**Reinsurer:** Through intermediary – Axiom Re, Inc.

### Participating reinsurers:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>1st (%)</th>
<th>2nd (%)</th>
<th>3rd (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allied World Insurance Co.</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Employers Mutual Casualty Co.</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Lansforsakringar Sak Forsakringsaktibbolag</td>
<td>12.5</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>R+V Versicherung AG</td>
<td>20.0</td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Shelter Mutual Insurance Company</td>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Lloyd’s Syndicate #2001 AML</td>
<td>10.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Lloyd’s Syndicate #2014 ACA</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
</tr>
</tbody>
</table>

**Total:** 100.0% 100.0% 100.0%

**Scope:** All policies classified by the company as fire, allied lines, inland marine, and the property sections of homeowner’s multiple peril, mobile homeowner’s multiple peril, business owners multiple peril, special multiple peril, farmowner’s multiple peril, commercial package policies, commercial automobile damage (comprehensive only), and private passenger automobile physical damage (comprehensive only)

**Retention:**

- First Layer – $400,000 each loss occurrence plus 5% of the excess between $400,000 and $1,500,000

- Second Layer – $1,500,000 each loss occurrence plus 5% of the excess between $1,500,000 and $3,000,000

- Third Layer – $3,000,000 each loss occurrence plus 5% of the excess between $3,000,000 and $5,000,000

**Coverage:**

- First Layer – 95% of $1,100,000 in excess of $400,000 for each and every loss occurrence (up to maximum of $1,045,000)

- Second Layer – 95% of $1,500,000 in excess of $1,500,000 for each and every loss occurrence (up to maximum of $2,850,000)

- Third Layer – 95% of $2,000,000 in excess of $3,000,000 for each and every loss occurrence (up to maximum of $4,750,000)

**Reinstatement:** One for each layer, at 100%

**Premium:**

- First Layer – 3.058% of its net subject earned premium. Annual deposit premium of $229,900 with minimum premium of $183,920.

- Second Layer – 0.853% of its net subject earned premium. Annual deposit premium of $64,124 with minimum premium of $52,300.

- Third Layer – 0.6571% of its net subject earned premium. Annual deposit premium of $49,400, with minimum premium of $39,520.
4. Type: Underlying Property Catastrophe Excess of Loss

Company: Michigan Insurance Company, SFIC, Le Mars Insurance Company

Reinsurer: Through intermediary – Guy Carpenter & Company, LLC

<table>
<thead>
<tr>
<th>Participating Reinsurers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Agricultural Ins. Co.</td>
<td>5.00%</td>
</tr>
<tr>
<td>Employers Mutual Casualty Company</td>
<td>5.00%</td>
</tr>
<tr>
<td>Everest Reinsurance Company</td>
<td>15.00</td>
</tr>
<tr>
<td>Farm Mutual Reinsurance Plan Inc.</td>
<td>7.50%</td>
</tr>
<tr>
<td>Lloyd’s Syndicate 2007</td>
<td>7.50%</td>
</tr>
<tr>
<td>Lloyd’s Syndicate 2010</td>
<td>20.00</td>
</tr>
<tr>
<td>Lloyd’s Syndicate 2791</td>
<td>12.50</td>
</tr>
<tr>
<td>Mapfre Re, Compania de Reaseguros S.A.</td>
<td>12.50</td>
</tr>
<tr>
<td>Hannover Ruckversicherungs AG</td>
<td>15.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

Scope: All policies classified as property including the property portion of multi-peril policies

Retention: $5,000,000, each loss occurrence

Coverage: $5,000,000, each loss occurrence

Reinstatement: None

Premium: .954% of the gross net earned premium; annual deposit premium of $425,000, subject to minimum premium of $340,000

Effective date: January 1, 2015

Termination: January 1, 2016

5. Type: Corporate Property Catastrophe Excess of Loss

Reinsurer: Through intermediary – Guy Carpenter & Company, LLC

See Appendix A at the end of this section for participating reinsurers

Scope: All property business

Terms: January 1, 2015 – January 1, 2016

Layer 1 ($10,000,000 xs $5,000,000 xs $5,000,000) – 10% subscribed

Layer 2 ($20,000,000 xs $15,000,000) – 27% subscribed

Layer 3 ($65,000,000 xs $35,000,000) – 17.25% subscribed

Layer 1 ($10,000,000 xs $5,000,000) – 70% subscribed
Layer 1 ($10,000,000 xs $5,000,000 xs $5,000,000) – 20% subscribed
Layer 2 ($20,000,000 xs $15,000,000) – 73% subscribed
Layer 3 ($65,000,000 xs $35,000,000) – 82.75% subscribed

June 10, 2014 – June 10, 2015
Layer 4 ($50,000,000 xs $100,000,000) – 13.60% subscribed

Layer 4 ($50,000,000 xs $100,000,000) – 48.75% subscribed
Layer 4 ($60,000,000 xs $100,000,000) – 37.65% subscribed

Retention:
Layer 1 – $5,000,000, each loss occurrence; plus annual aggregate deductible of $5,000,000 (30% placement)
Layer 1 – $5,000,000 each loss occurrence (70% placement)
Layer 2 – $15,000,000, each loss occurrence
Layer 3 – $35,000,000, each loss occurrence
Layer 4 – $100,000,000, each loss occurrence

Coverage:
Layer 1 – $10,000,000, each loss occurrence
Layer 2 – $20,000,000, each loss occurrence
Layer 3 – $65,000,000, each loss occurrence
Layer 4 – $50,000,000, each loss occurrence (62.35% placement)
Layer 4 – $60,000,000, each loss occurrence (37.65% placement)

Note: SFIC is a named reinsured on all layers of the Corporate Property Catastrophe Excess of Loss reinsurance contract. Currently, it participates in the first three layers of the contract only.

Reinstatement: All layers are subject to one full reinstatement, additional premium applies

Premium: Total program cost is $9,083,249, subject to minimum premium of $7,499,189

6. Type: Pennsylvania Extraordinary Excess of Loss

Reinsurer: Through intermediary – Guy Carpenter & Company, LLC
Sirius International Insurance Corporation (PUBL) – 100%

Scope: All business classified as automobile insurance

Retention: Catastrophe Excess of Loss
$200,000 each loss occurrence
Per Person Excess of Loss
$100,000 each person each loss occurrence

Coverage: Catastrophe Excess of Loss
$800,000 each loss occurrence in excess of the company’s retention; no loss recovery will be made unless three or more lives are involved in any one loss occurrence, with each life incurring a minimum of $5,000 of ultimate net loss
Per Person Excess of Loss
$900,000 each person, each loss occurrence
Premium: Catastrophe Excess of Loss  
$25,000 paid in advance on June 1, 2015  
Per Person Excess of Loss  
$150,000 paid in advance on June 1, 2015

Reinstatement: Both sections: one free and two at 100% premium

Sunset provision: Reinsurer will not cover losses reported after 36 months from the final day of this contract period during which the loss occurred

Effective date: June 1, 2015, to June 1, 2016

Termination: May be terminated by the reinsureds immediately under certain special circumstances

7. Type: Casualty Excess of Loss

Reinsurer: Through intermediary – Guy Carpenter & Company, LLC

Scope: All policies classified as casualty, including worker’s compensation

<table>
<thead>
<tr>
<th>Reinsurer</th>
<th>1st Layer</th>
<th>2nd Layer</th>
<th>3rd Layer</th>
<th>4th Layer</th>
<th>5th Layer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arch Reinsurance Company</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>10.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Aspen Insurance UK Ltd.</td>
<td>10.00%</td>
<td>9.05%</td>
<td>8.18%</td>
<td>6.67%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Employers Mutual Cas. Co.</td>
<td>7.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td>Hannover Ruck SE</td>
<td>5.00%</td>
<td>10.00%</td>
<td>2.50%</td>
<td>2.50%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Munich Re America, Inc.</td>
<td>25.00%</td>
<td>10.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QBE Re Corp</td>
<td>32.50%</td>
<td>10.00%</td>
<td>5.00%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lloyd’s of London</td>
<td>5.00%</td>
<td>38.45%</td>
<td>66.82%</td>
<td>78.33%</td>
<td>87.50%</td>
</tr>
<tr>
<td>Regional Treaty Service Facility*</td>
<td>22.50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Toa Re Company of America</td>
<td>17.50%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
</tbody>
</table>


Retention:
First Layer – $1,000,000 each loss occurrence  
Second Layer – $3,000,000 each loss occurrence  
Third Layer – $5,000,000 each loss occurrence  
Fourth Layer – $15,000,000 each loss occurrence  
Fifth Layer – $40,000,000 each loss occurrence

Coverage:
First Layer – $2,000,000 each loss occurrence, in excess of $1,000,000  
Second Layer – $2,000,000 each loss occurrence, in excess of $3,000,000  
First and Second Layers – The maximum contribution to the ultimate net loss as respects worker’s compensation and
employers liability combined is limited to $1,000,000 per occurrence

Third Layer – $10,000,000 each loss occurrence, in excess of $5,000,000
Fourth Layer – $25,000,000 each loss occurrence, in excess of $15,000,000
Fifth Layer – $10,000,000 each loss occurrence, in excess of $40,000,000

Third through Fifth Layers – $10,000,000 limitation, any one life, applies to worker’s compensation and employers liability combined. $5,000,000 excess of $5,000,000 part of $9,000,000 excess of $1,000,000 worker’s compensation reinsurance coverage provided by the Worker’s Compensation Excess of Loss contract (see Contract # 8 below), inures to the benefit of these casualty layers.

Premium:

First Layer – 25% of gross net earned premium; deposit premium of $704,553 (77.5% placement)  
The Toa Reinsurance Company of America and Hannover Ruck SE (22.5% placement): .3% of gross net earned premium; deposit premium of $245,475
Second Layer – .065% of gross net earned premium; deposit premium of $236,300
Third Layer – .182% of gross net earned premium; deposit premium of $661,800
Fourth Layer – .172% of gross net earned premium; deposit premium of $625,500
Fifth Layer – .045% of gross net earned premium; deposit premium of $163,600

Reinstatement: First Layer – two free, one at 125%  
Second through Fifth layers – two at 100%

Effective date: January 1, 2015
Termination: January 1, 2016

8. Type: Worker’s Compensation Excess of Loss
Reinsurer: Safety National Casualty Corporation
Scope: All policies classified as worker’s compensation
Retention: $1,000,000 each and every occurrence  
Aggregate deductible – no recoveries will be made until the aggregate of all net losses otherwise recoverable under this contract exceed $1,000,000 in any one contract year.

Coverage: $9,000,000 each and every occurrence in excess of $1,000,000 and the aggregate deductible of $1,000,000

Premium: Rate of 4.5% of gross net earned premium; annual deposit premium of $5,243,700
Reinstatement: Four free, four at 100%
Intermediary: Guy Carpenter & Company, LLC

Effective date: January 1, 2015

Termination: January 1, 2016, on either run-off or cut-off basis. The company can terminate this contract by giving the reinsurer 30 days' prior written notice under certain special circumstances.

9. Type: Cyber Coverage Quota Share Reinsurance Agreement

Reinsurer: Berkley Insurance Company

Scope: All business classified as cyber coverage

Retention: 10% of ultimate net liability on all new and renewal cyber coverage policies

Coverage: 90% of ultimate net liability on all new and renewal cyber coverage policies, subject to a maximum limit of $1,000,000

Premium: 90% of the gross written premium for each policy reinsured under this contract

Commissions: 30% ceding commission

Effective date: June 1, 2013

Termination: Continuous; may be terminated by either party by giving to the other party 180 days' prior written notice prior to any June 1 anniversary date

10. Type: Liability Quota Share

Reinsurer: Swiss Reinsurance America Corporation

Scope:
- Exhibit A – Commercial and farm umbrella liability quota share cover
- Exhibit B – Personal liability quota share cover
- Exhibit C – Excess liability on business owners policies
- Exhibit D – Commercial general liability quota share cover

Retention:
- Exhibit A
  - 15% of the first $1,000,000; and
  - 0% of the next $9,000,000 of the ultimate net liability, each occurrence, on all commercial umbrella policies;
  - 0% of the next $4,000,000 of the ultimate net liability, each occurrence, on all farm umbrella policies

- Exhibit B
  - 15% of the first $1,000,000 and 0% of the next $4,000,000 of the net ultimate net liability, each occurrence

- Exhibit C
  - 100% of the first $1,000,000 and 0% if the next $1,000,000 of the net ultimate net liability, each occurrence, on all business owners policies
Exhibit D
100% of the first $1,000,000 and 0% if the next $1,000,000 of the net ultimate net liability, each occurrence, on all commercial package policies

Coverage:

Exhibit A
85% of the first $1,000,000 and
- 100% of the next $9,000,000 of the ultimate net liability, each occurrence on all commercial umbrella policies;
- 100% of the next $4,000,000 of the ultimate net liability, each occurrence on all farm umbrella policies

Exhibit B
85% of the first $1,000,000 and 100% of the next $4,000,000 of the ultimate net liability

Exhibit C
0% of the first $1,000,000 and 100% if the next $1,000,000 of the net ultimate net liability, each occurrence

Exhibit D
0% of the first $1,000,000 and 100% if the next $1,000,000 of the net ultimate net liability, each occurrence

Premium:
Quota share of net premium written applicable to the policies reinsured under this contract

Commissions:
Exhibits A, C and D – 37% ceding commission
Exhibit B – 30% ceding commission

Effective date:
September 1, 2002. SFIC was added to this contract effective October 1, 2009.

Termination:
Continuous; may be terminated at the close of any agreement year quarter by either party giving to the other not less than 90 days’ prior written notice

11. Type:
Employment Practices Liability Coverage

Reinsurer:
The Hartford Steam Boiler Inspection and Insurance Company

Scope:
Employment practices liability

Retention:
None

Coverage:
100% of the gross liabilities under the employment practices liability coverage up to a maximum limit of $250,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed $250,000

Premium:
Premium rate varies based on the policy type, limit of liability, and deductible option

Commissions:
29% ceding commission plus 30% profit sharing commission on reinsurer’s profit calculated as the difference between the plan
losses for the underwriting year and the sum of the underwriting
year losses and loss carry forward, if any

Effective date: October 25, 2007. SFIC was added to this contract effective August 1, 2009.

Termination: Continuous; may be terminated by either party giving the other 120 days' prior notice in writing

12. Type: Equipment Breakdown

Reinsurer: The Hartford Steam Boiler Inspection and Insurance Company

Scope: Equipment breakdown liability

Retention: None

Coverage: $50,000,000 for any one accident, any one policy

Premium: Premium for equipment breakdown coverage

Commissions: 29% ceding commission

Effective date: April 1, 2013

Termination: Continuous; may be terminated by either party giving the other 180 days' prior notice in writing
## Appendix A

<table>
<thead>
<tr>
<th>Layer</th>
<th>1st Layer Amount</th>
<th>1st Layer XS</th>
<th>2nd Layer Amount</th>
<th>2nd Layer XS</th>
<th>3rd Layer Amount</th>
<th>3rd Layer XS</th>
<th>4th Layer Amount</th>
<th>4th Layer XS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>$10M</td>
<td>$5M</td>
<td>$20M</td>
<td>$15M</td>
<td>$65M</td>
<td>$35M</td>
<td>$50M</td>
<td>$100M</td>
</tr>
<tr>
<td>2nd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$60M</td>
<td></td>
</tr>
</tbody>
</table>

### 1st Layer:

- **Allied World Assurance Co. Ltd.**
  - Layer: $10M
  - XS: $5M
  - Rate: 5.00%

- **Argo Re Ltd.**
  - Layer: $10M
  - XS: $5M
  - Rate: %

- **American Agricultural Ins Co.**
  - Layer: $10M
  - XS: $5M
  - Rate: %

- **Lloyd's Syndicate 1910**
  - Layer: $10M
  - XS: $5M
  - Rate: 5.00%

- **Employers Mutual Casualty Co.**
  - Layer: $20M
  - XS: $15M
  - Rate: 2.00%

- **Everest Re Co.**
  - Layer: $65M
  - XS: $35M
  - Rate: 1.00%

- **Farm Mutual Re Plan Inc.**
  - Layer: $20M
  - XS: $15M
  - Rate: 3.00%

- **General Ins. Corp of India**
  - Layer: $50M
  - XS: $100M
  - Rate: 5.00%

- **Hannover Re Ltd.**
  - Layer: $50M
  - XS: $100M
  - Rate: 5.00%

- **Hannover Ruck SE**
  - Layer: $9.00
  - XS: $3.00
  - Rate: 2.50%

- **Korean Re Co.**
  - Layer: $3.00
  - XS: $2.50
  - Rate: 3.00%

- **Länsförsäkringar Sak Försäkrings AB**
  - Layer: $2.00
  - XS: $2.00
  - Rate: 4.00%

- **Lloyd's of London**
  - Layer: $1.00
  - XS: $1.00
  - Rate: 3.50%

- **Mapfre Re, Compania de Reaseguros S.A.**
  - Layer: $6.00
  - XS: $10.00
  - Rate: 10.00%

- **MS Frontier Re Ltd.**
  - Layer: $1.50
  - XS: $3.00
  - Rate: 2.00%

- **Protective Ins. Co.**
  - Layer: $3.00
  - XS: $2.50
  - Rate: 3.00%

- **Qatar Re Co. LLC**
  - Layer: $1.50
  - XS: $3.00
  - Rate: 8.34%

- **QBE Re Corp**
  - Layer: $1.50
  - XS: $2.00
  - Rate: 2.75%

- **R+V Versicherung AG**
  - Layer: $15.00
  - XS: $15.00
  - Rate: 15.00%

- **Renaissance Re Ltd.**
  - Layer: %
  - XS: %.50

- **Shelter Mutual Ins Co.**
  - Layer: %
  - XS: 2.00
  - Rate: 3.00%

- **Taiping Re Co.**
  - Layer: $1.00
  - XS: $.50
  - Rate: 1.00%

- **Transatlantic Re Co**
  - Layer: $2.00
  - XS: $7.00
  - Rate: 7.00%

### Grand Total (all placements combined):

<table>
<thead>
<tr>
<th>Layer</th>
<th>1st</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Year</td>
<td>1 Year 2 Year</td>
<td>3rd Layer</td>
<td>4th Layer</td>
<td>1 Year 2 Year</td>
</tr>
<tr>
<td>20.00%</td>
<td>10.00%</td>
<td>27.00%</td>
<td>17.25%</td>
<td>70.00%</td>
</tr>
</tbody>
</table>

Reinsurance Rates* 1.231% 1.248% .832% .974% 1.5823% .8199% .9984% N/A N/A .593%

*The weighted average rate was used when there were multiple subscribing reinsurers with different rates.
VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.
## Sheboygan Falls Insurance Company
### Assets
#### As of December 31, 2014

<table>
<thead>
<tr>
<th>Assets</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$18,749,619</td>
<td>$18,749,619</td>
</tr>
<tr>
<td>Stocks:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>19,068</td>
<td>19,068</td>
</tr>
<tr>
<td>Real estate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupied by the company</td>
<td>126,115</td>
<td>126,115</td>
</tr>
<tr>
<td>Properties held for the production of income</td>
<td>73,328</td>
<td>73,328</td>
</tr>
<tr>
<td>Cash, cash equivalents, and short-term investments</td>
<td>3,832,266</td>
<td>3,832,266</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>141,531</td>
<td>141,531</td>
</tr>
<tr>
<td>Premiums and considerations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected premiums and agents’ balances in course of collection</td>
<td>644,797</td>
<td>9,106</td>
</tr>
<tr>
<td>Deferred premiums, agents’ balances, and installments booked but deferred and not yet due</td>
<td>3,114,015</td>
<td></td>
</tr>
<tr>
<td>Reinsurance:</td>
<td>(7,233)</td>
<td>(7,233)</td>
</tr>
<tr>
<td>Current federal and foreign income tax recoverable and interest thereon</td>
<td>227,957</td>
<td></td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>1,208,020</td>
<td>232,076</td>
</tr>
<tr>
<td>Electronic data processing equipment and software</td>
<td>22,312</td>
<td>2,551</td>
</tr>
<tr>
<td>Furniture and equipment, including health care delivery assets</td>
<td>62,509</td>
<td>62,509</td>
</tr>
<tr>
<td>Write-ins for other than invested assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>415,549</td>
<td></td>
</tr>
<tr>
<td>Trust agreement</td>
<td>488,585</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$29,118,438</strong></td>
<td><strong>$306,242</strong></td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>----------</td>
<td></td>
</tr>
<tr>
<td>Losses</td>
<td>$5,801,509</td>
<td></td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>931,000</td>
<td></td>
</tr>
<tr>
<td>Commissions payable, contingent commissions, and other similar charges</td>
<td>426,295</td>
<td></td>
</tr>
<tr>
<td>Other expenses (excluding taxes, licenses, and fees)</td>
<td>945,340</td>
<td></td>
</tr>
<tr>
<td>Taxes, licenses, and fees (excluding federal and foreign income taxes)</td>
<td>21,043</td>
<td></td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>8,755,210</td>
<td></td>
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<tr>
<td>Advance premium</td>
<td>203,124</td>
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<tr>
<td>Ceded reinsurance premiums payable (net of ceding commissions)</td>
<td>94,437</td>
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<tr>
<td>Amounts withheld or retained by company for account of others</td>
<td>81,220</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>17,259,178</td>
<td></td>
</tr>
<tr>
<td>Common capital stock</td>
<td>$3,532,171</td>
<td></td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>8,546,629</td>
<td></td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>(525,782)</td>
<td></td>
</tr>
<tr>
<td>Surplus as regards policyholders</td>
<td>11,553,018</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities and Surplus</td>
<td>$28,812,196</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td><strong>Underwriting Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums earned</td>
<td>$15,936,955</td>
<td></td>
</tr>
<tr>
<td>Deductions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses incurred</td>
<td>$10,958,858</td>
<td></td>
</tr>
<tr>
<td>Loss adjustment expenses incurred</td>
<td>1,414,139</td>
<td></td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>5,209,266</td>
<td></td>
</tr>
<tr>
<td>Total underwriting deductions</td>
<td>17,582,263</td>
<td></td>
</tr>
<tr>
<td>Net underwriting gain (loss)</td>
<td>$(1,645,308)</td>
<td></td>
</tr>
<tr>
<td><strong>Investment Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment income earned</td>
<td>509,025</td>
<td></td>
</tr>
<tr>
<td>Net realized capital gains (losses)</td>
<td>63,425</td>
<td></td>
</tr>
<tr>
<td>Net investment gain (loss)</td>
<td>572,450</td>
<td></td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance and service charges not included in premiums</td>
<td>213,262</td>
<td></td>
</tr>
<tr>
<td>Net income (loss) before dividends to policyholders and before federal and foreign income taxes</td>
<td>$(859,596)</td>
<td></td>
</tr>
<tr>
<td>Dividends to policyholders</td>
<td>101,049</td>
<td></td>
</tr>
<tr>
<td>Net income (loss) after dividends to policyholders but before federal and foreign income taxes</td>
<td>$(960,645)</td>
<td></td>
</tr>
<tr>
<td>Federal and foreign income taxes incurred</td>
<td>$(253,324)</td>
<td></td>
</tr>
<tr>
<td><strong>Net Loss</strong></td>
<td>$(707,321)</td>
<td></td>
</tr>
</tbody>
</table>
Premiums collected net of reinsurance $16,630,958
Net investment income 528,187
Miscellaneous income 213,262
Total 17,372,407
Benefit- and loss-related payments $9,613,061
Commissions, expenses paid, and aggregate write-ins for deductions 6,309,453
Dividends paid to policyholders 101,049
Federal and foreign income taxes paid (recovered) 171,190
Total deductions 16,194,753
Net cash from operations 1,177,654
Proceeds from investments sold, matured, or repaid:
   Bonds $2,892,935
   Stocks 4,779,203
Total investment proceeds 7,672,138
Cost of investments acquired (long-term only):
   Bonds 9,648,316
Net cash from investments (1,976,178)
Cash from financing and miscellaneous sources:
   Other cash provided (applied) (520,629)
Reconciliation:
Net change in cash, cash equivalents, and short-term investments (1,319,153)
Cash, cash equivalents, and short-term investments:
   Beginning of year 5,151,419
   End of Year $  3,832,266
Sheboygan Falls Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2014

Assets $28,812,196
Less liabilities 17,259,178

Adjusted surplus 11,553,018

Annual premium:
- Lines other than accident and health $17,081,401
- Factor 20%

Compulsory surplus (subject to a minimum of $2 million) 3,416,280

Compulsory Surplus Excess (or Deficit) $ 8,136,738

Adjusted surplus (from above) $11,535,902

Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)

Security Surplus Excess (or Deficit) $ 6,770,226
Sheboygan Falls Insurance Company
Analysis of Surplus
For the Three-Year Period Ending December 31, 2014

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

<table>
<thead>
<tr>
<th>Item</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus, beginning of year</td>
<td>$12,085,839</td>
<td>$10,944,235</td>
<td>$10,800,499</td>
</tr>
<tr>
<td>Net income</td>
<td>(707,321)</td>
<td>1,374,543</td>
<td>(33,316)</td>
</tr>
<tr>
<td>Change in net unrealized capital gains/losses</td>
<td>(22,520)</td>
<td>735</td>
<td>222</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>146,465</td>
<td>(202,898)</td>
<td>120,957</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>5,383</td>
<td>(32,233)</td>
<td>55,873</td>
</tr>
<tr>
<td>Write-ins for gains and (losses) in surplus:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock option compensation</td>
<td>45,172</td>
<td>1,457</td>
<td></td>
</tr>
<tr>
<td>Increased admitted deferred tax assets under SSAP No. 10R</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus, end of year</td>
<td>$11,553,018</td>
<td>$12,085,839</td>
<td>$10,944,235</td>
</tr>
</tbody>
</table>

Sheboygan Falls Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2014

The company’s NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1 Gross Premium to Surplus</td>
<td>170.0%</td>
<td>139.0%</td>
<td>135.0%</td>
</tr>
<tr>
<td>#2 Net Premium to Surplus</td>
<td>149.0</td>
<td>121.0</td>
<td>118.0</td>
</tr>
<tr>
<td>#3 Change in Net Premiums Written</td>
<td>18.0</td>
<td>13.0</td>
<td>8.0</td>
</tr>
<tr>
<td>#4 Surplus Aid to Surplus</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>#5 Two-Year Overall Operating Ratio</td>
<td>96.0</td>
<td>94.0</td>
<td>105.0*</td>
</tr>
<tr>
<td>#6 Investment Yield</td>
<td>2.3*</td>
<td>2.7*</td>
<td>3.0*</td>
</tr>
<tr>
<td>#7 Gross Change in Surplus</td>
<td>-4.0</td>
<td>10.0</td>
<td>1.0</td>
</tr>
<tr>
<td>#8 Change in Adjusted Surplus</td>
<td>-4.0</td>
<td>10.0</td>
<td>1.0</td>
</tr>
<tr>
<td>#9 Liabilities to Liquid Assets</td>
<td>62.0</td>
<td>56.0</td>
<td>57.0</td>
</tr>
<tr>
<td>#10 Agents’ Balances to Surplus</td>
<td>6.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>#11 One-Year Reserve Development to Surplus</td>
<td>6.0</td>
<td>-2.0</td>
<td>4.0</td>
</tr>
<tr>
<td>#12 Two-Year Reserve Development to Surplus</td>
<td>0.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>#13 Estimated Current Reserve Deficiency to Surplus</td>
<td>-1.0</td>
<td>3.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Ration No. 5 measures the company’s profitability over the previous two-year period. The exceptional result in 2012 was due to underwriting losses reported by the company in 2012 and 2011. The company’s two year overall operating ratio was 105%, which is outside the normal range.

Ratio No.6 measures the amount of the company’s investment income as a percentage of the average amount of cash and invested assets. The exceptional ratios in 2014, 2013, and 2012 are primarily due to the decrease in net investment income driven by the low interest rate environment. The company’s investment yield was not unusual, as the 2014 industry average was 2.2%.

**Growth of Sheboygan Falls Insurance Company**

<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Surplus as Regards Policyholders</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$28,812,196</td>
<td>$17,259,178</td>
<td>$11,553,018</td>
<td>$ (707,321)</td>
</tr>
<tr>
<td>2013</td>
<td>27,010,430</td>
<td>14,924,591</td>
<td>12,085,839</td>
<td>1,374,543</td>
</tr>
<tr>
<td>2012</td>
<td>23,859,716</td>
<td>12,915,481</td>
<td>10,944,235</td>
<td>(33,316)</td>
</tr>
<tr>
<td>2011</td>
<td>22,270,643</td>
<td>11,470,144</td>
<td>10,800,499</td>
<td>(1,237,478)</td>
</tr>
</tbody>
</table>

Over the period under examination the company has reported a consistent trend of growth in both direct and net premium written, which increased by 45% and 44%, respectively. All lines of business experienced an increase; however, direct premium for commercial lines increased at a faster pace than personal lines, as the company is making a conscious effort to expand further into the commercial market.

Total admitted assets have increased 29% to $28,812,916 during the period under examination. The company reported net income in 2013; however, catastrophe losses combined with an overall increase in frequency and severity of claims in 2012 and 2014 resulted in net
underwriting and net losses in these years. Surplus increased 7% to $11,553,018 during the examination period, mostly due to positive underwriting results in 2013.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.
VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. **Investment Reporting**—It is again recommended that the company report bonds according to the NAIC Property/Casualty Annual Statement Instructions and the Purposes and Procedures Manual of the NAIC Securities Valuation Office and use designations assigned by the NAIC Valuations of Securities when available.

   **Action**—Compliance

2. **Affiliated Agreements**—It is recommended that all management, exclusive agency agreements, service contracts or cost-sharing arrangements be filed with the commissioner in compliance with s. Ins 40.04 (2), Wis. Adm. Code.

   **Action**—Compliance

3. **Reinsurance Agreements**—It is recommended that the company establish a written agreement with affiliates providing terms and conditions for the allocation of reinsurance premiums and recoveries under the reinsurance contracts in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP 62R, paragraph 9, and that the agreement be filed with this office for prior approval under ch. Ins 40, Wis. Adm. Code.

   **Action**—Compliance
Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company’s operations is contained in the examination work papers.

Unclaimed Funds

The examiners reviewed the company’s escheat procedures and noted that the company was not sending notification letters to policyholders before remitting uncashed checks to the Wisconsin Department of Revenue. Section 177.17 (5), Wis. Stat., requires holders of unclaimed property to send a written notice to the apparent owner of the property, informing them that the holder is in possession of the property. It is recommended that the company perform a due diligence search for the owner of unclaimed checks before remitting the funds to the Wisconsin Department of Revenue in accordance with s. 177.17 (5), Wis. Stat.

It was noted during the review of outstanding checks that the company has 38 checks outstanding that are over five years old. Chapter 177, Wis. Stat., requires certain types of unclaimed property including uncashed checks to be remitted to the state after five years of dormancy. It is recommended that the company follow its established escheats procedures and remit all unclaimed funds over five years old to the Wisconsin Department of Revenue.
VIII. CONCLUSION

As of December 31, 2014, the company reported admitted assets of $28,812,196, liabilities of $17,259,178 and surplus of $11,553,018. Surplus increased 7% from $10,800,499 at year-end 2011 to $11,553,018 at year-end 2014. Assets increased 29% from $22,270,643 in 2011 to $28,812,916 in 2014 and direct premium written increased 45% from $13,584,610 in 2011 to $19,646,659 in 2014. The company reported both underwriting and net losses in two of the past three years.

The examination resulted in two recommendations, and there were no reclassifications of account balances or adjustments to surplus as reported by the company in its year-end 2014 financial statutory financial statements. The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2014.
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 34 - Unclaimed Funds—It is recommended that the company perform a due diligence search for the owner of unclaimed checks before remitting the funds to the Wisconsin Department of Revenue in accordance with s. 177.17 (5), Wis. Stat.

2. Page 34 - Unclaimed Funds—It is recommended that the company follow its established escheats procedures and remit all unclaimed funds over five years old to the Wisconsin Department of Revenue.
X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tom Hilger</td>
<td>Insurance Financial Examiner</td>
</tr>
<tr>
<td>Judy Michael</td>
<td>Insurance Financial Examiner</td>
</tr>
<tr>
<td>David Jensen</td>
<td>IT Specialist</td>
</tr>
<tr>
<td>Jerry DeArmond</td>
<td>Reserve Specialist</td>
</tr>
</tbody>
</table>

Respectfully submitted,

Levi Olson
Examiner-in-Charge
XI. SUBSEQUENT EVENT

On December 18, 2015, DMIC and DGI entered into a Stock Purchase and Standstill Agreement (“Purchase Agreement”) with Gregory M. Shepard. Under the Purchase Agreement, DMIC and DGI agree to purchase a total of 3,675,000 DGI Class A shares from Mr. Shepard for a price of $16.50 per share, a total of $60,637,500, and 400,000 DGI Class B shares for a price of $23.50 per share, a total of $9,400,000. The transaction was consummated on December 22, 2015, with DMIC purchasing 1,675,000 and 400,000 shares of DGI Class A and Class B stock, respectively. DGI purchased the remaining 2,000,000 shares of DGI Class A stock. As a result of this stock purchase, DMIC holds approximately 73.8% of the total voting power of DGI’s common stock outstanding.

On March 31, 2016, the company notified OCI that it declared an ordinary cash dividend of $1,000,000. The date of declaration and date of record is March 30, 2016, and the date established for payment is May 11, 2016. The dividend represents 7.5% of the company’s 2015 year-end surplus and it is the first cash dividend declared since the company demutualized.