

LE MARS MUTUAL INSURANCE COMPANY OF IOWA
One Park Lane
Le Mars, Iowa 51031

September 2, 2003

Dear Member:

In recent years, Le Mars Mutual Insurance Company of Iowa ("we," "us," "our" or "Le Mars") has experienced substantial underwriting and operating losses and a significant decline in surplus and in a number of important financial ratios. Our statutory surplus declined from \$15,456,812 at December 31, 1998 to \$8,777,546 at December 31, 2001. During the same time period, we incurred aggregate statutory underwriting losses of \$13,318,507. Moreover, our A.M. Best rating was downgraded from A- on September 28, 1998 to B++ on June 7, 1999 to B+ on December 11, 2000, and we anticipated a further substantial downgrade. For these reasons, and because of our limited access to the capital markets, in February 2002 we determined that we did not have a viable future as a small independent insurance company and that our interests and the interests of our Members would be best served by an affiliation with Donegal Mutual Insurance Company ("Donegal"), a well-capitalized mutual casualty insurance company with its principal office in Marietta, Pennsylvania. That affiliation was approved by our policyholders and the Commissioner of Insurance of the State of Iowa (the "Commissioner") and consummated in June 2002.

As part of the affiliation, Donegal made a \$4,000,000 investment in our surplus and, in exchange, acquired control of Le Mars through appointment of five Donegal designees to our nine-member Board of Directors. Since June 2002, Donegal has been assisting us in restructuring our insurance business and operations in order to improve our underwriting results and strengthen our financial condition. Although our underwriting results have begun to improve, we incurred a statutory net loss of \$1,482,617 for the seven months ended July 31, 2003 and our statutory surplus as of July 31, 2003 was approximately \$7,222,000, exclusive of Donegal's investment in our surplus. We contemplated at the time of our affiliation with Donegal that once our financial condition and our underwriting results had begun to improve, we would begin to convert from a mutual insurance company owned by our Members to a stock insurance company owned by Donegal. Donegal and we have agreed that, following our conversion, we will be owned by Donegal Group Inc. ("DGI"), an insurance holding company 64%-owned by Donegal and the balance of which is publicly held, because of DGI's access to the public capital markets. Following the conversion and the

transactions related thereto, which we call our "Demutualization," our policyholders will be entitled to receive such consideration as is determined under Iowa law.

Our Board of Directors has approved a Plan of Conversion under which we will effect our Demutualization and become a member of the Donegal Insurance Group. We believe this structural change will provide you and us with a number of benefits. Accordingly, we enclose with this letter:

- A Notice of a Special Meeting of our Members (our "Special Meeting") to be held on Monday, October 6, 2003 at 11:00 a.m., Central Daylight Time, at our offices at One Park Lane, Le Mars, Iowa to consider the approval of our Plan of Conversion (our "Plan") whereby we would demutualize and convert from a mutual insurance company owned by our Members to a stock insurance company owned by DGI. This notice is accompanied by a related Information Statement that describes our Plan in detail, the background of and reasons for our Plan and the effect of our Plan on you as our Members and on us; and
- A Notice of a Public Hearing to be held before the Commissioner on Tuesday, October 7, 2003 at 1:30 p.m., Central Daylight Time, at the offices of the Iowa Insurance Division, 330 East Maple Street, Des Moines, Iowa, to consider the fairness and equity of the terms of our Plan.

Our Plan and our Demutualization have received unanimous support from our Board of Directors.

THERE ARE MANY REASONS WHY YOU SHOULD VOTE FOR APPROVAL OF OUR PLAN AND THE TRANSACTIONS THAT ARE A PART OF OUR DEMUTUALIZATION. THESE REASONS INCLUDE:

- **Stability:** Your current insurance benefits will remain just as they are today, and the same management will continue to provide quality insurance services to you and your family from our Le Mars, Iowa headquarters.
- **Increased security:** Your policy will be backed by a company that will have greater access to surplus.
- **Enhanced products:** You will have access over time to a broader range of products and innovative responses to the challenges confronting the property and casualty insurance industry.
- **More stable premiums:** Our Demutualization will not in and of itself change the premiums you are currently paying. In addition, we will achieve operating efficiencies through our relationship with a larger and more diversified company that has access to the public capital markets and those efficiencies should moderate any future premium increases.

- Enhanced rating by A.M. Best: As a result of our Donegal affiliation, A.M. Best confirmed our B+ rating in March 2002 and did not further downgrade us. We believe our Demutualization and our status as a subsidiary of DGI will over time result in an upgraded A.M. Best rating for us.
- Quality service: You will continue to receive the same high quality, responsive service from us that you have come to expect.

Our directors believe our Demutualization is the right decision for us and for our Members. We need your vote FOR approval of our Plan and the transactions that are a part of our Demutualization at our Special Meeting so that we can complete our Demutualization and enhance our ability to serve you.

If you have any questions concerning our Plan, please feel free to call me at (888) 877-0600 or Arlene L. Sitzman at (800) 545-6480.

Sincerely,

Donald H. Nikolaus, President
and Chief Executive Officer

LE MARS MUTUAL INSURANCE COMPANY OF IOWA
One Park Lane
Le Mars, Iowa 51031

NOTICE OF SPECIAL MEETING OF MEMBERS
TO BE HELD OCTOBER 6, 2003

TO THE MEMBERS OF LE MARS MUTUAL
INSURANCE COMPANY OF IOWA:

Notice is hereby given that a Special Meeting of Members (our "Special Meeting") of Le Mars Mutual Insurance Company of Iowa ("we," "us," "our" or "Le Mars") will be held at our offices at One Park Lane, Le Mars, Iowa, on Monday, October 6, 2003, at 11:00 a.m., Central Daylight Time. Our Special Meeting is being held for the purpose of considering and voting upon a proposal to approve our Plan of Conversion (our "Plan"), which contemplates our conversion from a mutual insurance company owned by our Members to a stock insurance company owned by Donegal Group Inc. ("DGI"), a company 64%-owned by Donegal Mutual Insurance Company ("Donegal"). We call our conversion and the related transactions our "Demutualization." Our Plan and the transactions that are a part of our Demutualization will be voted upon as a single matter at our Special Meeting. It is not expected that any other business will come before our Special Meeting or any adjournment, postponement or continuation of our Special Meeting.

Our Plan will not go into effect unless it is approved by our Members at our Special Meeting. Approval of our Plan requires the affirmative vote of not less than two-thirds of our Members who vote at our Special Meeting. Approval of our Plan will not increase your insurance premiums or decrease the benefits under your insurance policy with us.

You are a Member and entitled to vote on the proposal to approve our Plan and the transactions that are a part of our Demutualization if you were the Owner of a Policy In Force on August 11, 2003, the date our Plan was adopted by our Board of Directors (the "Adoption Date").

If our Demutualization becomes effective, one-time cash payments will be made to our Voting Policyholders and our Eligible Policyholders. You are a Voting Policyholder if you were the Owner of a Policy In Force on August 11, 2003. You are an Eligible Policyholder if you are a Voting Policyholder or if you were the Owner of a Policy In Force during the three-year period ended August 10, 2003.

Capitalized terms in this Notice not defined in this Notice are defined in the Glossary in the accompanying Information Statement.

A copy of our Plan, and our proposed Articles of Incorporation and Bylaws that are exhibits to our Plan, are included as appendices to the Information Statement. Copies of our Plan and our proposed Articles of Incorporation and our proposed Bylaws are also available, without charge, upon written or telephonic request directed to Arlene L. Sitzman, Secretary, Le Mars Mutual Insurance Company of Iowa, One Park Lane, Le Mars, Iowa 51031, telephone (800) 545-6480, or by visiting our website at www.lemm.com.

ONLY MEMBERS ON AUGUST 11, 2003 ARE ENTITLED TO RECEIVE NOTICE OF OUR SPECIAL MEETING AND TO VOTE ON THE APPROVAL OF OUR PLAN AND THE TRANSACTIONS THAT ARE A PART OF OUR DEMUTUALIZATION

YOUR VOTE ON OUR PLAN IS IMPORTANT. Whether or not you are able to attend our Special Meeting in person, you are urged to complete, date and sign the enclosed ballot and return it as soon as possible. We must receive ballots no later than October 3, 2003 in order for them to be voted at our Special Meeting. A ballot that is properly executed, that we receive by October 3, 2003 and that is not revoked will be voted at our Special Meeting as directed in the ballot. A signed ballot may be revoked in writing at any time prior to our Special Meeting by completing and signing a later-dated ballot or a written revocation and returning it to us by October 3, 2003 or by attending our Special Meeting and voting in person.

OUR BOARD OF DIRECTORS, AFTER RECEIVING THE RECOMMENDATION OF A COMMITTEE CONSISTING SOLELY OF OUR DIRECTORS WHO ARE NOT AFFILIATED WITH DONEGAL OR DGI, HAS UNANIMOUSLY APPROVED AND ADOPTED OUR PLAN AND THE TRANSACTIONS THAT ARE A PART OF OUR DEMUTUALIZATION AND BELIEVES THAT OUR PLAN AND THE TRANSACTIONS THAT ARE A PART OF OUR DEMUTUALIZATION ARE IN OUR BEST INTERESTS AND BENEFICIAL TO OUR MEMBERS. ACCORDINGLY, OUR BOARD OF DIRECTORS RECOMMENDS THAT ALL MEMBERS VOTE "FOR" APPROVAL OF OUR PLAN AND THE TRANSACTIONS THAT ARE A PART OF OUR DEMUTUALIZATION.

On Behalf of the Board of Directors,

Arlene L. Sitzman, Secretary

Le Mars, Iowa
September 2, 2003

**BEFORE THE INSURANCE COMMISSIONER OF
THE STATE OF IOWA**

In re the application of)	
LE MARS MUTUAL INSURANCE)	
COMPANY OF IOWA for approval)	NOTICE OF PUBLIC HEARING
of a plan of conversion to a)	and ORDER
stock insurance company)	(Iowa Code Chapter 515G)

PLEASE TAKE NOTICE:

Pursuant to Iowa Code section 515G.7 (2003), the Iowa Insurance Commissioner will hold a public hearing regarding the application of LE MARS MUTUAL INSURANCE COMPANY OF IOWA ("Applicant") for approval of a plan to convert to a stock insurance company.

1. **Hearing date and time:** October 7, 2003 at 1:30 p.m., Central Daylight Time.
2. **Location:** Iowa Insurance Division (lobby conference room), 330 Maple, Des Moines, Iowa.
3. **Nature of hearing:** The hearing will be a public opportunity for Applicant and any interested person to present evidence and argument relevant to the plan of conversion. All proceedings will be recorded or reported. Applicable rules of evidence are found in Iowa Code section 17A.14 (2003).
4. **Legal authority:** The hearing will be held pursuant to Iowa Code section 515G.7 (2003). Hearing procedures are found at Iowa Code sections 17A.12 through 17A.17 (2003).
5. **Issue presented:** The hearing will be held for the purpose of determining whether the terms of Applicant's plan for conversion to a stock insurance company are fair and equitable. For the plan to be approved, the Commissioner must find the plan meets the standards for conversion set forth in Iowa Code section 515G.7 (2003). Specifically, Applicant must establish that:
 - (a) the plan of conversion complies with all provisions of law,
 - (b) the plan of conversion is not unfair to the mutual insurer and its policyholders; and
 - (c) the reorganized company will have the amount of capital and surplus deemed by the Commissioner to be reasonably necessary for its future solvency.
6. **Statutes involved:** Iowa Code chapters 17A and 515G (2003).
7. **ADA Notice:** If, due to a disability, you require the assistance of auxiliary aids or services to participate in or attend this hearing, please call your district ADA coordinator immediately at (515) 286-3394. If you are hearing impaired, please call Relay Iowa TTY at (800) 735-2942. For additional assistance, you may also contact Jeanie Vaudt at the Iowa Insurance Division, (515) 281-5523.

LE MARS MUTUAL INSURANCE COMPANY OF IOWA
One Park Lane
Le Mars, Iowa 51031

INFORMATION STATEMENT
FOR A SPECIAL MEETING OF MEMBERS
TO BE HELD OCTOBER 6, 2003

Background

In July 2001, the Board of Directors of Le Mars Mutual Insurance Company of Iowa ("we," "us," "our" or "Le Mars"), following a substantial decline in our surplus and continuing underwriting and operating losses that our Board of Directors believed threatened our financial stability, determined that we and our policyholders would be best served by our affiliation with a larger property and casualty insurance company. We engaged a financial advisor with substantial experience in consummating affiliations of the type we desired and, over the ensuing months, made extensive inquiries of potential affiliation candidates and participated in discussions with a number of candidates expressing an interest in a possible affiliation with us.

In June 2002, we consummated an affiliation with Donegal Mutual Insurance Company ("Donegal"). Pursuant to the affiliation, Donegal invested \$4,000,000 in our surplus, and began to provide advice and assistance to our management in the restructuring of our insurance business for the purpose of restoring our underwriting profitability. As part of the affiliation, Donegal acquired control of us through appointment of five Donegal designees to our nine-member Board of Directors. As described in our March 20, 2002 Proxy Statement pursuant to which our members approved our affiliation with Donegal, Donegal contemplated that we ultimately would convert from a mutual insurance company owned by our policyholders to a stock insurance company that would be owned by Donegal. Donegal and we have agreed that, following our conversion, we will be owned by Donegal Group Inc. ("DGI"), an insurance holding company that is 64%-owned by Donegal and the balance of which is publicly held, because of DGI's access to the public capital markets. We sometimes refer to our conversion and the related transactions as our "Demutualization."

Since our affiliation with Donegal in June 2002, our financial condition and our results of operations have begun to improve. However, we incurred a statutory net loss of \$1,482,617 for the seven months ended July 31, 2003, and our statutory surplus at July 31, 2003 was approximately \$7,222,000, exclusive of Donegal's investment in our surplus.

The actions leading up to our Board of Directors' approval and adoption of our Plan of Conversion were as follows:

- In June 2003, our Board of Directors approved our management's recommendation to develop a plan of conversion.
- In June 2003, we appointed a Demutualization Committee of our Board of Directors, consisting of Messrs. Ahlers, Bixenman, Heemstra and Van Engelenhoven, none of whom has any affiliation with Donegal or DGI.
- In June 2003, the Demutualization Committee selected and retained independent counsel with experience in the demutualization of insurance companies under Iowa law.
- In June 2003, we retained the independent investment banking firm of Legg Mason Wood Walker, Incorporated ("Legg Mason") to assist us in determining our fair economic value and the amount of the consideration to be paid to our Voting Policyholders and our Eligible Policyholders upon the consummation of our Demutualization. Our Voting Policyholders are our policyholders who were the Owners of a Policy In Force on August 11, 2003. Our Eligible Policyholders are our policyholders who are Voting Policyholders or who were the Owners of a Policy In Force during the three-year period ended August 10, 2003.
- In July 2003, we retained the independent real estate appraisal firm of NAI LeGrand & Company to provide an appraisal of certain real estate we own in Le Mars, Iowa.
- In July 2003, our Board of Directors met with its counsel and with representatives of DGI and its counsel to review various aspects of our Demutualization.
- In August 2003, the Demutualization Committee met with its independent counsel to review our Plan of Conversion and reviewed the opinion and valuation analysis of Legg Mason.
- In August 2003, the Demutualization Committee recommended that our Board of Directors approve and adopt our Plan of Conversion.

On August 11, 2003, following a presentation by representatives of Legg Mason and our independent legal counsel, after receiving the recommendation of our Demutualization Committee that our Board of Directors approve and adopt our Plan of Conversion and the transactions that are a part of our Demutualization because they are fair and equitable to our Voting Policyholders and our Eligible Policyholders, our Board of Directors unanimously approved and adopted our Plan of Conversion and the transactions that are a part of our Demutualization. On August 22, 2003, our Board of Directors received a further presentation from Legg Mason regarding the appraisal of our real estate and ratified our Plan of Conversion as adopted at its August 11, 2003 meeting without change.

Our Board of Directors believes that our Plan of Conversion is fair and equitable to our Members, and is therefore submitting our Plan of Conversion and the transactions that are a part of our Demutualization to our Members for approval at a special meeting of our Members (our "Special Meeting"). In reaching this determination, our Board of Directors took into account:

- the recommendation of the Demutualization Committee;
- the terms and conditions of our Plan of Conversion, which were reviewed and evaluated with the assistance of independent legal counsel;
- the opinion and valuation advice of Legg Mason;
- the \$7.7 million in statutory net losses that we incurred from January 1, 1999 through July 31, 2003;
- our surplus;
- the present competitive conditions in the property and casualty insurance industry; and
- our prospects.

Other factors that were important to our Board of Directors included the following factors:

- the fact that our Board of Directors as constituted in February 2002 had carefully considered the other alternatives that were available to us when we determined to proceed with our affiliation with Donegal, which was approved by our Members and the Commissioner of Insurance of the State of Iowa (the "Commissioner");
- the fact that our Plan of Conversion requires approval by not less than two-thirds of our Members voting at our Special Meeting;
- DGI's recent results of operations, which demonstrate DGI's ability to compete successfully in the property and casualty insurance industry;
- that there are sufficient procedural safeguards present to ensure the fairness of our Plan of Conversion to our Voting Policyholders and our Eligible Policyholders;
- that our Demutualization Committee, consisting solely of directors independent of Donegal and DGI, reviewed and unanimously recommended that our Board of Directors approve our Plan of Conversion and the transactions that are a part of our Demutualization;

- that the Demutualization Committee and our Board of Directors were each advised by separate independent legal counsel; and
- the fact that a condition to the completion our Plan of Conversion and the transactions that are a part of our Demutualization is the receipt of a decision by the Commissioner that our Plan of Conversion and the transactions that are a part of our Demutualization are fair to our Voting Policyholders and our Eligible Policyholders.

This Information Statement is being furnished to our Members in connection with the solicitation of ballots by our Board of Directors for use at our Special Meeting. At our Special Meeting, our Members will be asked to consider and vote upon our Plan of Conversion and the transactions that are a part of our Demutualization. This Information Statement provides details of our Plan of Conversion, the background of and reasons for our Plan of Conversion and its effect upon us and the interests of our Members. See "Summary Information About Our Plan of Conversion and Our Demutualization." This Information Statement also provides information relevant to the matters to be considered at the public hearing to be held on October 7, 2003 by the Commissioner. See "Required Regulatory Approvals." You are urged to read this Information Statement in its entirety and consider carefully the information provided by this Information Statement.

No person is authorized to give any information or to make any representation other than those contained or incorporated by reference in this Information Statement, and, if given or made, such information or representation should not be relied upon as having been authorized by us or by Donegal or DGI.

This Information Statement is dated September 2, 2003 and is first being mailed to our Members on or about that date.

AVAILABLE INFORMATION

We are subject to the laws and regulations of the State of Iowa applicable to mutual property and casualty insurance companies. In accordance with those laws and regulations, we file annual and quarterly financial reports prepared on the statutory basis of accounting ("Annual Statements" and "Quarterly Statements") and other information with the Iowa Division of Insurance (the "Division"). Our Annual Statements and Quarterly Statements, as well as other information regarding us that is publicly available, may be inspected during normal business hours at the offices of the Division, 330 East Maple Street, Des Moines, Iowa. The publicly available financial reports may also be inspected during normal business hours at the office of the insurance regulatory agency in the States of Nebraska, Oklahoma and South Dakota.

Donegal is subject to the laws and regulations of the Commonwealth of Pennsylvania applicable to mutual property and casualty insurance companies. In accordance with those

laws and regulations, Donegal files Annual Statements and Quarterly Statements and other information with the Insurance Department of the Commonwealth of Pennsylvania (the "Department"). Donegal and its affiliates also file Insurance Holding Company System Annual Registration Statements (the "Holding Company Statements") with the Department on an annual basis containing information regarding the business conducted by Donegal and its affiliates. The Annual Statements, Quarterly Statements and the Holding Company Statements, as well as other information regarding Donegal that is publicly available, may be inspected during normal business hours at the offices of the Department, 1331 Strawberry Square, Harrisburg, Pennsylvania.

Donegal owns approximately 64% of the capital stock of DGI, an insurance holding company that is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended. In accordance with those requirements, DGI is obligated to file various documents, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Proxy Statements, with the Securities and Exchange Commission ("SEC") relating to its business, financial condition and other matters. Copies of any publicly available document DGI has filed with the SEC may be reviewed at the public reference room of the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of this information may also be obtained by mail from the public reference section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 at prescribed rates. You may obtain information on the operations of the public reference room by calling the SEC at (800) SEC-0330. DGI's filings with the SEC are also available to the public without charge by visiting the SEC's website at www.sec.gov.

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SUMMARY INFORMATION ABOUT OUR PLAN OF CONVERSION AND OUR DEMUTUALIZATION

This summary provides an overview of the material aspects of the transactions that are a part of our Demutualization, our reasons for our Demutualization and the effects of our Demutualization on us and the interests of our Members. This summary highlights selected information contained elsewhere in this Information Statement. Although we have highlighted what we believe is the most important information about our Plan of Conversion and the transactions that are a part of our Demutualization, we urge you to read the entire Information Statement carefully and the documents incorporated in this Information Statement by reference to understand the material aspects of our conversion to a stock insurance company and the other transactions that are a part of our Demutualization. Except as otherwise expressly noted, all financial information in this Information Statement has been prepared on the statutory basis of accounting.

We use certain defined words and phrases throughout this Information Statement. These words and phrases, which are always capitalized, have precise meanings. We have listed these defined words and phrases, and the meaning of these defined words and phrases, in the Glossary at the end of this Information Statement. When you see a capitalized word or phrase, you should refer to the Glossary to find out the meaning we have given to these words or phrases. In this summary, we have included section and page references to direct you to a more complete description of the topics described in this summary.

Information About Our Special Meeting and Your Rights as a Member

What is the purpose of this Information Statement?

The purpose of this Information Statement is to provide our Members with important information and explain your rights. This Information Statement:

- Reviews the highlights of our Plan of Conversion, the legal document that governs our Demutualization.
- Describes the one-time cash payments that will be made upon our Demutualization to our Voting Policyholders for extinguishment of their Voting Rights and to our Voting Policyholders and our Eligible Policyholders on account of their equitable interest in us upon our Demutualization. Our Voting Policyholders are described on page 8 and our Eligible Policyholders are described on page 8.
- Tells you about the vote of our Voting Policyholders on the proposal to approve our Plan of Conversion and the transactions that are a part of our Demutualization.

- Gives you information to help you decide how to vote, including certain special considerations that may affect your rights and compensation.
- Provides information about the public hearing the Commissioner will hold. You have the right to attend the public hearing, submit comments and speak at the public hearing.
- Describes our business and management, and our recent financial condition and results of operations.
- Describes the business and management, and the recent financial condition and results of operations, of the Donegal Insurance Group.

Why was this Information Statement sent to me?

This Information Statement has been sent to you because you were a Member of Le Mars on August 11, 2003. As of the close of business on August 11, 2003, approximately 15,750 persons were Members of Le Mars. As a Member of Le Mars on August 11, 2003, you are entitled to vote on the proposal to approve our Plan of Conversion and the transactions that are a part of our Demutualization and you will receive a one-time cash payment of \$15.00 for the extinguishment of your Voting Right if our Demutualization becomes effective. If you are a Voting Policyholder or if you were a Member of Le Mars during the three-year period ended August 10, 2003, you are an Eligible Policyholder and you will receive a one-time cash payment reflecting your equitable interest in us on account of our Demutualization becoming effective.

When and where will our Special Meeting be held?

Our Special Meeting will be held on Monday, October 6, 2003 at 11:00 a.m., Central Daylight Time, at our offices at One Park Lane, Le Mars, Iowa 51031.

Why is our Special Meeting being held?

Iowa insurance law requires that our Plan of Conversion must be submitted to a vote of our Members in order to become effective. Our Plan of Conversion and the transactions that are a part of our Demutualization will be voted upon as a single matter at our Special Meeting. Copies of our Plan of Conversion and our Articles of Incorporation and our Bylaws as they will be in effect following our Demutualization appear as Appendices A, B and C, respectively, to this Information Statement. See "Our Demutualization" for summaries of the material terms of our Plan of Conversion. Copies of our Plan of Conversion, our proposed Articles of Incorporation and our proposed Bylaws can also be viewed by visiting our website at www.lemm.com.

What are your voting rights at our Special Meeting?

If you are a Member, you are entitled one vote regardless of the number of Policies you own, unless those Policies are held in different capacities. An example of different capacities would be if you own a Policy in your own name and if you own another Policy as a trustee for a third person. A group policyholder, and not the persons comprising the group, is the Member; accordingly, each group policyholder is entitled to one vote as a Member regardless of the number of persons in the group.

You may attend our Special Meeting and vote in person or you may vote by a properly completed and signed ballot that is returned to us by no later than October 3, 2003. A ballot that is properly executed, that is received by us by October 3, 2003 and that is not revoked will be voted at our Special Meeting as directed in the ballot. The ballot confers discretionary authority on the persons named as your proxy in the ballot to vote on procedural matters incident to the conduct of our Special Meeting. A ballot may be revoked at any time before it is voted: (i) by delivering to the Secretary of Le Mars a written revocation of the ballot; (ii) by properly completing and signing a later-dated ballot and delivering it to our Secretary by no later than October 3, 2003 or (iii) by attending our Special Meeting, notifying our Secretary and voting in person.

If our Special Meeting is postponed, adjourned or continued, at any subsequent reconvening of our Special Meeting, all ballots will be voted in the same manner as such ballots would have been voted at the original convening of our Special Meeting, except for any ballots that have theretofore been effectively revoked or withdrawn. We will bear the cost of soliciting ballots, including the cost of printing and mailing this Information Statement.

The presence of 25 Members at our Special Meeting, in person or by ballot, will constitute a quorum for the transaction of business.

What are my other rights as a Member of Le Mars?

We are a mutual property and casualty insurance company. You have rights both as our policyholder and as our Member. As our policyholder, you are entitled to insurance coverage to the extent and in the amount specified in your Policy. Together, our Members own Le Mars and have certain rights in the event of our liquidation, merger, consolidation or demutualization. See "Description of Le Mars and Donegal -- Le Mars" on page 28.

On the Effective Date, we will no longer have any Members. If our Demutualization becomes effective, your Membership Interest will terminate. Upon the termination of your Membership Interest, your Voting Rights will be extinguished and your right to participate in distributions of our surplus will terminate. If you are a Voting Policyholder, you will receive a one-time cash payment of \$15.00 as consideration for the termination of your Voting Rights.

If you are an Eligible Policyholder (which includes all Voting Policyholders), you will receive a one-time cash payment on account of your equitable interest in our fair economic value of \$8.2 million, as determined by our Board, less our costs and expenses in effecting our Plan and less the payment made to our Voting Policyholders for extinguishment of their Voting Rights. In this Information Statement, we refer to our fair economic value, less our costs and expenses in effecting our Plan, as the "Consideration" and we refer to the Consideration, less the payment we make to our Voting Policyholders in respect of the termination of their Voting Rights, as the "Remaining Amount." Your Policy benefits will not be diminished, and your Policy premiums will not increase, as a result of our Demutualization.

For more information, see "Termination of Membership Interests" on page 24.

What vote is required to approve our Plan of Conversion and our Demutualization?

The affirmative vote of not less than two-thirds of our Members voting at our Special Meeting is necessary to approve our Plan of Conversion and the transactions that are a part of our Demutualization.

What is our Board of Directors' recommendation on our Plan of Conversion and our Demutualization?

Our Board of Directors has unanimously:

- determined that our Plan of Conversion and the transactions that are a part of our Demutualization are fair to you and in your best interests and our best interests;
- recommends the proposal to approve our Plan of Conversion and the transactions that are a part of our Demutualization; and
- recommends that you vote for approval of our Plan of Conversion and the transactions that are a part of our Demutualization.

In making its determination, our Board of Directors took into account the recommendation of our Demutualization Committee, consisting of four of our directors who have no affiliation with Donegal or DGI. Our Demutualization Committee reviewed and evaluated the terms and conditions of our Plan of Conversion and the transactions that are a part of our Demutualization with the assistance of independent legal counsel. Our Demutualization Committee and our Board of Directors also considered the opinion and the valuation advice provided by Legg Mason, our independent financial advisor, and the real estate appraisal provided by NAI LeGrand & Company.

See "Our Demutualization" on page 10.

Information About Our Plan of Conversion and the Effect of Our Demutualization Upon Us and Our Members' Interests

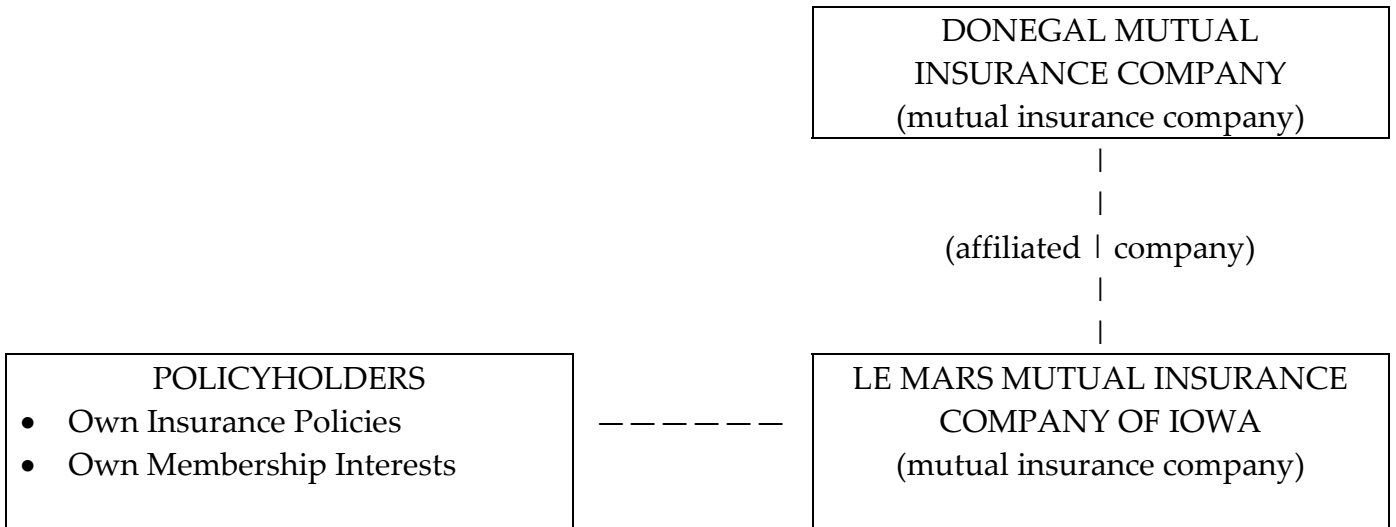
What is a demutualization?

We are currently a mutual insurance company. As we explain more fully under "Our Demutualization – Background" on page 11, our Board of Directors has approved and adopted a Plan of Conversion under which we will convert from a mutual insurance company into a stock insurance company through a demutualization. Mutual insurance companies have no stockholders and are owned by their members. When a mutual insurance company demutualizes, it changes its form of organization into an insurance company with stockholders. If our Demutualization becomes effective, we will become a stock insurance company.

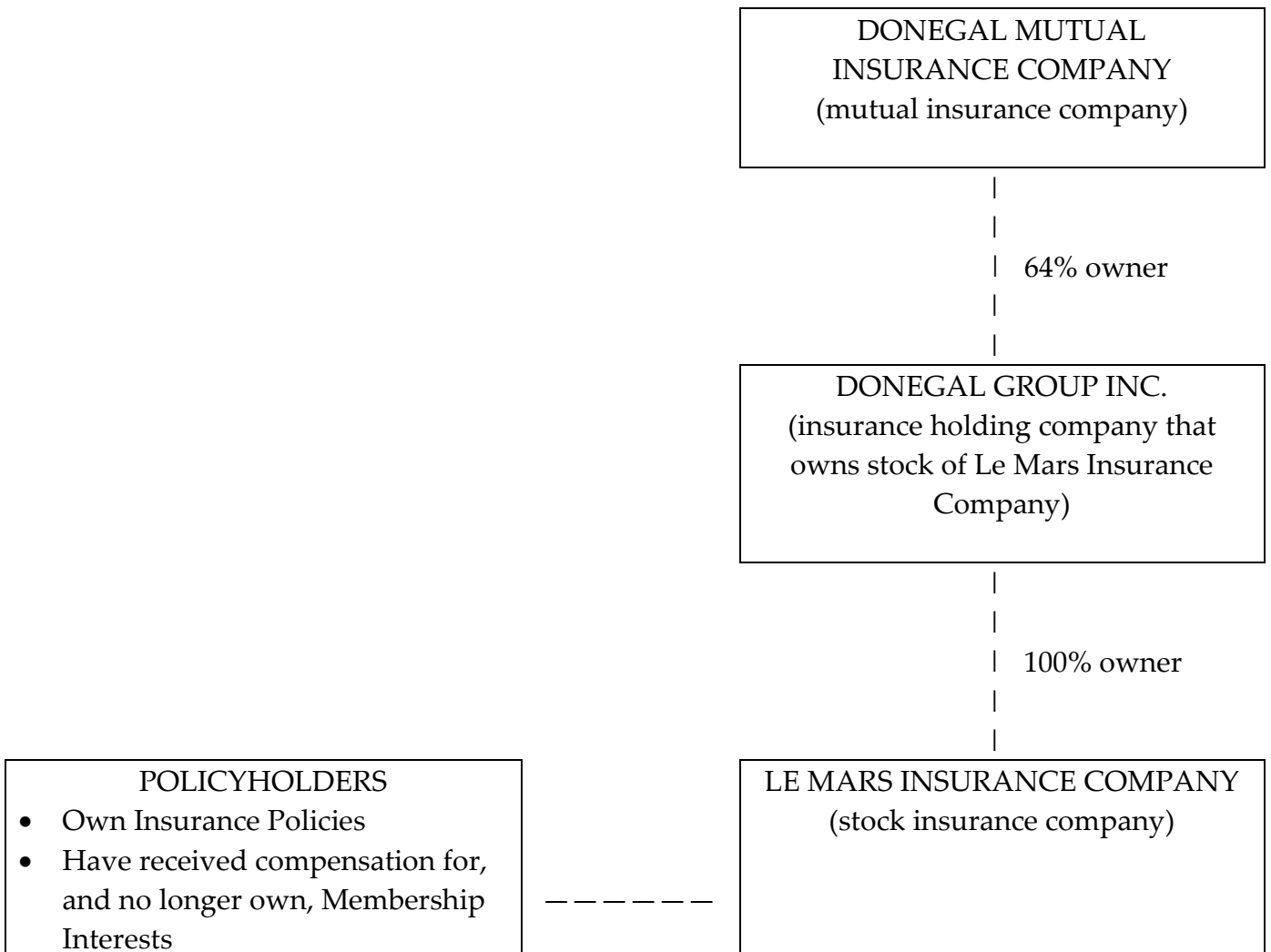
Immediately after our Demutualization, the only holder of our stock will be DGI. Following our Demutualization, our Voting Policyholders will receive a one-time cash payment of \$15.00 for extinguishment of their Voting Rights and our Voting Policyholders and our Eligible Policyholders will receive a one-time cash payment reflecting their equitable interest in the Remaining Amount.

The following chart displays our corporate structure before and after our Demutualization.

STRUCTURE BEFORE OUR DEMUTUALIZATION



STRUCTURE AFTER OUR DEMUTUALIZATION



Why are we converting from a mutual insurance company to a stock insurance company?

We are converting from a mutual insurance company to a stock insurance company because our Board of Directors believes our Demutualization will benefit us and our policyholders.

How will our Demutualization benefit us and our policyholders?

Our Board of Directors believes that our Demutualization will provide benefits to our present and future policyholders by:

- assuring our long-term financial stability by increasing our surplus;
- increasing our financial, technological and managerial resources;
- allowing us to offer over time a broader range of products and services to our policyholders; and
- enhancing our policyholder service capabilities.

Our Demutualization will also result in our payment of a one-time cash payment to our Voting Policyholders reflecting the extinguishment of their Voting Rights and a one-time cash payment to our Voting Policyholders and our Eligible Policyholders reflecting their equitable interest in the Remaining Amount.

Our Demutualization does involve certain issues and risks. There are important differences between a mutual insurance company structure and a stock insurance company structure. See "Our Demutualization – Differences Between Mutual Insurance Companies and Stock Insurance Companies" on page 15 for an explanation of the differences between mutual insurance companies and stock insurance companies.

How will our Demutualization affect our A.M. Best rating?

We believe that our Demutualization will increase the probability that our A.M. Best rating will be upgraded by A.M. Best from its current level of B+. A.M. Best ratings represent an opinion based on a comprehensive quantitative and qualitative evaluation of an insurance company's balance sheet strength, operating performance and business profile and are intended to provide guidance regarding the claims-paying ability of an insurance company. Higher ratings generally increase the ability of an insurance company to attract business. We intend to request that A.M. Best reevaluate our rating shortly after our Demutualization and our becoming a wholly owned subsidiary of DGI.

What are the principal features of our Plan of Conversion?

- We will become a stock company -- If our Plan of Conversion becomes effective, we will convert from a mutual insurance company to a stock insurance company.
- Policy provisions will not change -- Your benefits under your Policy will not decrease, and your Policy premiums will not increase, as a result of our Demutualization.
- We will become wholly owned by DGI -- After we convert into a stock insurance company, all of our stock will be owned by DGI and we will be part of the Donegal Insurance Group.
- Your Membership Interests will terminate -- As an Owner of a Policy In Force, you have certain rights as a Member of a mutual insurance company. Your rights as a Member include the right to vote on certain matters, including the election of directors and significant transactions such as a demutualization, and the right to participate in the distribution of our residual value in the event of our liquidation or our demutualization. These rights will terminate if our Demutualization becomes effective.
- Voting Policyholders and Eligible Policyholders will receive one-time cash payments -- If our Demutualization becomes effective, Voting Policyholders will receive a one-time cash payment of \$15.00 for extinguishment of their Voting Rights and our Voting Policyholders and our Eligible Policyholders will receive a one-time cash payment reflecting their equitable interest in the Remaining Amount.

Who is a Voting Policyholder?

You are a Voting Policyholder if you were the Owner of a Policy In Force on the Adoption Date of August 11, 2003.

Who is an Eligible Policyholder?

You are an Eligible Policyholder if you are a Voting Policyholder or if you were the Owner of a Policy In Force during the three-year period ended August 10, 2003.

How much compensation will our Voting Policyholders receive?

If you are a Voting Policyholder, you will receive a one-time cash payment of \$15.00 for extinguishment of your Voting Rights if our Demutualization becomes effective.

How much compensation will our Eligible Policyholders receive?

If you are an Eligible Policyholder, you will receive a one-time cash payment if our Demutualization becomes effective. The amount of the cash payment you will receive will be determined by the ratio that the net earned premiums you have properly and timely paid to us on Policies owned by you during the three years immediately preceding the Adoption Date of August 11, 2003 bears to the total net earned premiums we have received from all policyholders during that three-year period times the Remaining Amount. During that three-year period, we received total net earned premiums from policyholders of approximately \$77.0 million. For further information, see "Compensation" on page 19.

Why are the payments to Voting Policyholders and Eligible Policyholders in the form of cash?

Under Section 515G.3 of the Iowa Code, any consideration payable to a Voting Policyholder in exchange for the extinguishment of the Voting Policyholder's Voting Rights and any consideration payable to a Voting Policyholder or an Eligible Policyholder because of their equitable interest in the fair economic value of Le Mars upon its Demutualization may be made in securities or other consideration or both. Our Board of Directors believes that by making the payments in cash the amounts Voting Policyholders and Eligible Policyholders will receive will be greater than if securities were used because of the costs we would incur in connection with issuing securities and in maintaining approximately 20,000 additional stockholder accounts with relatively small numbers of shares.

Will any compensation be paid to our officers, directors and employees in connection with our Demutualization?

- Our officers, directors and employees will not receive any compensation at the time of our Demutualization except to the extent they are Voting Policyholders or Eligible Policyholders.
- After the Effective Date, however, since we will be owned by DGI, our officers, directors, employees and agents will be eligible to purchase or receive DGI common stock in accordance with the terms and conditions of DGI's stock-based compensation plans, including its employee, director and agent stock option plans, its employee stock purchase plan, its dividend reinvestment and stock purchase plan and its savings and retirement plans.

What are the conditions to the effectiveness of our Demutualization?

The following conditions must be satisfied before we can complete our Demutualization:

- Our Plan of Conversion must be submitted to a vote of our Members. Iowa law requires that not less than two-thirds of our Members who vote at our Special Meeting must vote to approve our Plan of Conversion and the transactions that are a part of our Demutualization in order for it to be approved by our Members.
- The Commissioner must approve our Plan of Conversion after holding a public hearing on our Plan of Conversion. Refer to "Notice of Public Hearing" for information about the public hearing.

When will our Demutualization be completed?

Our Demutualization will be completed when all of the conditions to its effectiveness are completed. See "Conditions to the Effectiveness of Our Demutualization" on page 25. We currently expect that our Demutualization will be completed before the end of 2003.

What are DGI's future plans for Le Mars?

DGI intends to maintain Le Mars' home office in Le Mars, Iowa as a base of Le Mars' operations for the foreseeable future and to use commercially reasonable efforts to continue employment of Le Mars' underwriting, claims and marketing personnel at its home office commensurate with Le Mars' premium volumes. DGI also intends that Le Mars' book of business will be retained by Le Mars and not transferred to DGI, Donegal or any of their respective affiliates. Le Mars will also serve as the major underwriter of insurance business in Iowa for the Donegal Insurance Group.

OUR DEMUTUALIZATION

The following is a summary of our Plan of Conversion, a copy of which is included as Appendix A to this Information Statement and which is incorporated by reference in this Information Statement. While we believe this summary describes all of the material terms of our Demutualization, you should read our Plan of Conversion for further information. If there are any differences between the following summary and our Plan of Conversion and its exhibits, the provisions of our Plan of Conversion and its exhibits will govern.

Background

Our Demutualization will complete a process that started in June 2002 when we affiliated with Donegal as part of our Plan of Operations. As indicated in the Proxy Statement we sent to our policyholders at the time they approved our affiliation with Donegal, our Board of Directors contemplated at that time that we would ultimately demutualize and become a part of the Donegal Insurance Group. Our Board of Directors believes that our Demutualization is in our best interests and in your best interests.

The actions leading up to our Board of Directors' approval and adoption of our Plan of Conversion were as follows:

- In June 2003, our Board of Directors approved our management's recommendation to develop a plan of conversion.
- In June 2003, we appointed a Demutualization Committee of our Board of Directors, consisting of Messrs. Ahlers, Bixenman, Heemstra and Van Engelenhoven, none of whom has any affiliation with Donegal or DGI.
- In June 2003, the Demutualization Committee selected and retained independent counsel with experience in the demutualization of insurance companies under Iowa law.
- In June 2003, we retained the independent investment banking firm of Legg Mason to assist us in determining our fair economic value and the amount of the consideration to be paid to our Voting Policyholders and our Eligible Policyholders upon the consummation of our Demutualization.
- In July 2003, we retained the independent real estate appraisal firm of NAI LeGrand & Company to provide an appraisal of certain real estate we own in Le Mars, Iowa.
- In July 2003, our Board of Directors met with its counsel and with representatives of DGI and its counsel to review various aspects of our Demutualization.
- In August 2003, the Demutualization Committee met with its independent counsel to review our Plan of Conversion and reviewed the opinion and valuation analysis of Legg Mason.
- In August 2003, the Demutualization Committee recommended that our Board of Directors approve and adopt our Plan of Conversion.

On August 11, 2003, following a presentation by representatives of Legg Mason and our independent legal counsel, after receiving the recommendation of our Demutualization Committee that our Board of Directors approve and adopt our Plan of Conversion and the transactions that are a part of our Demutualization because they are fair and equitable to our Voting Policyholders and our Eligible Policyholders, our Board of Directors unanimously

approved and adopted our Plan of Conversion and approved the transactions that are a part of our Demutualization. On August 22, 2003, our Board of Directors received a further presentation from Legg Mason regarding the appraisal of our real estate and ratified our Plan of Conversion as adopted at its August 11, 2003 meeting without change.

Our Board of Directors believes that our Plan of Conversion is fair and equitable to our Voting Policyholders and our Eligible Policyholders and is therefore submitting our Plan of Conversion and the transactions that are a part of our Demutualization to our Members for approval. In reaching this determination, our Board of Directors took into account:

- the recommendation of the Demutualization Committee;
- the terms and conditions of our Plan of Conversion, which were reviewed and evaluated with the assistance of independent legal counsel;
- the opinion and valuation advice of Legg Mason;
- the \$7.7 million in statutory net losses that we incurred from January 1, 1999 through July 31, 2003;
- our surplus;
- the present competitive conditions in the property and casualty insurance industry; and
- our prospects.

Other factors that were important to our Board of Directors included the following factors:

- the fact that our Board of Directors as constituted in February 2002 had carefully considered the other alternatives that were available to us when we determined to proceed with our affiliation with Donegal, which was approved by our Members and the Commissioner;
- the fact that our Plan of Conversion requires approval by not less than two-thirds of our Members voting at the Special Meeting;
- DGI's recent results of operations, which demonstrate DGI's ability to compete successfully in the property and casualty insurance industry;
- that there are sufficient procedural safeguards present to ensure the fairness of our Plan of Conversion to our Voting Policyholders and our Eligible Policyholders;

- that our Demutualization Committee, consisting solely of directors independent of Donegal and DGI, reviewed and unanimously recommended that our Board of Directors approve our Plan of Conversion and the transactions that are a part of our Demutualization;
- that the Demutualization Committee and our Board of Directors were each advised by separate independent legal counsel; and
- the fact that a condition to the completion our Plan of Conversion and the transitions that are a part of our Demutualization is the receipt of a decision by the Commissioner that our Plan of Conversion and the transactions that are a part of our Demutualization are fair to our Voting Policyholders and our Eligible Policyholders.

Our Plan of Conversion calls for our conversion from a mutual insurance company to a stock insurance company in a process called a Demutualization. Upon our Demutualization, our Voting Policyholders will receive a one-time cash payment of \$15.00 for extinguishment of their Voting Rights, and our Voting Policyholders and our Eligible Policyholders will receive a one-time cash payment representing their equitable interest in the Remaining Amount from us as consideration for the termination of their Membership Interests. Membership Interests include the right to vote for the election of directors and on the approval or disapproval of significant corporate transactions. Membership Interests also include the right to participate in distributions of our residual value in the event of our liquidation or demutualization. Policyholders will not have to surrender their Policies or lose any benefits under their Policies as a result of our Demutualization becoming effective.

Opinion of Legg Mason as Financial Advisor to the Demutualization Committee and Our Board of Directors

Legg Mason, which served as an independent financial advisor to our Board of Directors, delivered a written opinion to our Board of Directors on August 11, 2003, to the effect that \$8.2 million is within a reasonable range of fair market values of Le Mars as of August 6, 2003.

A copy of Legg Mason's opinion, which includes a discussion of the information it reviewed, the assumptions it made and the matters it considered, is included as Appendix D to this Information Statement. You should read this opinion in its entirety, as well as the following discussion of our reasons for our Demutualization.

Material Benefits of Our Demutualization

We believe our Demutualization will benefit us and our policyholders by providing us with the advantages of becoming a part of a substantially larger insurance company. We expect these advantages will include:

- access to public sources of capital through DGI;
- increased surplus to protect our policyholders;
- availability of new technology that will allow us to improve policyholder service and agent communications;
- a greater variety of products to offer our policyholders over time;
- greater operating efficiencies;
- through possible pooling arrangements, the ability to diversify our exposure to risk;
- the prospect of an improved A.M. Best rating;
- more advantageous reinsurance; and
- an enhanced ability to attract and retain experienced personnel.

Other Alternatives

Our Board of Directors as it was constituted in February 2002 considered our alternatives prior to the time it authorized our February 2002 agreement to affiliate with Donegal. At that time, our Board of Directors determined that it was not viable for us to continue as a small independent mutual insurance company for the following reasons:

- our statutory surplus had declined from \$15,456,812 at December 31, 1998 to \$8,777,545 at December 31, 2001;
- during the three years ended December 31, 2001, we incurred aggregate statutory underwriting losses of \$13,318,507;
- our A.M. Best rating was downgraded from A- on September 28, 1998 to B++ on June 7, 1999 to B+ on December 11, 2000 and we anticipated a further substantial downgrade;
- our inability to access the public capital markets to enhance our surplus;

- the decreasing availability and increasing cost of reinsurance since September 11, 2001;
- the difficulty we had in attracting and retaining experienced personnel; and
- our lack of sufficient resources to make the capital investment in technology that we needed in order to remain competitive and control our operating expenses.

In addition, our Board of Directors believes our Voting Policyholders and our Eligible Policyholders will benefit from their opportunity to receive one-time cash payments as compensation for their Membership Interests, which are illiquid and, absent our dissolution or demutualization, would not be distributable to our Voting Policyholders and our Eligible Policyholders.

Differences Between Mutual Insurance Companies and Stock Insurance Companies

There are structural and operational differences between mutual insurance companies and stock insurance companies. The following table compares the general characteristics of mutual insurance companies to those of stock insurance companies.

<u>Characteristic</u>	<u>Mutual Insurance Companies</u>	<u>Stock Insurance Companies</u>
• Control	Control is held by members of the mutual insurance company, who are also policyholders. Directors are elected by policyholders, not stockholders.	Control is held by stockholders, who are not necessarily policyholders. Directors are elected by stockholders, not policyholders.
• Ownership and Transferability of Ownership	Membership interests combine ownership rights and insurance benefits. Ownership rights generally end when insurance policy expires and are generally not transferable.	Stockholders have ownership rights, and policyholders do not. Owners are not necessarily policyholders and ownership of stock is retained after insurance policy expiration. Stock is generally transferable.
• Ability to Raise Capital	Limited opportunities through surplus notes and sale of stock by subsidiaries. These opportunities are particularly	Increased ability to raise capital through sale of stock by company or its parent corporation. Also can use

	unavailable for smaller companies. No equity securities, such as stock, are available for acquisitions.	stock to effect acquisitions.
• Insurance Benefits	As provided in insurance policy.	As provided in insurance policy.
• Possible Hostile Acquisition by Another Company	Unlikely because ownership interests are not transferable, and it is difficult to obtain control of board of directors because of one vote per policy.	Less difficult because ownership interests are transferable, subject to anti-takeover measures. Easier to accumulate large number of shares to vote in director elections.

Our Conversion and the Transactions That Are a Part of Our Demutualization

Although our conversion to a stock insurance company and the other transactions that are a part of our Demutualization consist of a series of separate but related steps, all of the transactions will occur at the same time, and none of the transactions that are a part of our Demutualization will be effected unless all of the transactions are simultaneously effected.

The first part of our Demutualization is our conversion from a mutual insurance company to a stock insurance company. We will continue to be an Iowa-domiciled insurance company, and we will continue to maintain our headquarters in Le Mars, Iowa. At that time, all of our Membership Interests will terminate and our Voting Policyholders and our Eligible Policyholders will receive one-time cash payments as compensation for the termination of their Membership Interests.

The second part of our Demutualization involves the repayment of the \$4.0 million Surplus Note held by Donegal, which will be transferred to DGI immediately prior to our Demutualization, and the accrued and unpaid interest thereon and the issuance of all of our capital stock to DGI following our conversion. As permitted by Iowa law and the terms of the Surplus Note, DGI will exchange the Surplus Note and the accrued but unpaid interest thereon for shares of common stock of the successor stock insurance company into which we will have been converted and we will cancel the Surplus Note. At the same time, DGI will make an additional capital contribution to us so that our surplus, after our conversion to a stock insurance company and after the one-time cash payments to our Voting Policyholders and Eligible Policyholders, will be no less than our surplus on the date we adopted our Plan of Conversion. We will thereupon be a wholly owned subsidiary of DGI and a member of the Donegal Insurance Group.

The third component of our Demutualization will be the change of our name to Le Mars Insurance Company. We will also be governed by the Articles of Incorporation and Bylaws of Le Mars Insurance Company in the form of Appendices B and C, respectively, to this Information Statement.

For a pictorial presentation of our structure before our Demutualization and our structure after our Demutualization, please refer to page 6.

ELIGIBILITY TO VOTE AND OWNERSHIP OF A POLICY

General

As a general matter, policyholders of a mutual insurance company have membership interests that permit the policyholders to vote on certain matters and to receive compensation in the event of demutualization or to share in any residual value after the satisfaction of all liabilities in the event of liquidation. The discussion below explains the reasons why you are or are not a Voting Policyholder (a person entitled to vote at our Special Meeting on our Plan of Conversion and the transactions that are a part of our Demutualization and to receive a one-time cash payment of \$15.00 because of the extinguishment of such person's Voting Rights if our Demutualization becomes effective) and the reasons why you are or are not an Eligible Policyholder (a person entitled to receive a one-time cash payment reflecting such person's equitable interest in the Remaining Amount if our Demutualization becomes effective).

- You are eligible to vote on the proposal to approve our Plan of Conversion and the transactions that are a part of our Demutualization if you were the Owner of a Policy In Force on August 11, 2003.
- You are eligible to receive compensation if you are a Voting Policyholder or if you were the Owner of a Policy In Force during the three-year period ended August 10, 2003.

Determining Who is the Owner of a Policy

For the purposes of voting and receiving compensation, your ownership of a Policy will be determined based on our records. We will use the following rules to determine if you are the Owner of a Policy:

- In general, you are the Owner of a Policy if you are the Person specified in the Policy as the policyholder.

- If more than one Person is the Owner of a Policy, they will be considered together as one Owner. Such Persons will be entitled to vote jointly on our Plan of Conversion and to receive jointly the one-time cash payment to be made upon our Demutualization.
- If you own Policies in more than one capacity, for example, if you are the Owner of a Policy individually and you are also the Owner of a Policy as a trustee for a third party, you will be treated as a separate Owner for each Policy.

What Does "In Force" Mean?

The determination whether your Policy is In Force will be made based on our records. In general, your Policy will be treated as In Force on a given day if it has been issued and is in effect. A Policy that has lapsed for nonpayment of premiums will generally remain In Force during any applicable grace period. Section 6.3 of our Plan of Conversion, which is included as Appendix A to this Information Statement, contains further information on the determination of the In Force status of a Policy.

VOTING

Our Plan of Conversion will become effective only if it is approved by not less than two-thirds of the votes cast by our Members at our Special Meeting. Members may vote by mail or in person at our Special Meeting. Each Member is entitled to one vote on our Plan of Conversion regardless of the number of Policies the Member owns unless those Policies are held in different legal capacities, such as an individual who owns a Policy in his or her own name and who owns another Policy as a trustee for a third party.

How to Vote

You should complete, sign and return your ballot to us. Your ballot must be marked either FOR or AGAINST to be valid. You should mark FOR on your ballot if you want to vote for approval of our Plan of Conversion and the transactions that are a part of our Demutualization. You should mark AGAINST on your ballot if you want to vote against approval of our Plan of Conversion and the transactions that are a part of our Demutualization. Your ballot must also be signed in order to be counted. If the name of more than one policyholder is designated on the ballot, each of those named policyholders must sign the ballot. The ballot will not be valid, and will not be treated as a vote cast at our Special Meeting, if it is signed but not marked either FOR or AGAINST, if it is signed and marked both FOR and AGAINST or if it is not signed by each policyholder named on the ballot.

If you want to vote by mail, you should use the postage pre-paid postcard ballot we have included with this Information Statement. We urge you to mail your ballot promptly so that the ballot is received in time to be counted at our Special Meeting.

If you want to vote in person at our Special Meeting, you may do so. Our Special Meeting will be held at our offices at One Park Lane, Le Mars, Iowa at 11:00 a.m., Central Daylight Time, on October 6, 2003.

COMPENSATION

If our Plan of Conversion becomes effective and you are a Voting Policyholder or an Eligible Policyholder, you will receive a one-time cash payment. A Voting Policyholder will receive a one-time cash payment of \$15.00 because of the termination of the Voting Rights of the Voting Policyholder upon the Effective Date of our Demutualization. A Voting Policyholder and an Eligible Policyholder will receive a one-time cash payment reflecting such person's equitable interest in the Remaining Amount upon the Effective Date of our Demutualization. See "Termination of Membership Interests" on page 24.

Eligibility for Compensation

You are a Voting Policyholder if you were the Owner of a Policy In Force on August 11, 2003, and you are an Eligible Policyholder if you were a Voting Policyholder or if you were the Owner of a Policy In Force during the three-year period ended August 10, 2003.

When Your Compensation Will be Distributed

We will send you a check within 75 days from the Effective Date, unless the Commissioner approves a longer time within which we must send a check to you.

Amount of Compensation

Each Voting Policyholder will receive a one-time cash payment of \$15.00. Each Voting Policyholder and each Eligible Policyholder will receive a one-time cash payment representing his or her equitable interest in the Remaining Amount. This payment will equal the ratio that the net earned premiums such Voting Policyholder and Eligible Policyholder properly and timely paid to us during the three-year period ended August 10, 2003 bears to the net earned premiums we received from all policyholders during that period times the Remaining Amount. For example, if an Eligible Policyholder timely paid \$1,000 in net earned premiums during the three-year period, that Eligible Policyholder would be entitled to receive compensation calculated as follows:

$$\frac{\$1,000}{\$76,950,000} \times \$ (\text{our fair economic value less the expenses of our Demutualization and less the payment to our Voting Policyholders}) = \text{Equitable Interest}$$

Determination of Our Fair Economic Value

On June 27, 2003, we retained Legg Mason to act as our independent financial advisor to assist our Board in the determination of our fair economic value. We retained Legg Mason to act as our independent financial advisor because Legg Mason is a leading investment banking and financial advisory firm with experience in the evaluation of insurance companies and their securities in connection with mergers, acquisitions and demutualizations, negotiated underwritings and the distribution of securities of insurance companies, private placements of such securities and valuations of insurance companies. Legg Mason has not in the past provided investment banking or corporate financial services for us or for Donegal or DGI.

On August 6, 2003, Legg Mason delivered to us its written opinion that \$8.2 million is within a reasonable range of fair market value for us as of August 6, 2003. At the same time, Legg Mason delivered to us a written overview of us and valuation analysis applicable to us. The Legg Mason material included a description of certain assumptions it made, certain matters it considered and limitations on its review.

On August 11, 2003, Legg Mason presented its valuation analysis in person to the Demutualization Committee and to our Board of Directors and responded to questions from members of the Demutualization Committee and members of our Board of Directors.

The full text of Legg Mason's opinion, which sets forth the assumptions it made, the matters it considered and the limitations on the review it undertook, is included as Appendix D to this Information Statement and is incorporated herein by reference. The description of Legg Mason's opinion set forth below includes all material terms of their opinion. Voting Policyholders are urged to, and should, read carefully the Legg Mason opinion in its entirety. The following summary of Legg Mason's opinion is qualified in its entirety by reference to the full text of their opinion.

Legg Mason's opinion is addressed to our Board of Directors and the Demutualization Committee and addresses only our economic value within a reasonable range of fair market value. The Legg Mason opinion does not address the merits of our underlying decision to consummate our Plan of Conversion, and does not constitute, nor should it be construed as, a recommendation to any Voting Policyholder as to how such Voting Policyholder should vote with respect to our Plan of Conversion.

In connection with the preparation of its opinion, Legg Mason undertook the following activities, among others:

- reviewed our Iowa statutory financial statements for the years ended December 31, 2000, 2001, and 2002;
- reviewed our Iowa statutory financial statements for the quarters ended June 30, 2002 and 2003;
- reviewed our internal statutory financial statements for the seven-month periods ended July 31, 2002 and 2003;
- reviewed our internal GAAP balance sheet as of July 31, 2003 and our audited GAAP balance sheet as of December 31, 2002;
- reviewed the actuarial certification of the December 31, 2002 loss and loss adjustment expense reserve and related analysis prepared by KPMG LLP;
- reviewed certain internal information, primarily financial in nature, concerning our business and operations;
- reviewed our March 20, 2002 proxy statement related to the affiliation between Donegal and us;
- reviewed certain publicly available information concerning us;
- reviewed certain publicly available information concerning the insurance industry in Iowa and throughout the United States;
- reviewed and analyzed certain publicly available financial and stock market data and operating statistics of selected public companies that Legg Mason deemed relevant to its inquiry;
- reviewed the real estate appraisal prepared for us by NAI LeGrand & Company as of July 30, 2003;
- reviewed and analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions that it considered relevant to its inquiry;
- reviewed and analyzed certain publicly available information concerning insurance company demutualizations that it considered relevant to its inquiry;
- held meetings and discussions with certain of our officers and employees concerning our operations, financial condition and prospects; and

- conducted such other financial studies, analyses and investigations and considered such other information as it deemed necessary or appropriate for the purposes of its opinion.

In preparing its opinion, Legg Mason assumed and relied upon the accuracy and completeness of all information we supplied or otherwise made available to Legg Mason or that we discussed with Legg Mason, and Legg Mason did not assume any responsibility for independently verifying any of this information or undertaking any independent evaluation or appraisal of our assets or liabilities, nor was Legg Mason furnished with such an independent evaluation or appraisal, except as discussed below. In addition, Legg Mason did not assume any obligation to conduct, nor did it conduct, any physical examination of our properties or facilities, although Legg Mason was furnished with the appraisal by LeGrand & Company of the real estate we own in Le Mars, Iowa. We advised Legg Mason that we had no available forecasts of our future operations and that their evaluation should be conducted without any such projections.

Legg Mason's opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and upon the information made available to Legg Mason as of, the date of its opinion. Legg Mason assumed that, in the course of obtaining the necessary regulatory or other consents and approvals, contractual or otherwise, for our Demutualization, no restrictions would be imposed on us that would have a material adverse effect on the contemplated benefits of our conversion to a stock insurance company and the other transactions that are a part of our Demutualization.

In accordance with customary investment banking practices, Legg Mason employed general valuation methods in reaching its opinion. The following is a summary of the material analyses utilized by Legg Mason in connection with providing its opinion:

- Comparable Company Analysis – Legg Mason reviewed and compared selected historical financial, operating and stock market information for a group of publicly traded companies in the property and casualty insurance business that Legg Mason deemed to be comparable to us. Specifically, Legg Mason analyzed the respective multiples of the equity value of these companies to their last twelve months' net income and their most recent book value. Those multiples were then applied to our financial results and book value in order to determine a range of values for us.
- Comparable Merger and Acquisition Transaction Analysis – Using publicly available information, Legg Mason reviewed and compared the purchase price and implied equity value multiples paid or announced to be paid in transactions involving companies in the property and casualty insurance business that Legg Mason deemed to be comparable to us. Specifically, Legg Mason analyzed the respective multiples of the equity value of the acquired

companies to their last twelve months' net income and most recent book value. Those multiples were then applied to our financial results and book value in order to determine a range of values for us.

- Recent Demutualizations – Using publicly available information, Legg Mason reviewed and compared the transaction values and implied equity value multiples paid in several recent demutualizations of insurance companies. Specifically, Legg Mason analyzed the respective multiples of the equity value of the demutualized companies to their last twelve months' net income and most recent book value. Those multiples were then applied to our financial results and book value in order to determine a range of values for us.
- Recent Property and Casualty Demutualizations – Using publicly available information, Legg Mason reviewed and compared the transaction values and implied equity value multiples paid in several recent demutualizations of property and casualty insurance companies. Specifically, Legg Mason analyzed the respective multiples of the equity value of the demutualized companies to their last twelve months' net income and most recent book value. Those multiples were then applied to our financial results and book value in order to determine a range of values for us.

The summary set forth above does not purport to be a complete description of the analyses conducted by Legg Mason. The preparation of a valuation opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Legg Mason believes that selecting any portion of its analysis or of the summary set forth above, without considering the analyses as a whole, would create an incomplete view of the process underlying Legg Mason's opinion. In arriving at its opinion, Legg Mason considered the results of all of its analyses. The analyses performed by Legg Mason are not necessarily indicative of actual values or actual future values, which may be significantly more or less than those suggested by Legg Mason's analyses. The analyses do not purport to be appraisals or to reflect the value at which our successor stock insurance company might trade in the future. The analyses were performed solely for the purpose of Legg Mason providing its opinion to our Board of Directors and the Demutualization Committee. Because their analyses are inherently subject to uncertainty, because they are based on numerous factors and events including, without limitation, factors related to general economic and competitive conditions beyond the control of the parties or their respective advisers, none of Legg Mason, Donegal, DGI or the Company assumes responsibility if future results or actual values are materially different from those derived from Legg Mason's analyses.

Under the terms of our engagement letter dated June 27, 2003 with Legg Mason, we will pay Legg Mason a fee for its services and for rendering its opinion to our Board of Directors and the Demutualization Committee. The fee will consist of an advisory fee of \$75,000, plus a per diem rate ranging from \$1,000 to \$3,500 per person for each day of travel

in excess of two. In addition to the fee payable to Legg Mason under the engagement letter, we have agreed to reimburse Legg Mason for its reasonable out-of-pocket expenses incurred in connection with providing its services and rendering its opinion, provided that the expenses subject to reimbursement may not exceed \$15,000 without our prior consent. We have also agreed to indemnify Legg Mason, its affiliates and each of their respective officers, directors, agents, employees and controlling persons against various liabilities arising out of or related to our Plan of Conversion or the engagement of Legg Mason.

Legg Mason has not, in the past, provided financial advisory or investment banking services to us, Donegal or DGI, but could provide such services in the future and receive fees for providing such services. In addition, in the ordinary course of its business, Legg Mason may trade securities of DGI for its own account and for the accounts of customers and, accordingly, Legg Mason may at any time hold a long or short position in DGI's securities.

TERMINATION OF MEMBERSHIP INTERESTS

As an Owner of a Policy issued by us that is currently In Force, you have certain interests as a Member of Le Mars. These Membership Interests consist principally of the right to vote on certain matters, including the election of directors and significant corporate transactions such as our Plan of Conversion, and the right to participate in the distribution of our residual value in the event of our liquidation or demutualization. If our Plan of Conversion and our Demutualization become effective, all Membership Interests will terminate. Voting Policyholders and Eligible Policyholders will receive cash as compensation for the termination of their Membership Interests. See "Compensation" on page 19.

Changes in Your Right to Vote

Owners of Policies In Force currently have the right to vote on all matters submitted to a vote of our Members, including the election of our directors. After our Demutualization, Owners of our Policies will no longer have any voting rights by reason of being the Owner of a Policy. Accordingly, Owners of our Policies will not be able to vote in the election of directors or on any other matter.

Changes in Your Rights in Liquidation

Liquidation is a legal concept that refers to the distribution of any residual value of a company after the termination of its corporate existence and cessation of its operations.

Prior to our Demutualization, if we were liquidated, our residual value would be distributed to our Members. If we were liquidated after our Demutualization, any residual value would be distributed to DGI as our sole stockholder.

Comparison of Your Rights Before and After Our Demutualization

The table below compares your rights before and after our Demutualization under the terms of our Plan of Conversion:

<u>Rights</u>	<u>Before Demutualization</u>	<u>After Demutualization</u>
Policy rights	<ul style="list-style-type: none">• As stated in Policy	<ul style="list-style-type: none">• As stated in Policy.
Financial rights (other than ownership of a Policy)	<ul style="list-style-type: none">• Members have the right to participate in the distribution of any residual value in the event of our liquidation or our demutualization.	<ul style="list-style-type: none">• Policyholders do not have any right to participate in the distribution of any residual value in the event of our liquidation.• Any residual value would be distributed to DGI.
Voting rights	<ul style="list-style-type: none">• Members may vote on elections of directors and other matters submitted to a vote of Members, such as a merger, a liquidation or a demutualization.	<ul style="list-style-type: none">• Policyholders do not have the right to vote on elections of directors, mergers or other matters.

OTHER FACTORS RELATING TO OUR PLAN OF CONVERSION AND OUR DEMUTUALIZATION

Amendments to Our Plan of Conversion

Our Board of Directors may amend our Plan of Conversion, subject to the approval of the Commissioner, at any time. Our Board of Directors may also withdraw our Plan of Conversion in its discretion at any time prior to the Effective Date. After the Effective Date, our Articles of Incorporation and Bylaws may be amended in accordance with their terms and applicable law. If we materially amend our Plan of Conversion prior to the Special Meeting, we will mail a supplement to this Information Statement to you.

Conditions to the Effectiveness of Our Demutualization

The completion of our Plan of Conversion and the transactions that are a part of our Demutualization are subject to the satisfaction of a number of conditions, including the following conditions:

- DGI's determination that it has met all conditions precedent to its becoming the owner of all of the outstanding capital stock of our successor stock insurance company;
- approval of our Plan of Conversion and the transactions that are a part of our Demutualization by not less than two-thirds of our Members who vote at our Special Meeting;
- approval of our Plan of Conversion and the transactions that are a part of our Demutualization by the Commissioner after a public hearing; and
- the absence of any order or injunction prohibiting consummation of our Plan of Conversion

EFFECTIVENESS OF OUR PLAN OF CONVERSION

If the conditions set forth in our Plan of Conversion are satisfied, our Plan of Conversion and the transactions that are a part of our Demutualization will be consummated. We currently expect that the Effective Date will occur in the latter part of 2003.

If our Plan of Conversion and the transactions that are a part of our Demutualization do not become effective for any reason, we will remain a mutual insurance company, we will not become a wholly owned subsidiary of DGI and no compensation will be distributed to our Voting Policyholders or our Eligible Policyholders.

U.S. FEDERAL INCOME TAX CONSEQUENCES

General

This section discusses in general the principal United States federal income tax consequences of the receipt of one-time cash payments by our Voting Policyholders and our Eligible Policyholders under our Plan of Conversion. **You should consult your own tax advisor to determine any applicable federal, state, local or foreign tax consequences of our Plan of Conversion in your particular circumstances.**

Voting Policyholders and Eligible Policyholders

The full amount of the cash payment you receive in our Demutualization will generally be taxed as long-term capital gain in the year you receive it if your Policy has been in effect for twelve months or more, and short-term capital gain if your Policy has been in effect for less than twelve months. Voting Policyholders and Eligible Policyholders who are citizens or residents of the United States should generally report the amount of the cash payment received as gain from "Le Mars Mutual Insurance Company membership/conversion" on Schedule D of Form 1040. We will report the cash payment to the IRS in a manner consistent with this treatment. We may also be required to withhold for federal income taxes, and pay to the IRS 28% of your cash compensation if you do not complete, sign and return a Taxpayer Identification Card to us. See "Taxpayer Identification Numbers" below.

Taxpayer Identification Numbers

You should complete, sign and return a Taxpayer Identification Card to us so that we do not have to withhold taxes. For most individuals, your taxpayer identification number is your Social Security number. If you fail to complete, sign and return a Taxpayer Identification Card to us, you may be subject to a \$50 IRS penalty and we may be required to withhold 31% of your cash payment for federal income taxes. This 31% withholding is not an additional tax, and any amount withheld may be claimed on your federal income tax return as a credit against your federal income tax liability for the year. We will mail a Taxpayer Identification Card and instructions to all Voting Policyholders and Eligible Policyholders.

THE PUBLIC HEARING

Our Plan of Conversion is subject to the approval of the Commissioner. As required by Section 515G.7 of the Iowa Code, our Plan of Conversion has been submitted to the Commissioner for approval. Section 515G.7 permits the Commissioner to hold a public hearing "on the fairness and equity of the terms of the plan" after giving written notice of the hearing to us and our policyholders and other interested persons, all of whom have the right to appear at the hearing. The Commissioner has informed us that she will hold a hearing.

The Commissioner will hold the public hearing at the offices of the Iowa Division of Insurance (Conference Room), 330 East Maple Street, Des Moines, Iowa, beginning at 1:30 p.m., Central Daylight Time, on October 7, 2003. The hearing will be open to the public. Policyholders, as well as Le Mars' officers, directors and employees, have the right to appear and be heard at the public hearing. For more information about the public hearing, reference is made to the Notice of Public Hearing included at the front of this Information Statement.

Although the Commissioner approved Donegal's acquisition of control of us in 2002, under Section 515G.2 of the Iowa Code, the Commissioner may disapprove our conversion to a stock insurance company and the other transactions that are a part of our Demutualization on any basis on which an acquisition of control could be disapproved under Chapters 521 or 521A of the Iowa Code. Under Chapter 521, the Commissioner reviews an acquisition of control to determine whether the interests of the policyholders of an insurer are properly protected under the documents relating to the proposed acquisition of control and the actions contemplated by those documents and whether any reasonable objection exists. If it is determined that the interests of the policyholders of the insurer are properly protected and no reasonable objection exists, the Commissioner is authorized to approve the documents relating to the acquisition of control and the actions contemplated by those documents under Chapter 521.

Under Section 521A.3(4)(a) of the Iowa Code, the Commissioner shall approve an acquisition of control if, after holding a public hearing on the acquisition of control, the applicant (DGI in this case) has demonstrated to the Commissioner all of the following:

- After the change in control, the domestic insurer (Le Mars in this case) will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;
- The effect of the acquisition of control will not substantially lessen competition in insurance in Iowa;
- The financial condition of the acquiring party (DGI in this case) will not jeopardize the financial stability of the insurer (Le Mars in this case) or prejudice the interest of its policyholders;
- The plans or proposals which the acquiring party (DGI in this case) has to liquidate the insurer (Le Mars in this case), sell the insurer's assets or consolidate or merge the insurer with any person or to make any other material change in the insurer's business or corporate structure or management are not unfair or unreasonable to the policyholders of the insurer and are not contrary to the public interest; and
- The competence, experience and integrity of those persons (DGI in this case) who would control the operation of the insurer (Le Mars in this case) are sufficient to indicate that the interests of the policyholders of the insurer and the public will not be jeopardized by the acquisition of control.

DESCRIPTION OF LE MARS AND DONEGAL

Le Mars

Le Mars was organized under the laws of Iowa on February 18, 1901 under the name "German Mutual Insurance Association," which was changed to Le Mars Mutual Insurance Association on October 18, 1918 and changed to the current name on February 14, 1957. On May 29, 1986, Le Mars acquired Sunshine Insurance Company of Sioux Falls, South Dakota, which dissolved on May 13, 1998.

Le Mars operates as a multiple line carrier in Iowa, Nebraska, Oklahoma and South Dakota. Personal lines coverages represent a majority of premiums written, with the balance coming from farm owners and mercantile businesses. Le Mars' largest line of business is private passenger automobile liability and physical damage; other principal lines include homeowners, commercial multi-peril and mortgage guaranty.

The principal offices of Le Mars are located at One Park Lane, Le Mars, Iowa 51031, and its telephone number is (712) 546-7847.

Donegal and DGI

Donegal, which was formed in 1889, is a mutual casualty insurance company headquartered in Marietta, Pennsylvania. Donegal owns approximately 64% of the outstanding capital stock of DGI. DGI is an insurance holding company formed in August 1986 that is headquartered in Marietta, Pennsylvania and that has two classes of common stock that are traded on the Nasdaq National Market. Through DGI's subsidiaries, Atlantic States Insurance Company and Southern Insurance Company of Virginia, DGI engages in the property and casualty insurance business. Donegal and DGI's insurance subsidiaries currently have A.M. Best ratings of "A" (Excellent).

Donegal and DGI's insurance subsidiaries underwrite a broad line of personal and commercial coverages, consisting of private passenger and commercial automobile, homeowners, commercial multi-peril, workers' compensation and other lines of insurance. The commercial business is characterized by mercantile and service-related accounts. These insurance coverages are marketed in 12 Middle-Atlantic and Southern states.

At June 30, 2003, the Donegal Insurance Group had consolidated total admitted assets of \$607 million and consolidated policyholders surplus of \$210 million and, for the year ended December 31, 2002, the Donegal Insurance Group had consolidated earned premiums of \$245 million.

Donegal's principal offices are located at 1195 River Road, Marietta, Pennsylvania 17547, and its telephone number is (717) 426-1931.

Summary of Results of Operations and Other Selected Financial Data of Le Mars

The following table reflects a summary of Le Mars' results of operations and other selected financial data of Le Mars for and as of the years ended December 31, 1998 through 2002 and the seven months ended July 31, 2003, the most recent financial information available prior to the mailing of this Information Statement. The selected financial information for the years ended December 31, 1998 through 2002 has been derived from the audited statutory financial statements of Le Mars. The information for the seven months ended July 31, 2003 has been derived from the unaudited statutory financial statements of Le Mars and, in the opinion of Le Mars, includes all adjustments, which include only normal recurring adjustments, necessary to present fairly Le Mars' results of operations for the seven months ended July 31, 2003. Such financial information is presented on a statutory basis in conformity with accounting practices prescribed or permitted by the Division. The selected financial information below should be read in conjunction with the financial statements of Le Mars and the notes thereto included elsewhere in this Information Statement.

	<u>Year Ended December 31,</u>					<u>Seven Months</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Ended</u>
	<u>(in thousands)</u>					<u>July 31, 2003</u>
Premiums earned	\$27,711	\$28,574	\$28,397	\$25,577	\$20,958	\$10,287
Losses and expenses:						
Losses and loss adjustment expenses	19,830	23,963	26,260	19,388	14,684	8,118
Other underwriting and general insurance expenses	<u>9,355</u>	<u>9,542</u>	<u>8,963</u>	<u>7,750</u>	<u>7,092</u>	<u>4,526</u>
Underwriting loss	(1,474)	(4,931)	(6,826)	(1,562)	(815)	(2,357)
Investment and other income, net of expenses	1,378	1,316	1,385	1,156	1,101	731
Realized capital gains (losses), net	<u>1,520</u>	<u>1,032</u>	<u>2,281</u>	<u>(997)</u>	<u>(176)</u>	<u>143</u>
Net income (loss) before income taxes	1,425	(2,582)	(3,161)	(1,015)	407	(1,483)
Federal income tax (benefit)	<u>108</u>	<u>(76)</u>	<u>10</u>	<u>0</u>	<u>(22)</u>	<u>---</u>
Net income (loss)	<u>\$ 1,317</u>	<u>\$(2,506)</u>	<u>\$(3,171)</u>	<u>\$(1,015)</u>	<u>\$ 429</u>	<u>\$(1,483)</u>

Other Selected Statutory Financial Data of Le Mars

	<u>At December 31,</u>					<u>At</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>July 31, 2003</u>
	(in thousands)					
Bonds	\$20,874	\$19,853	\$22,361	\$22,648	\$20,275	\$29,903
Common stock	9,601	12,550	9,615	4,767	165	165
Cash and short-term investments	2,542	1,272	1,317	2,890	11,142	2,132
Total assets	39,268	40,008	39,502	36,681	36,218	37,339
Reserve for losses and loss adjustment expenses	7,610	9,070	14,897	14,450	12,754	14,464
Unearned premiums	12,698	12,574	12,071	10,296	8,803	9,670
Total liabilities	23,812	24,858	29,444	27,904	23,544	26,117
Surplus note	-0-	-0-	-0-	-0-	4,000	4,000
Unassigned Surplus	15,457	15,150	10,058	8,778	8,673	7,222

GAAP Balance Sheet Data of Le Mars

The following table reflects selected data from our balance sheet as of December 31, 2002 and July 31, 2003 prepared in conformity with generally accepted accounting principles in the United States ("GAAP"). The data as of December 31, 2002 is derived from our balance sheet for 2002 as audited by KPMG LLP.

	<u>December 31, 2002</u>	<u>July 31, 2003</u> (unaudited)
	(in thousands)	
Admitted Assets:		
Cash and invested assets:		
Bonds	\$20,883	\$30,162
Stocks	165	165
Other	3	7
Real estate, net	684	660
Cash	794	1,257
Short-term investments	<u>10,348</u>	<u>875</u>
	32,877	33,126
Deferred acquisition costs	1,091	1,198
Reinsurance recoverables	3,580	2,252
Receivables	3,572	3,824
Data processing equipment, net	209	153
Accrued investment income	259	283
Other assets	<u>38</u>	<u>309</u>
Total assets	<u>\$41,626</u>	<u>\$41,145</u>

Liabilities and Surplus:

Liabilities:

Loss and loss adjustment expense payable	\$15,814	\$16,432
Accrued expenses and taxes (other than federal)	906	830
Unearned premiums	8,803	9,670
Other	1,353	1,152
Surplus note	<u>4,157</u>	<u>4,292</u>
Total liabilities	\$31,033	\$32,376
Unassigned surplus	<u>10,593</u>	<u>8,769</u>
Total liabilities and surplus	<u>\$41,626</u>	<u>\$41,145</u>

Results of Operations and Other Selected Financial Data of the Donegal Insurance Group

The following table reflects a summary of Donegal Insurance Group's combined results of operations and other selected financial data of Donegal Insurance Group for and as of the years ended December 31, 1998 through December 31, 2002 and for the six months ended June 30, 2003. The selected financial information for the years ended December 31, 1998 through 2002 has been derived from the statutory financial statements of the members of the Donegal Insurance Group. The members of the Donegal Insurance Group are Donegal, Atlantic States Insurance Company and Southern Insurance Company of Virginia. The information for the six months ended June 30, 2003 has been derived from the unaudited statutory financial statements of the Donegal Insurance Group and, in the opinion of the Donegal Insurance Group, includes all adjustments, which include only normal recurring adjustments, necessary to present fairly Donegal Insurance Group's results of operations for the six months ended June 30, 2003.

Summary of Results of Operations of the Donegal Insurance Group

	<u>Year Ended December 31,</u>					<u>Six Months</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Ended</u>
	<u>(in thousands)</u>					<u>June 30, 2003</u>
Premiums earned	\$196,236	\$200,495	\$206,175	\$223,530	\$244,663	\$128,996
Losses and loss expenses	135,997	138,910	144,745	163,400	177,801	85,949
Other underwriting expenses	<u>71,678</u>	<u>72,965</u>	<u>66,980</u>	<u>75,466</u>	<u>72,917</u>	<u>40,594</u>
Underwriting income (loss)	(11,439)	(11,380)	(5,475)	(15,336)	(6,055)	2,453
Investment and other income, net of expenses	18,606	19,001	21,236	20,753	14,476	9,732
Realized capital gains (losses), Net	<u>752</u>	<u>(291)</u>	<u>878</u>	<u>(2,326)</u>	<u>196</u>	<u>324</u>
Net income (loss) before income taxes	7,919	7,330	16,639	3,089	14,117	12,509
Federal income tax	<u>3,094</u>	<u>1,087</u>	<u>4,148</u>	<u>3,463</u>	<u>4,406</u>	<u>4,017</u>
Net income (loss)	<u>\$ 4,825</u>	<u>\$ 6,243</u>	<u>\$ 12,491</u>	<u>\$ (374)</u>	<u>\$9,711</u>	<u>\$ 8,492</u>

Other Selected Financial Data of the Donegal Insurance Group

	<u>At December 31,</u>					<u>At</u>
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>June 30, 2003</u>
	(in thousands)					
Bonds	\$261,832	\$283,689	\$295,167	\$287,174	\$294,771	\$303,252
Stocks	87,991	57,355	64,797	84,107	96,775	106,025
Cash and short-term investments	41,061	20,172	18,775	25,452	34,175	39,757
Reserve for losses and loss expenses	150,421	154,058	158,930	176,115	197,528	201,285
Unearned premiums	91,080	91,673	98,756	111,782	122,809	133,257
Liabilities	270,537	271,067	292,195	327,136	360,809	376,197
Surplus	197,264	169,110	181,640	194,827	202,263	210,061

THE BOARD OF DIRECTORS OF LE MARS

The Board of Directors of Le Mars currently consists of nine directors who are elected to four-year terms of service on a staggered basis.

<u>Name</u>	<u>Principal Occupation or Employment</u>	<u>Current Position with Le Mars</u>	<u>Year Term As a Director Expires</u>
Matthew J. Ahlers	President, Prime Bank, a commercial bank located in Le Mars, Iowa	Director	2004
Dennis J. Bixenman	Vice President, Williams & Company Consulting, Inc., a consulting firm located in Sioux City, Iowa	Director	2007
Frederick W. Dreher	Senior Partner, Duane Morris LLP, attorneys and counsel to the Donegal Insurance Group and a director of Donegal	Director	2006*
Philip H. Glatfelter, II	Chairman of the Board of Donegal and DGI and a director of Donegal and DGI; retired, formerly Vice President of Meridian Bank	Director	2005*

Larry D. Heemstra	Retired; formerly Vice President, Finance and Comptroller, Wells Dairy, Inc., a dairy and co-packer of ice cream products located in Le Mars, Iowa	Director	2007
Donald H. Nikolaus	President and Chief Executive Officer of Donegal and DGI, and a director of Donegal and DGI	President and Chief Executive Officer and Director	2006*
R. Richard Sherbahn	Owner, Sherbahn Associates, Inc., a life insurance and financial planning firm and a director of Donegal and DGI	Director	2005*
Ralph G. Spontak	Senior Vice President, Chief Financial Officer and Secretary of Donegal and DGI and a director of Donegal	Senior Vice President, Chief Financial Officer and Director	2006*
David Van Engelenhoven	President, Van Engelenhoven Agency, Inc., an insurance agency located in Orange City, Iowa	Director	2004

* Donegal designee.

THE BOARDS OF DIRECTORS OF DONEGAL AND DGI

<u>Name</u>	<u>Principal Occupation or Employment</u>
Donald H. Nikolaus	President, Chief Executive Officer and a director of Donegal and DGI
Philip H. Glatfelter, II	Chairman of the Board and a director of Donegal and DGI; retired; formerly Vice President of Meridian Bank

Frederick W. Dreher	Senior Partner, Duane Morris LLP, attorneys and counsel to the Donegal Insurance Group and a director of Donegal
Patricia A. Gilmartin	Independent insurance agent and a director of Donegal and DGI
John E. Hiestand	Self-employed provider of insurance administrative services and a director of Donegal
Kevin M. Kraft, Sr.	President, Clyde W. Kraft Funeral Home, Inc., and a director of Donegal
R. Richard Sherbahn	Owner, Sherbahn Associates, Inc., a life insurance and financial planning firm, and a director of Donegal and DGI
William H. Shupert	Senior Vice President of Underwriting of Donegal and DGI and a director of Donegal
Ralph G. Spontak	Senior Vice President, Chief Financial Officer and Secretary of Donegal and DGI and a director of Donegal
Robert S. Bolinger	Retired, formerly Chairman and Chief Executive Officer of Susquehanna Bancshares, Inc. and a director of DGI
John J. Lyons	President and Chief Operating Officer of Keefe Managers, LLP, a manager of private investment funds, and a director of DGI

INDEPENDENT AUDITORS

The statutory financial statements of Le Mars as of December 31, 2002 and 2001, and for the years then ended, included in this Information Statement, have been audited by KPMG LLP, independent accountants, as stated in their report appearing herein.

OTHER

All information in this Information Statement relating to Le Mars has been supplied by Le Mars, and all information in this Information Statement relating to Donegal, DGI or the Donegal Insurance Group has been supplied by Donegal.

On Behalf of the Board of Directors,

Arlene L. Sitzman, Secretary

Le Mars, Iowa
September 2, 2003

GLOSSARY

This Glossary sets forth the meaning of certain capitalized words and phrases as they are used in this Information Statement. To the extent indicated below, a complete definition of certain of these words and phrases is contained in our Plan of Conversion that is included as Appendix A to this Information Statement.

Adoption Date.....	August 11, 2003, the date that our Board of Directors approved and adopted our Plan of Conversion and the transactions that are a part of our Demutualization.
Commissioner.....	The Commissioner of Insurance of the State of Iowa.
Consideration	The fair economic value of Le Mars of \$8.2 million as determined by our Board of Directors less the costs and expenses of effecting this Plan. The Consideration shall be distributed to the Voting Policyholders and the Eligible Policyholders as provided in Section 5.3(c) of our Plan of Conversion.
Demutualization	Our conversion from an Iowa-domiciled mutual insurance company into an Iowa-domiciled stock insurance company, the acquisition of all of the capital stock of that successor stock insurance company by DGI and the change of our name to Le Mars Insurance Company.
DGI.....	Donegal Group Inc.
Donegal	Donegal Mutual Insurance Company.
Donegal Insurance Group	The group consisting of Donegal and DGI's wholly owned insurance subsidiaries, Atlantic States Insurance Company and Southern Insurance Company of Virginia.
Effective Date.....	The date on which our Plan of Conversion becomes effective. This is the date on which, among other things, we will convert into a stock insurance company and become a wholly owned subsidiary of DGI. The Effective Date is currently expected to occur during the latter part of 2003. Our Plan of Conversion provides that the Effective Date must occur within one year after the

Commissioner approves our Plan of Conversion unless the Commissioner extends this period.

Eligible Policyholder	A policyholder entitled to his or her equitable interest in our fair economic value upon our Demutualization. Generally, any policyholder who is a Voting Policyholder or who was the Owner of a Policy In Force during the three-year period ended August 10, 2003 is an Eligible Policyholder.
GAAP	Generally accepted accounting principles in the United States.
In Force	An "In Force" Policy is a Policy that was in effect on a given date. This determination is made in accordance with our Plan of Conversion and is based on our records. Generally, a Policy is In Force if it has been issued, the required premium has been paid to us in a timely manner and the Policy has not expired or been terminated.
IRS	Internal Revenue Service.
Le Mars	Le Mars Mutual Insurance Company of Iowa.
Legg Mason.....	Legg Mason Wood Walker, Incorporated.
Member	A Person who is the Owner of a Policy In Force on a specified date.
Membership Interests.....	A Person's rights as a Member. These rights include all rights arising prior to the Effective Date under our Amended and Substituted Articles of Incorporation and our Amended and Restated Bylaws or otherwise under Iowa law through ownership of a Policy or Policies we have issued. These rights include the right to vote and the right to participate in any distribution of our surplus if we liquidate or demutualize. "Membership Interests" do not include the rights conferred by our Policies. All Membership Interests will terminate on the Effective Date.

Owner	The Person or Persons specified or determined in accordance with Section 6.2 of our Plan of Conversion.
Person	An individual, corporation, limited liability company, joint venture, partnership, association, trust, trustee, unincorporated entity or any other form of entity, organization or government or any department or agency of any government. A Person who is the Owner of Policies in more than one legal capacity, such as a trustee for separate trusts, will be considered a separate Person in each capacity.
Plan of Conversion	Our Plan of Conversion including its exhibits, as it may be amended or modified from time to time.
Policy	Each original property insurance policy or casualty insurance policy issued by us, as further defined in Section 6.1 of our Plan of Conversion.
Remaining Amount	The remainder of the Consideration after the payment to the Voting Policyholders provided for in clause (i) of Section 5.3(c) of our Plan of Conversion to be paid to our Eligible Policyholders by reason of their right to participate in any distributions of surplus by Le Mars.
Special Meeting	The special meeting of our Members that we are holding at 11:00 a.m., Central Daylight Time, on October 6, 2003 at our offices at One Park Lane, Le Mars, Iowa.
Voting Policyholder.....	A Person who was a Member of Le Mars on August 11, 2003.
Voting Rights.....	The right of a Member to vote for the election of directors at our Annual Meeting of Members and on such other matters as is provided in our Amended and Substituted Articles of Incorporation and our Amended and Restated Bylaws or otherwise under Iowa law.

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PLAN OF CONVERSION
OF
LE MARS MUTUAL INSURANCE COMPANY OF IOWA

Under Section 515G.3 of Title XIII of the Code of Iowa (2003)

BACKGROUND

This Plan of Conversion (this "Plan") has been approved and adopted by the Board of Directors (the "Board") of Le Mars Mutual Insurance Company of Iowa, a mutual insurance company organized pursuant to Chapter 491 of Title XII of the Code of Iowa ("Le Mars"), at a meeting duly called and held on August 11, 2003 (the "Adoption Date") and at which a quorum was present and acting throughout. This Plan provides for the conversion (the "Conversion") of Le Mars from a mutual insurance company into a stock insurance company in accordance with the requirements of Chapter 515G of the Code of Iowa.

This Plan also calls for the acquisition (the "Acquisition") of all of the capital stock of the successor stock insurance company by Donegal Group Inc. ("DGI"). DGI is an insurance holding company organized under the laws of the State of Delaware and a 64%-owned subsidiary of Donegal Mutual Insurance Company, a mutual fire insurance company organized under the laws of the Commonwealth of Pennsylvania ("Donegal"). Donegal acquired control of Le Mars in June 2002 in a transaction approved by the policyholders of Le Mars and the Commissioner of Insurance of the State of Iowa (the "Commissioner"). The Conversion and the Acquisition are hereinafter collectively referred to as the "Demutualization".

The Board believes that the Demutualization will provide benefits to Le Mars' present and future policyholders by providing Le Mars with greater surplus and thereby assuring its long-term financial stability, by increasing Le Mars' financial, technological and managerial resources, by allowing Le Mars to offer a broader range of products and services to its policyholders over time, by making it more likely Le Mars could achieve an upgrade in its A.M. Best rating and maintaining and enhancing policyholder service capabilities from Le Mars' existing facilities in Le Mars, Iowa.

The Conversion will also provide that the Voting Policyholders (as defined herein) will receive a one-time cash payment of \$15.00 as compensation for the extinguishment of their Voting Rights (as defined herein) and that the Voting Policyholders and the Eligible Policyholders (as defined herein) will receive a one-time cash payment reflecting their

equitable interest in the Remaining Amount (as defined herein). Thus, the Voting Policyholders and the Eligible Policyholders will realize economic value in the form of one-time cash payments from the termination of their otherwise illiquid Membership Interests that would not be available to them as long as Le Mars remained a mutual insurance company.

The Conversion will not in and of itself increase premiums or reduce policy benefits under the In Force (as defined herein) Policies (as defined herein) of Le Mars.

The Board, in approving and adopting this Plan, took into account the recommendation of its Demutualization Committee, which consisted of the four members of the Board who have no affiliation with Donegal or DGI. The Demutualization Committee selected and retained independent legal counsel to assist it in its review of this Plan and making a recommendation to the Board with respect thereto. The Board also selected and retained independent legal counsel to assist it in its review of this Plan. Both the Demutualization Committee and the Board received advice and opinions from an independent financial advisor and an independent real estate appraiser.

The Board took note that after the Conversion Le Mars will continue its corporate existence as an Iowa-domiciled insurer without interruption under the name "Le Mars Insurance Company" and at its current headquarters in Le Mars, Iowa. The Board further noted that every Policy that is In Force at the Effective Date (as defined herein) will continue as a Policy of Le Mars, and all contract rights under each such Policy will remain as they existed prior to the Effective Date.

The Board does not believe it is advisable or in the best interests of Le Mars, its Voting Policyholders or its Eligible Policyholders to use common stock of the successor stock insurance company as a form of compensation to the Voting Policyholders and the Eligible Policyholders for termination of their Membership Interests because of the costs of effecting a public offering and because of the costs of maintaining approximately 20,000 shareholder accounts with fewer than 100 shares of stock. Therefore, this Plan does not provide for shares of common stock of the successor stock insurance company to be used for compensation for the extinguishment of the Membership Interests of the Voting Policyholders or the Eligible Policyholders.

The Board has unanimously determined that this Plan is fair and equitable to the Voting Policyholders and the Eligible Policyholders of Le Mars, both as to their Membership Interests and to their contractual interests as policyholders of Le Mars. The Board has directed that this Plan be submitted to the Members (as defined herein) for approval and to the Commissioner for approval.

DEFINITIONS

As used in this Plan, the following terms have the following meanings:

"Acquisition" means the acquisition of all of the capital stock of the successor stock insurance company by DGI.

"Adoption Date" means August 11, 2003, the date on which the Board approved and adopted this Plan.

"Board" means the Board of Directors of Le Mars.

"Certificate of Authority" means the certificate of authority to engage in the insurance business to be issued by the Commissioner.

"Commissioner" means the Commissioner of Insurance of the State of Iowa, or such governmental officer, body or authority as becomes the primary regulator of Le Mars under applicable Iowa law.

"Consideration" means the fair economic value of Le Mars of \$8.2 million as determined by its Board of Directors less the costs and expenses of effecting this Plan. The Consideration shall be distributed to the Voting Policyholders and the Eligible Policyholders as provided in Section 5.3(c) of this Plan.

"Conversion" means the conversion of Le Mars from an Iowa-domiciled mutual insurance company into an Iowa-domiciled stock insurance company.

"Demutualization" means: (i) the conversion of Le Mars from an Iowa-domiciled mutual insurance company into an Iowa-domiciled stock insurance company; (ii) the change of the name of that stock insurance company to Le Mars Insurance Company and (iii) the acquisition of all of the capital stock of that stock insurance company by DGI .

"Demutualization Committee" shall mean the committee of the Board comprised of the four members of the Board (Messrs. Ahlers, Bixenman, Heemstra and Van Englenhoven) who have no affiliation with Donegal and DGI.

"DGI" means Donegal Group Inc., an insurance holding company organized and existing under the laws of the State of Delaware.

"Donegal" means Donegal Mutual Insurance Company, a mutual fire insurance company organized and existing under the laws of the Commonwealth of Pennsylvania.

"Effective Date" means the date on which this Plan becomes effective in accordance with Section 5.3(a). The Effective Date is the date on which, among other things, this Conversion and the Acquisition will occur.

"Eligible Policyholder" means a policyholder entitled to such policyholder's equitable interest in the fair economic value of Le Mars less the costs and expenses of effecting this Plan and less the payment to the Voting Policyholders for extinguishment of their Voting Rights as a result of the consummation of this Plan. Any policyholder who is a Voting Policyholder or who was the Owner of a Policy that was In Force during the three-year period ended August 10, 2003 is an Eligible Policyholder.

"Hearing" means the public hearing to present evidence and argument relevant to the fairness and equity of this Plan as specified in Section 3.2.

"Hearing Officer" means the Commissioner or one or more hearing officers designated by the Commissioner to preside at the Hearing.

"In Force" means a Policy that was in effect on a given date. This determination is made in accordance with Section 6.3 and is based on Le Mars' records.

"Information Statement" means the document containing information relevant to the Special Meeting and the Demutualization that is mailed to the Voting Policyholders in accordance with Section 3.3(a).

"Le Mars" means, before the Effective Date of this Plan, the Iowa-domiciled mutual insurance company called Le Mars Mutual Insurance Company of Iowa and, on and after the Effective Date of this Plan, the continuation of Le Mars Mutual Insurance Company of Iowa reorganized as and converted to an Iowa-domiciled stock insurance company called Le Mars Insurance Company.

"Member" means a Person who, as determined by the records, Amended and Substituted Articles of Incorporation of Le Mars and Amended and Restated Bylaws of Le Mars, is the Owner of a Policy that was In Force on August 11, 2003.

"Membership Interest" means a Person's rights as a Member. These rights include all rights arising prior to the Effective Date under the Amended and Substituted Articles of Incorporation of Le Mars and Amended and Restated Bylaws of Le Mars and as otherwise provided under Iowa law through ownership or issuance of a Policy or Policies by Le Mars including, but not limited to, any right to vote and any rights that may exist with regard to the net worth of Le Mars, including any such rights in a liquidation or reorganization of Le Mars, but shall not include any other right or interest expressly conferred by a Policy.

"Owner" means the Person or Persons specified or determined in accordance with Sections 6.2 and 6.3.

"Person" means an individual, corporation, limited liability company, joint venture, partnership, association, trust, trustee, unincorporated entity or any other form of organization or government or any department or agency thereof. A Person who is the Owner of Policies in more than one legal capacity (e.g., a trustee under separate trusts) shall be deemed to be a separate Person in each such capacity.

"Plan" means this Plan of Conversion of Le Mars Mutual Insurance Company of Iowa, including all schedules and exhibits hereto, as it may be amended or modified from time to time in accordance with Section 7.4.

"Policy" has the meaning specified in Section 6.1(a).

"Remaining Amount" has the meaning specified in Section 5.3(c).

"Special Meeting" has the meaning specified in Section 4.1(a).

"Voting Policyholder" has the meaning specified in Section 4.1(a).

"Voting Right" means the right of a Member to vote for the election of directors of Le Mars at the annual meeting of Members and to vote on other matters pursuant to the Amended and Substituted Articles of Incorporation of Le Mars and the Amended and Restated Bylaws of Le Mars.

THE CONVERSION

The Conversion.

Under this Plan, Le Mars shall convert to an Iowa-domiciled stock insurance company and all Membership Interests shall terminate on the Effective Date. Upon the Demutualization, Voting Policyholders shall receive a one-time cash payment of \$15.00 for extinguishment of their Voting Rights and Voting Policyholders and Eligible Policyholders shall receive a one-time cash payment representing their equitable interest in the Remaining Amount.

While the Membership Interests shall terminate and be extinguished upon the Effective Date, the Conversion in and of itself shall not, in any way, change the premiums due in respect of a Policy that is In Force, reduce the benefits under a Policy that is In Force or otherwise diminish the obligations of Le Mars to its policyholders under the Policies that are In Force.

Adoption by the Board. Resolutions recommending this Plan and the Conversion, stating the benefits of the Conversion to Le Mars and its policyholders and the reasons why

this Plan is fair and equitable to Le Mars and its policyholders and approving this Plan were adopted by the unanimous vote of the Board at a meeting duly called and held at Le Mars, Iowa, on August 11, 2003 at which a quorum was present and acting throughout. The Board, in reaching its determination, took into consideration the recommendation of the Demutualization Committee that the Conversion and the transactions that are a part of the Demutualization are fair to and in the best interests of Le Mars and its policyholders.

APPROVAL BY THE COMMISSIONER

Application. Le Mars shall file an application (the "Application") with the Commissioner to convert pursuant to Chapter 515G of the Code of Iowa from a mutual insurance company to a stock insurance company in a transaction in which the Membership Interests will terminate upon the Effective Date, Voting Policyholders and Eligible Policyholders will receive the one-time cash payments provided in this Plan as a result of the Demutualization and the successor stock insurance company will become a wholly owned subsidiary of DGI. The Application shall include the following:

this Plan and its exhibits;

the form of notice of the Hearing;

the form of notice of the Special Meeting;

the form of ballot to be solicited from the Voting Policyholders;

the Information Statement to be mailed to the Voting Policyholders; and

any other information or documentation required by the Commissioner to make the findings required by Section 515G.7 of the Code of Iowa.

Review and Approval by the Commissioner; the Hearing.

This Plan is subject to review by, and approval of, the Commissioner. The Commissioner, under Section 515G.7 of the Code of Iowa, shall approve this Plan if she finds this Plan complies with all provisions of law, this Plan is fair and equitable to Le Mars and its policyholders and that Le Mars after the Effective Date will have the amount of capital and surplus deemed by the Commissioner to be reasonably necessary for the future solvency of Le Mars.

The Commissioner shall hold a public hearing (the "Hearing") as part of her review of this Plan. Le Mars, its Members and other interested Persons shall have the right to appear at the Hearing. The Hearing shall occur after the Special Meeting.

The Commissioner shall have the right to request additional documentation or information in the possession of Le Mars or Donegal as are reasonably necessary to enable the Commissioner to make the findings required by Section 515G.7 of the Code of Iowa for approval of this Plan.

Notice of the Hearing.

Le Mars shall mail at its expense written notice of the Hearing, in a form satisfactory to the Commissioner, by first-class mail, postage prepaid, to each Voting Policyholder, and other interested persons as determined by the Commissioner, at least 30 days prior to the date of the Hearing. Such notice shall be accompanied or preceded by the Information Statement containing information relevant to the Hearing and the Demutualization, including the time, date, place and purpose of the Hearing, all of which shall be in a form satisfactory to the Commissioner.

Le Mars shall also post the notice of the Hearing and the Information Statement on Le Mars' website. Such website posting shall be made at least 30 days prior to the date of the Hearing and shall be in a form satisfactory to the Commissioner.

APPROVAL BY POLICYHOLDERS

Policyholder Vote.

Le Mars shall hold a special meeting of its Members (the "Special Meeting"). At the Special Meeting, any Person who is, or Persons who are, a Member on the Adoption Date (the "Voting Policyholders") shall be entitled to vote on the proposal to approve the Conversion and the transactions that are a part of the Demutualization. Each Voting Policyholder shall be entitled to vote by ballot or in person at the Special Meeting.

The Conversion and the transactions that are a part of the Demutualization are subject to the approval of not less than two-thirds of the votes of the Voting Policyholders cast thereon by ballot or in person at the Special Meeting.

Based on Le Mars' records, each Voting Policyholder shall be entitled to one vote, subject to Chapter 491 of the Code of Iowa and the Amended and Substituted Articles of Incorporation of Le Mars, regardless of the number of Policies or amount of insurance held by or issued to such Voting Policyholder. Two or more Persons who are the Owners of a single Policy and who are one Member shall be deemed one Voting Policyholder for purposes of voting and collectively shall be entitled to one vote as provided in the Amended and Restated Bylaws of Le Mars.

Notice of Special Meeting.

Le Mars shall mail, at its expense, notice of the Special Meeting by first-class mail to all Voting Policyholders as provided herein. Such notice of the Special Meeting may be mailed together with the notice of the Hearing and the Information Statement as provided in Section 3.3(a). The notice shall set forth the purposes of the Special Meeting and the time, date and place of the Special Meeting, and shall enclose a form of postcard ballot for each Voting Policyholder. Such notice and postcard ballot shall be mailed to the address of each Voting Policyholder as it appears on the records of Le Mars, except in instances where mailing of notice is not feasible as determined by the Commissioner. Such mailing shall be made by first class mail, postage prepaid, at least 30 days prior to the date of the Special Meeting and shall be in a form satisfactory to the Commissioner. Such notice period for the Special Meeting may run concurrently with the notice period for the Hearing as provided in Section 3.3(a).

Such notice of the Special Meeting shall be accompanied or preceded by the Information Statement, which shall contain information relevant to the Special Meeting, including a copy of this Plan and other explanatory information, all of which shall be in a form satisfactory to the Commissioner.

Le Mars shall post the notice of the Special Meeting and the Information Statement on Le Mars' website. Such posting shall be made at least 30 days prior to the date of the Special Meeting and shall be in a form satisfactory to the Commissioner.

THE DEMUTUALIZATION

Effect of the Demutualization.

On the Effective Date, Le Mars shall be converted from a mutual insurance company into a stock insurance company in accordance with Section 515G.6 of the Code of Iowa, all of the capital stock of the successor stock insurance company shall be issued to DGI as provided in Section 5.4 and the Voting Policyholders and the Eligible Policyholders shall become entitled to the one-time cash payments provided for in Section 5.3.

After this Plan and the transactions that are a part of the Demutualization shall have been approved by the Voting Policyholders at the Special Meeting as provided in Section 515G.6 of the Code of Iowa, and after this Plan and the transactions that are a part of the Demutualization shall have been approved by the Commissioner as provided in Section 515G.7 of the Code of Iowa, the Commissioner shall issue a new certificate of authority to the successor stock insurance company as provided in Section 515G.9 of the Code of Iowa. The new Certificate of Authority shall become effective on the date specified in this Plan.

Le Mars shall file its Amended and Restated Articles of Incorporation in the form of Appendix 1 to this Plan with the Secretary of State of the State of Iowa not later than one business day after the Commissioner shall have issued the new Certificate of Authority.

Effectiveness of this Plan.

The effective date of this Plan (the "Effective Date") shall be the date of filing of the Amended and Restated Articles of Incorporation of Le Mars in accordance with Section 5.1(c). This Plan shall be deemed to have become effective on the Effective Date at 12:01 a.m., Central Time, provided that in no event shall the Effective Date be more than 12 months after the date on which the Commissioner approved this Plan unless such period is extended by the Commissioner.

Upon the effectiveness of this Plan:

Le Mars shall become a stock insurance company by operation of Section 515G.6 of the Code of Iowa.

All Membership Interests shall terminate and be extinguished and the Voting Policyholders and the Eligible Policyholders shall be entitled to receive in exchange therefor the one-time cash payments as provided in Section 5.3.

Le Mars shall issue all of its authorized common stock to DGI as provided in Section 5.4.

The Amended and Restated Articles of Incorporation of Le Mars in the form of Appendix 1 to this Plan shall be applicable.

Le Mars' Amended and Restated Bylaws, without further action or deed, shall be amended and restated to read in the form of Appendix 2 to this Plan.

The successor stock insurance company shall be a continuation of the predecessor mutual insurance company and the Conversion shall not annul or modify any of the predecessor mutual insurance company's existing suits, contracts or liabilities except as expressly provided in this Plan. All rights, franchises and interests of the predecessor mutual insurance company in and to property, assets and other interests shall be transferred by operation of law and vest in the successor stock insurance company and the successor stock insurance company shall by operation of law assume all obligations and liabilities of the predecessor mutual insurance company other than those terminated and extinguished by the effectiveness of this Plan.

The successor stock insurance company shall exercise all rights and powers and shall perform all duties conferred or imposed by law on insurance companies

writing the classes of insurance written by it, and shall retain its rights and contracts existing before the Conversion, subject to the express provisions of this Plan.

The directors and officers of the predecessor mutual insurance company immediately prior to the Effective Date shall continue in office as the initial directors and officers of the successor stock insurance company until their respective successors are elected or appointed pursuant to the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of the successor stock insurance company or until their earlier resignation, removal or death.

Payment of Fair and Equitable Consideration to the Eligible Policyholders.

The consideration to be paid to the Voting Policyholders and the Eligible Policyholders in exchange for the termination and extinguishment of their Membership Interests shall be the one-time cash payments provided for in Section 5.3(c). This cash payment will be made by Le Mars to the Voting Policyholders and the Eligible Policyholders as soon as reasonably practicable after the Effective Date, but in no event more than 75 days after the Effective Date unless the Commissioner approves a later date.

Le Mars retained an independent investment banking firm to assist it in its determination of the fair economic value of Le Mars and an independent real estate appraiser to assist Legg Mason in its determination of the fair market value of the real estate owned by Le Mars. The Board has determined that \$8.2 million represents the fair economic value of Le Mars and that such sum, less the costs and expenses of effecting this Plan, shall be the consideration (the "Consideration") payable in cash to the Voting Policyholders and the Eligible Policyholders of Le Mars.

The Consideration shall be distributed to the Voting Policyholders and the Eligible Policyholders as follows:

Each Voting Policyholder of Le Mars shall receive a one-time cash payment of Fifteen Dollars (\$15.00) in recognition of the Voting Right of such Voting Policyholder that will be extinguished on the Effective Date; and

The remainder of the Consideration (the "Remaining Amount"), after the payment provided for in clause (i) of this Section 5.3(c), shall be paid to the Voting Policyholders and the Eligible Policyholders by reason of the Demutualization. The equitable interest of each Voting Policyholder and each Eligible Policyholder in the Remaining Amount shall be determined by the ratio that the net earned premiums such Voting Policyholder or Eligible Policyholder has properly and timely paid to Le Mars on insurance policies in effect during the three years immediately preceding the Adoption Date bears to the total net earned premiums received by Le Mars from all Voting Policyholders and Eligible Policyholders by Le Mars during that three-year period times the Remaining Amount.

Acquisition of Capital Stock by DGI.

On the Effective Date, Le Mars Insurance Company, as the successor stock insurance company, shall become a wholly owned subsidiary of DGI, a majority-owned subsidiary of Donegal.

On June 12, 2002, Donegal purchased a surplus note (the "Surplus Note") from Le Mars in the principal amount of \$4,000,000 pursuant to Chapters 521 and 521A of the Code of Iowa.

As permitted by Section 515G.3 of the Code of Iowa and Section 9 of the Surplus Note, the holder of the Surplus Note may exchange the Surplus Note for securities of the successor stock insurance company. On the Effective Date, DGI, as the transferee of the Surplus Note from Donegal pursuant to the terms of a Note Purchase and Investment Agreement between Donegal and DGI, will exchange the Surplus Note and the accrued but unpaid interest thereon for the issuance to DGI of one share of common stock, par value \$1.00 per share, of the authorized capital stock of the successor stock insurance company for each \$1.00 of the principal amount of, and accrued interest on, the Surplus Note, and DGI will return the Surplus Note to Le Mars marked "cancelled".

On the Effective Date, DGI will make an additional capital contribution to the successor stock insurance company so that its surplus, after the payment of the Consideration to the Voting Policyholders and the Eligible Policyholders as set forth in Section 5.3, will be no less than the surplus of Le Mars on the Adoption Date.

Certificate of Authority. On the Effective Date, the successor stock insurance company shall satisfy the requirements, including requirements as to capital and surplus, for the issuance of a Certificate of Authority to transact the classes of insurance for which it is presently licensed in the State of Iowa.

Other Approvals and Actions. This Plan shall not become effective until a determination is made by DGI that it has met any other legal condition precedent to its becoming the owner of all of the successor stock insurance company's issued and outstanding capital stock as of the Effective Date.

POLICIES

Policies. For the purposes of this Plan, the term "Policy" means each original insurance policy that has been issued or assumed by Le Mars.

Determination of Ownership. The Owner of any Policy as of any date specified in this Plan shall be determined by Le Mars on the basis of its records as of such date in accordance with the following provisions:

The Owner of a Policy shall be the holder of the Policy as shown on the records of Le Mars, as described with greater particularity in Sections 6.2(b), (c), (d) and (e).

If an individual Policy contains ownership provisions and an Owner is named therein, then the Owner is the Person named as such in the Policy as shown in the records of Le Mars.

If an individual Policy does not contain ownership provisions, or contains such provisions but an Owner is not named therein, the owner of the property insured by the Policy, as shown in the records of Le Mars, shall be the Owner.

Except as otherwise set forth in this Article VI, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy.

In any situation not expressly covered by the foregoing provisions of this Section 6.2, the policyholder, as reflected on the records of, and as determined in good faith by, Le Mars, shall, subject to the contrary decision of the Commissioner pursuant to Section 6.2(g), conclusively be presumed to be the Owner of such Policy for purposes of this Section 6.2, and, except for administrative errors, Le Mars shall not be required to examine or consider any other facts or circumstances.

The mailing address of an Owner as of any date for purposes of this Plan shall be the Owner's last known address as shown on the records of Le Mars as of such date.

Any dispute as to the identity of the Owner of a Policy or the right to vote on this Plan or receive one-time cash payments shall be resolved in accordance with the foregoing and such other procedures as may be acceptable to the Commissioner.

In Force. A Policy shall be deemed to be in force ("In Force") as of any date for the purposes of this Plan if, as shown on Le Mars' records:

As of such date, such Policy has been issued and remains in effect;

As of such date, such Policy has been terminated but the effective date of the termination is subsequent to such date;

As of such date, Le Mars' administrative office has received an application, complete on its face, together with all required underwriting information and payment of the full initial premium for a Policy with an inception date on or before such date and such

Policy has not terminated or been terminated with a date of termination effective prior to such date; or

A binder for a Policy with an inception date on or before such date has been issued, even though full consideration for the Policy has not yet been received by Le Mars and the binder has not terminated or been terminated with a date of termination effective prior to such date.

Any policy referred to in clauses (c) and (d) shall be deemed In Force if such Policy is issued as applied for and delivered in accordance with the terms of the application or binder.

ADDITIONAL PROVISIONS

Compensation of Directors, Officers, Agents and Employees. No director, officer, agent or employee of Le Mars or its subsidiary shall receive any fee, commission or other valuable consideration whatsoever, other than their usual salary and compensation, for in any manner aiding, promoting or assisting in the Conversion, except as provided for herein or as approved by the Commissioner.

Notices. If Le Mars complies substantially and in good faith with the requirements of this Plan and applicable provisions of the Code of Iowa with respect to the giving of any required notice to the Voting Policyholders, its failure in any case to give such notice to any Person or Persons entitled thereto shall not impair the validity of the actions and proceedings taken under this Plan or Chapter 515G of the Code of Iowa or entitle such Person to any injunctive or other equitable relief with respect thereto.

Amendment or Withdrawal of this Plan. At any time prior to the Effective Date, the Board may withdraw or, with the Commissioner's approval, amend this Plan. Nothing herein shall be construed to prevent Le Mars from amending its Amended and Substituted Articles of Incorporation and Amended and Restated Bylaws in accordance with their respective terms and applicable law.

Corrections. Le Mars may, until the Effective Date, by an instrument executed by its President and attested by its Secretary under its corporate seal, and submitted to the Commissioner, make such modifications to this Plan as are appropriate to correct errors, clarify existing items or make additions to correct manifest omissions in this Plan and the Exhibits thereto.

Costs and Expenses. All reasonable costs related to this Plan and the transactions that are a part of the Demutualization, including, without limitation, those costs attributable to

the use of outside advisors by Le Mars, the Demutualization Committee and the Iowa Division of Insurance, shall be borne by Le Mars.

Interpretation of this Plan. Subject to the provisions of Section 515G of the Code of Iowa and the order of the Commissioner, the Chief Executive Officer of Le Mars or his designee shall have the power to interpret and construe this Plan and to determine all questions of eligibility, status and rights of Policies, Members, Voting Policyholders, Eligible Policyholders and others. It is recognized that unforeseen circumstances may occur and questions may arise that are not specifically addressed by any provision of this Plan or applicable law, and the Chief Executive Officer and his designees shall have the right to resolve such questions when they do arise. The determination of the Chief Executive Officer and his designees in all matters within their province shall be binding and conclusive.

Governing Law. The terms of this Plan shall be governed by and construed in accordance with the laws of the State of Iowa.

IN WITNESS WHEREOF, Le Mars, by authority of its Board of Directors, has caused this Plan to be duly executed as of this 11th day of August, 2003.

LE MARS MUTUAL INSURANCE COMPANY
OF IOWA

By: _____
Donald H. Nikolaus, President and
Chief Executive Officer

AMENDED AND RESTATED
ARTICLES OF INCORPORATION
OF
LE MARS MUTUAL INSURANCE COMPANY OF IOWA

TO THE SECRETARY OF STATE OF THE STATE OF IOWA:

Pursuant to Sections 490.1003 and 1007 of the Iowa Code, Le Mars Mutual Insurance Company of Iowa adopts the following Amended and Restated Articles of Incorporation:

ARTICLE 1
Adoption of Chapter 490

Le Mars Mutual Insurance Company of Iowa hereby voluntarily elects to adopt the provisions of the Iowa Business Corporation Act, Chapter 490 of the Iowa Code, pursuant to Section 490.1701(3) of the Iowa Code.

ARTICLE 2
Name

The name of the corporation is Le Mars Mutual Insurance Company of Iowa (hereinafter referred to as the "Corporation"). The Corporation hereby changes the Corporation's name to Le Mars Insurance Company.

ARTICLE 3
Place of Business

The principal place of business of the Corporation is located at One Park Lane, Le Mars, Plymouth County, Iowa 51031-1608. The Corporation may establish branch offices, depositories and agencies, and transact business, elsewhere in the United States in which the Corporation may be permitted by law to transact business. The registered agent of the Corporation is Harold N. Schneebeck, Brown, Winick, Graves, Gross, Baskerville and Schoenbaum, 666 Grand Avenue, Suite 2000, Des Moines, Iowa 50309.

ARTICLE 4
Capital Stock

The authorized capital stock of the Corporation shall be 10,000,000 shares of common stock, with a par value of \$1.00 per share.

ARTICLE 5
Nature of Business

The purpose and object of the Corporation shall be to engage in the business of insurance, other than life insurance, in accordance with the provisions of Chapter 515 of the Code of Iowa (2003) and it shall be empowered to insure its policyholders and their property against any or all of the risks and hazards permitted by said chapter. The Corporation shall also have all other powers, the exercise of which is lawful for corporations organized under Iowa law.

ARTICLE 6
Powers of Corporation

The Corporation shall have and exercise all the powers conferred by the laws of the State of Iowa upon corporations formed under Chapter 490 of the Code of Iowa, or any successor chapter, and all of the powers of corporations formed for the purpose of insurance other than life under Chapter 515 of the Code of Iowa, or any successor chapter. Without limiting the generality of the foregoing, the Corporation shall have the right to buy, acquire, own, hold, lease, sell and convey personal property and real estate to the extent authorized or permitted by the Laws and Statutes of the State of Iowa to corporations of this kind and character. All conveyances of real property made by the Corporation shall be executed by the Chairman of the Board, the President, the Chief Executive Officer or any Vice President, and also by the Secretary or Treasurer or Assistant Secretary or Assistant Treasurer of the Corporation, and shall bear the corporate seal. All mortgages, liens and judgments, and all other instruments that are required by law to be made a matter of record shall be executed by the Chairman of the Board, the President, the Chief Executive Officer or any Vice President, and by the Secretary or Treasurer or any officer or officers required by applicable law to sign thereon.

The Corporation shall provide for and maintain surplus and reserve funds in the manner as required by statute. The Corporation shall have the right to invest its surplus and other funds in any of the securities or property in which such insurance companies may lawfully invest.

The Corporation assumes all of the rights, powers and privileges now or hereafter granted to such corporate bodies, under and by virtue of the laws of the State of Iowa, including, but not limited to, to have perpetual existence; to make contracts, acquire and transfer property; to have a common seal, which it may alter at pleasure; to render the interests of the shareholders transferable; to exempt the private property of its shareholders from corporate debts except as otherwise declared; to make indemnification as provided in sections 490.850 through 490.859, Code of Iowa; to borrow or lend money, guarantee debts, and mortgage and pledge property, sue and be sued in its corporate name; engage in business within and without the State of Iowa and establish bylaws, make rules and regulations not inconsistent with these Amended and Restated Articles of Incorporation and the laws of the State of Iowa for all management of the Corporation's affairs.

ARTICLE 7

Perpetual Existence

The existence of the Corporation commenced on February 18, 1901 under the name German Mutual Insurance Association. The Corporation shall have perpetual existence.

ARTICLE 8

Board of Directors

The Board of Directors shall have all the power and authority granted by law and these Amended and Restated Articles of Incorporation to the Board of Directors, including all powers necessary or appropriate to the management of the business and affairs of the Corporation.

The Board of Directors shall consist of not less than five nor more than twelve members. The exact number of Directors within such minimum and maximum limits shall be fixed and determined from time to time by resolution of the Board of Directors. No decrease in the number fixed by the Board of Directors shall have the effect of shortening the term of office of any incumbent Director.

Directors need not be shareholders in the Corporation to qualify for nomination or hold office. A majority of the members of the Board of Directors shall be bona fide residents of the State of Iowa, unless the Commissioner of Insurance of the State of Iowa has issued in writing permission to have a majority of the members of the Board of Directors be other than bona fide residents of State of Iowa.

The Directors shall be divided into four classes, each class to be as nearly equal in number as possible. The terms of approximately one-fourth of the Directors shall expire at each annual meeting of shareholders. At each annual meeting of shareholders, the number of Directors equal to the number of Directors in the class whose term expires at the time of such

meeting shall be elected to hold office until the fourth succeeding annual meeting. The number of Directors in other classes to be elected as a result of an increase in the number of Directors, the occurrence of vacancies in other classes or the expiration of the term of a Director appointed by the Board of Directors to fill a vacancy in another class shall be elected for the remainder of the unexpired term of the respective Directorships. Each Director shall hold office until his or her successor shall have been elected and qualified or until his or her death, resignation or removal.

The current Directors of the Corporation and their terms are as follows:

<u>Name</u>	<u>Date of Term Expiration</u>	<u>Address</u>
Matthew J. Ahlers	2004	Le Mars, Iowa
Dennis J. Bixenman	2007	Sioux City, Iowa
Frederick W. Dreher	2006	Philadelphia, Pennsylvania
Philip H. Glatfelter, II	2005	Columbia, Pennsylvania
Larry D. Heemstra	2007	Le Mars, Iowa
Donald H. Nikolaus	2006	Marietta, Pennsylvania
R. Richard Sherbahn	2005	Lancaster, Pennsylvania
Ralph G. Spontak	2006	Marietta, Pennsylvania
David Van Engelenhoven	2004	Orange City, Iowa

Nominations for membership on the Board of Directors shall not be considered at any meeting of the shareholders, unless such nomination has been presented in writing, signed by the shareholder or shareholders proposing the same, and filed with the Nominating Committee of the Board of Directors of the Corporation at least 90 days prior to the date of the meeting at which said nominations are to be voted upon. From the nominations so made, and no others, members of the Board of Directors shall be elected.

Any vacancy occurring in the Board of Directors through death, resignation or any other cause may be filled by the affirmative vote of a majority of the remaining Directors, though less than a quorum of the Board of Directors.

ARTICLE 9

Limitation of Liability

No Director of the Corporation shall be personally liable to the Corporation or its shareholders for monetary damages for any action taken, or any failure to take any action, as a Director, except liability for any of the following: (i) the amount of a financial benefit received by a Director to which the Director is not entitled; (ii) an intentional infliction of harm on the Corporation or its shareholders; (iii) a violation of Section 490.833 of the Iowa Code or (iv) an intentional violation of criminal law. If the law of Iowa is hereafter changed to permit further elimination or limitation of liability of Directors for monetary damages to the Corporation or its shareholders, then the liability of a Director of this Corporation shall be eliminated or limited to the fullest extent permitted by law.

ARTICLE 10

Indemnification

This Corporation shall indemnify a Director of this Corporation, and each Director of this Corporation who is serving, or who has previously served, at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise to the fullest extent permitted by Iowa law against costs and expenses, including attorneys' fees, judgments, penalties, fines, settlements and reasonable expenses actually incurred by such Director relating to the individual's action, or failure to take action, as a Director of this Corporation or as, at the request of the Corporation, a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise; provided, however, that the indemnification required by this Article shall apply only if (i) the Director acted in good faith, (ii) the Director reasonably believed, in the case of conduct in the individual's official capacity, that the individual's conduct was in the best interests of the Corporation and in all other cases that the conduct was not opposed to the best interests of the Corporation, and (iii) in the case of any criminal proceeding, the individual had no reasonable cause to believe the conduct was unlawful. The indemnification required by this Article shall not apply to liability for any of the following: (i) receipt of a financial benefit to which the person is not entitled; (ii) an intentional infliction of harm on the Corporation or its shareholders; (iii) a violation of Section 490.833 of the Iowa Code; (iv) an intentional violation of criminal law or (v) in connection with a proceeding by, or in the right of, the Corporation, except for reasonable expenses incurred in connection with the proceeding if it is determined that the Director has met the relevant standard of conduct under Section 490.851(1) of the Iowa Code or any successor provision thereto.

In accordance with the provisions of Section 490.853 of the Iowa Code, the Corporation may, before final disposition of a proceeding, advance funds to pay for or

reimburse the reasonable expenses incurred by a Director who is a party to a proceeding because the person is a Director, upon the satisfaction of the requirements of said Section.

Unless otherwise ordered by a court, indemnification as provided for in this Article shall be made by the Corporation only as authorized for a specific proceeding upon a determination that indemnification is proper because the Director has met the applicable standards of conduct set forth herein. Such determination shall be made in accordance with Section 490.855 of the Iowa Code or any successor provision thereto.

The Corporation may indemnify and advance expenses to an officer of the corporation who is a party to the proceeding because the person is an officer to the same extent as a Director and, if the person is an officer but not a Director, to such further extent as may be provided by the Amended and Restated Articles of Incorporation, the Bylaws, a resolution of the Board of Directors or contract, except for liability in connection with a proceeding by or in the right of the Corporation other than for reasonable expenses incurred in connection with the proceeding and liability arising out of conduct that constitutes receipt by the officer of a financial benefit to which the officer is not entitled, an intentional infliction of harm on the Corporation or the Shareholders, or an intentional violation of criminal law. This indemnification shall apply to an officer who is also a Director if the basis on which the officer is made a party to a proceeding is an act or omission solely as an officer.

The indemnification rights provided in this Article 10 shall not be deemed to be exclusive of any indemnification or other rights to which a person may be entitled, as permitted by Chapter 490 of the Code of Iowa, under any Bylaw, agreement, vote of stockholders or disinterested Directors or otherwise, both as to actions undertaken by such person in his/her official capacity and as to actions undertaken in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, and shall inure to the benefit of the heirs, executors and administrators of any such person.

ARTICLE 11

Exemption from Liability

The private property of shareholders, Directors, officers, employees and agents of the Corporation shall at all times be exempt from liability for the debts, contracts or undertakings of the Corporation. This Article 11 shall not be amended or repealed.

ARTICLE 12

Amendment to Articles

These Amended and Restated Articles of Incorporation, with the exception of Articles 9, 10 and 11, may be amended at any annual meeting of the shareholders, or at any special meetings called for that purpose, upon an affirmative vote of the holders of two-thirds of the

shares present in person or represented by proxy, and voting thereon; provided, no amendment shall be considered at any meeting unless the same shall have been reduced to writing, signed by the shareholder or shareholders proposing the same and filed with the Chief Executive Officer of the Corporation at least 60 days prior to the date of the meeting at which the proposed amendment is to be considered. Any amendment not so filed shall not be considered until the succeeding annual meeting of the shareholders, except by the unanimous consent of all shareholders present in person or represented by proxy at the meeting.

ARTICLE 13

Bylaws

The Board of Directors may make and adopt bylaws for the Corporation that do not conflict with the law, or these Amended and Restated Articles of Incorporation, and may alter, amend, or repeal any such bylaws.

ARTICLE 14

Dissolution

The Corporation may be dissolved at any time upon the affirmative vote of the holders of two-thirds of the shares present in person, or represented by proxy, and voting thereon, at any regular or special meeting of the shareholders duly called and held; provided, however, that no action to dissolve the Corporation shall be sufficient unless written notice that such action is to be considered shall have been given to all of the shareholders by the Chief Executive Officer of the Corporation at least 60 days prior to the meeting called to consider such dissolution.

ARTICLE 15

Miscellaneous

The duly adopted Amended and Restated Articles of Incorporation set forth above supersede the Amended and Substituted Articles of Incorporation of the Corporation and all prior amendments thereto.

These Amended and Restated Articles of Incorporation have been duly approved by the shareholders in the manner required by the Code of Iowa and by the Corporation's Amended and Restated Articles of Incorporation.

LE MARS MUTUAL INSURANCE COMPANY OF IOWA

By: _____
Donald H. Nikolaus, President

By: _____
Arlene L. Sitzman, Secretary

STATE OF IOWA)
) ss:
COUNTY OF PLYMOUTH)

On this ____ day of October, 2003, before me, a notary public in and for Plymouth County, Iowa, appeared Donald H. Nikolaus and Arlene L. Sitzman, to me personally known, who being by me duly sworn, did say that they are the President and Secretary, respectively, of said Corporation; that the affixed seal is the seal of said Corporation; that the foregoing instrument was signed and sealed on behalf of said Corporation by authority of its Board of Directors and members. Said Donald H. Nikolaus and Arlene L. Sitzman acknowledged the execution of said instrument to be the voluntary act and deed of said Corporation by them voluntarily executed.

IN WITNESS WHEREOF, I have affixed my hand and Notary Seal at Le Mars, Plymouth County, Iowa, this ____ day of October, 2003.

Notary Public in and for the State of Iowa

CERTIFICATE OF APPROVAL

Pursuant to provisions of the Iowa Code, the undersigned approves the Amended and Restated Articles of Incorporation of Le Mars Mutual Insurance Company of Iowa, adopted _____, 2003, and finds them in conformance with the laws of the United States and with the laws and Constitution of the State of Iowa.

THOMAS J. MILLER
Attorney General of Iowa

Date _____

By: _____
Name:
Title:

CERTIFICATE OF APPROVAL
COMMISSIONER OF INSURANCE

Pursuant to the provisions of the Iowa Code, the undersigned approves the Amended and Restated Articles of Incorporation of Le Mars Mutual Insurance Company of Iowa adopted _____, 2003.

THERESE M. VAUGHAN
Commissioner of Insurance of Iowa

Date

By: _____
Name:
Title:

AMENDED AND RESTATED BYLAWS

OF

LE MARS INSURANCE COMPANY

(an Iowa corporation hereinafter referred to as the "Corporation")

ARTICLE 1

PRINCIPAL OFFICE

Section 1.1 Home Office. The principal place of business of the Corporation shall be located at One Park Lane, Le Mars, Iowa (the "Home Office").

Section 1.2 Other Offices. The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may from time to time require.

ARTICLE 2

SHAREHOLDERS

Section 2.1 Rights of Shareholders. Each Shareholder shall have such rights and privileges as a Shareholder as are prescribed by law for shareholders under the laws of the State of Iowa, the Amended and Restated Articles of Incorporation of the Corporation as the same may be in effect from time to time and these Bylaws as the same may be in effect from time to time.

ARTICLE 3

MEETINGS OF SHAREHOLDERS

Section 3.1 Annual Meetings of Shareholders. The regular annual meeting of the Shareholders shall be held at the Home Office of the Corporation in Le Mars, Iowa, at one o'clock p.m., on the third Thursday in April of each year, if not a legal holiday, and, if a legal holiday, then on the next full business day at the time designated in the noticed of meeting or

a duly executed waiver thereof. At each such annual meeting, the Shareholders shall elect successors to the Directors whose terms shall expire that year to serve for the following four years and until their successors shall have been duly elected and qualified or until their earlier resignation. The Shareholders shall also transact such other business as shall be properly brought before any such annual meeting.

Section 3.2 Nomination and Election of Directors. Nominations for membership on the Board of Directors shall not be considered at any meeting of the Shareholders, unless such nomination has been presented in writing, signed by the Shareholder or Shareholders proposing the same, and filed with the Nominating Committee of the Board of Directors of the Corporation at least 90 days prior to the date of the meeting at which said nominations are to be voted upon. From the nominations so made, and no others, members of the Board of Directors shall be elected.

Section 3.3 Special Meetings of Shareholders. Special meetings of the Shareholders may be called by the Chief Executive Officer and shall be called upon written request of a majority of the members of the Board of Directors or upon the written request of one-fifth of the Shareholders entitled to vote thereat. In each instance, such request for a special meeting must specify the purpose for which the meeting is to be called. Upon receipt of any such request, it shall be the duty of the Secretary of the Corporation to call a special meeting of Shareholders to be held on such date, within the 60 succeeding days, as the Secretary shall fix.

Section 3.4 Place and Notice of Meetings. All meetings of the Shareholders shall be held at such time and place as may be fixed from time to time by the Board of Directors and stated in the notice of such meeting or in a duly executed waiver of notice thereof. If no such place is fixed by the Board of Directors, meetings of the Shareholders shall be held at the Home Office of the Corporation. Written notice of all meetings of Shareholders other than adjourned, postponed or continued meetings of Shareholders, stating the place, date and hour, and, in the case of special meetings of Shareholders, the purpose or purposes thereof, shall be served upon or mailed, postage prepaid, not less than ten nor more than sixty days before the date of the meeting to each Shareholder entitled to vote thereat at such address as appears on the books of the Corporation. Such notices may be given at the direction of, or in the name of, the Board of Directors or the Chief Executive Officer. When a meeting is adjourned, postponed or continued, it shall not be necessary to give any notice of the adjourned, postponed or continued meeting or of the business to be transacted at the adjourned, postponed or continued meeting, other than by announcement at the meeting at which such adjournment, postponement or continuation is taken.

Section 3.5 Record Date. The Board of Directors may fix, in advance, a date as the record date for any determination of Shareholders for any purpose, such date in every case to

be not more than 60 days prior to the date on which the particular action or meeting, requiring such determination of Shareholders is to be taken or held.

Section 3.6 Waiver of Notice.

(a) A written waiver of notice of any meeting of the Shareholders signed by any Shareholder entitled to such notice, whether before or after the time stated in such notice for the holding of such meeting, shall be equivalent to the giving of such notice to such Shareholder in due time as required by law and these Bylaws. The written waiver must be delivered to the Corporation for inclusion in the minutes or filed with the corporate records.

(b) A Shareholder's attendance at any Shareholders' meeting, in person or by proxy: (i) waives giving of notice of such meeting and irregularities in any notice given unless the Shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice unless the Shareholder objects to consideration of the matter when it is presented.

Section 3.7 Quorum.

(a) At any meeting of the Shareholders, unless a greater number is required by the Corporation's Amended and Restated Articles of Incorporation as then in effect, the presence in person or by proxy of the holder or holders of a majority of the shares entitled to vote on the matter to be considered shall constitute a quorum for the purpose of considering such matter, unless a greater percentage is required by law, and, in that case, the greater percentage so required shall constitute a quorum. If a quorum shall fail to attend any meeting, the chairman of the meeting, or a majority of the votes present, may adjourn the meeting to another place, date and time. The affirmative vote of a majority of the shares present, in person or by proxy, and voting, shall be sufficient to carry any proposition except as may be otherwise provided by statute, the Corporation's Amended and Restated Articles of Incorporation, as in effect from time to time, or these Bylaws, as in effect from time to time.

(b) When a meeting is adjourned to another place, date or time, notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than 120 days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, date and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted that might have been transacted at the original meeting.

Section 3.8 Organization.

(a) The Chairman of the Board or such person as the Board of Directors may have designated or such person as shall be designated by a majority of the shares present at the meeting, shall call meetings of the Shareholders to order and shall act as chairman of such meetings.

(b) The Secretary of the Corporation shall act as secretary at all meetings of the Shareholders, but in the absence of the Secretary at any meeting of the Shareholders, the presiding officer may appoint any person to act as secretary of the meeting.

Section 3.9 Voting By Shareholders.

(a) Each Shareholder shall be entitled to one vote for each share held on each matter submitted to a vote at a meeting of Shareholders, except that there shall be no right to vote cumulatively in any election of Directors. Directors shall be elected by the affirmative vote of a plurality of the votes cast at the meeting.

(b) The Shareholders having the right to vote at any meeting shall only be those of record on the books of the Corporation on the record date fixed pursuant to the provisions of Section 3.5 of these Bylaws or by law.

(c) Voting by Shareholders on any question or in any election may be viva voce unless the chairman of the meeting shall order voting be by ballot. On a vote by ballot, each ballot shall be signed by the Shareholder voting or in the Shareholder's name by proxy.

Section 3.10 Voting by Proxy.

(a) At all meetings of the Shareholders, a Shareholder entitled to vote may vote in person or by proxy appointed in writing, and filed in accordance with the procedure established herein. Proxies shall be invalid unless made in writing subscribed by a Shareholder, executed within 120 days prior to the meeting for which given, and limited to 30 days subsequent to the date of such meeting as the same may be adjourned. Proxies shall be filed with the Secretary of the Corporation not later than the date of the meeting at which they are to be used and unless so filed shall be void, and the attorney or proxy therein shall not be entitled to vote or otherwise represent the Shareholder at the meeting.

(b) Policies held by an administrator, executor, guardian, conservator, receiver, trustee, pledgee or another corporation may be voted as provided by law.

(c) Proxies, unless coupled with an interest, may be revoked at any time by the Shareholder executing the same, but the revocation of a proxy shall not be effective until written notice thereof has been given to the Secretary of the Corporation.

(d) Where a proxy names more than one attorney, affirmative action of a majority of those named shall be necessary to vote said proxy.

Section 3.11 Conduct of Business. The chairman of any meeting of Shareholders shall determine the order of business and procedure at the meeting, including such regulation of the manner of voting and the conduct of business as seem to such chairman to be in order.

Section 3.12 Judges of Election.

(a) In advance of any meeting of the Shareholders, the Board of Directors may appoint judges of election, who need not be Shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the chairman of any such meeting may, and, on the request of any Shareholder or proxy, shall, make such appointment at the meeting. The number of judges of election shall be one or three. If appointed at the meeting at the request of a Shareholder or proxy, the majority of shares present shall determine whether one or three judges of election are to be appointed. No person who is a candidate for election shall serve as a judge of elections.

(b) The judges of election shall do all such acts as may be proper to conduct the election or vote and such other duties as may be prescribed by law with fairness to all Shareholders and, if requested by the chairman of the meeting or any Shareholder or proxy, shall make a written report of any matter determined by them and execute a certificate as to any fact found by them. If there are three judges of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

ARTICLE 4

BOARD OF DIRECTORS

Section 4.1 General Powers. The Board of Directors shall have all the power and authority granted by law, including all powers necessary or appropriate to the management of the business and affairs of the Corporation.

Section 4.2 Quorum and Manner of Acting. At all meetings of the Board of Directors, the presence, in person or by telephonic or similar communications equipment, of not less than a majority of the members of the Board of Directors shall be required to constitute a quorum for the transaction of business, and the acts of a majority of the members

of the Board of Directors present at a duly convened meeting at which a quorum is present shall be the acts of the Board of Directors, except as may be otherwise specifically provided by law, by the Corporation's Amended and Restated Articles of Incorporation, as in effect from time to time, or by these Bylaws, as in effect from time to time. If a quorum shall not be present, in person or by telephonic or similar communications equipment, at any meeting of the Board of Directors, the Directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be so present.

Section 4.3 Compensation of Directors. Directors may be compensated and reimbursed for their expenses of attendance at regular or special meetings as authorized by the Board of Directors; provided, that no Director shall be so compensated or reimbursed for attendance at more than one regular or special meeting of the Board of Directors of the Corporation or any affiliated company on a single day.

Section 4.4 Place of Meetings, Etc. The Board of Directors may hold its meetings at such place or places within or without the State of Iowa, as the Board of Directors may from time to time determine. A Director may participate in any meeting by any means of communication, including, but not limited to, telephone conference call, by which all Directors participating may simultaneously hear each other during the meeting and such participation shall be deemed to be the presence of such Director at such meeting.

Section 4.5 Organization Meeting. Immediately after the adjournment of each annual meeting of the Shareholders for the election of Directors, the Board of Directors shall meet for the purpose of organization, the election of officers and the transaction of other business. Notice of such meeting need not be given. Such meeting may be held at any other time or place as shall be specified in a notice given as hereinafter provided for meetings of the Board of Directors or in a consent and waiver of notice thereof signed by all the Directors, at which meeting or in such consent the same matters shall be acted upon as is above provided.

Section 4.6 Regular Meetings. Regular meetings of the Board of Directors shall be held at such place and at such times as the Board of Directors shall by resolution fix and determine from time to time. The Board of Directors shall hold at least four regularly scheduled quarterly meetings during each calendar year. Notice of regular meetings of the Board of Directors shall be given to each Director at least one day before each meeting, either personally, by telephone, facsimile or electronic mail.

Section 4.7 Special Meetings. Special meetings of the Board of Directors may be called by the President of the Corporation or a majority of the members of the Board of Directors of the Corporation on one day's notice to each Director, either personally, by telephone, facsimile or electronic mail.

Section 4.8 Action Without A Meeting. Any action required or permitted by law to be taken at any meeting of the Board of Directors may be taken without a meeting if, prior or subsequent to the action, a written consent or consents thereto signed by all of the Directors shall be filed with the Secretary of the Corporation.

Section 4.9 Committees.

(a) *Committees*. The Board of Directors, by vote of a majority of the whole Board of Directors, may from time to time designate committees of the Board of Directors as specifically provided for herein and such other committees as the Board of Directors may, in its discretion, determine from time to time, with such lawfully delegable powers and duties as the Board of Directors thereby confers, to serve at the pleasure of the Board of Directors and shall, for each such committee, appoint no fewer than three Directors to serve as members and designate, if it desires, one or more Directors as alternate members who may replace any absent or disqualified member at any meeting of a committee. The Board of Directors may, from time to time, suspend, alter, continue or terminate any committee or the powers and functions thereof. Vacancies on the committees may be filled by the Board of Directors.

(b) *Executive Committee*. The Executive Committee shall have the power to exercise the authority of the full Board of Directors in the management of all business of the Corporation between meetings of the Board of Directors to the extent permitted by Iowa law. It shall report to the Board of Directors actions taken in the exercise of such power.

(c) *Audit Committee*. The Audit Committee shall recommend the selection of independent certified public auditors and review the scope and results of the independent audit and the management recommendations made by the independent auditor.

(d) *Nominating Committee*. The Nominating Committee shall nominate persons for election as Directors by the Shareholders of the Corporation and shall review and report on the qualifications of candidates otherwise nominated for Director.

(e) *Compensation Committee*. The Compensation Committee shall evaluate the performance of officers of the Corporation and recommend to the Board of Directors compensation of the executive officers of the Corporation.

Section 4.10 Fiduciary Duty. A Director of the Corporation shall stand in a fiduciary relation to the Corporation and shall discharge his duties as a Director, including his duties as a member of any committee of the Board of Directors upon which he may serve, in good faith, in a manner he reasonably believes to be in the best interests of the Corporation and with that degree of care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would exercise under similar circumstances. In discharging his duties, a

Director shall be entitled to rely upon such information, opinions, reports or statements, including financial statements and other data, if prepared or presented by (i) any of the Corporation's officers or employees whom the Director reasonably believes to be reliable and competent in the matters presented, (ii) any committee of the Board of Directors on which such Director does not serve if the Director reasonably believes the committee merits confidence or (iii) legal counsel, public accountants or any other person as to matters the Director reasonably believes are within such person's professional or expert competence. A Director shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

Section 4.11 Pertinent Factors. In discharging the duties of their respective positions, the Board of Directors, committees of the Board of Directors and individual Directors may, in considering the best interests of the Corporation, consider the effects of any action upon potential growth and development of the Corporation, current and retired employees, creditors and policyholders of the Corporation and communities in which offices or other establishments of the Corporation are located, and all other pertinent factors. The consideration of these factors shall not constitute a violation of Section 4.10 of these Bylaws.

Section 4.12 Presumption of Best Interests. Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a Director or any failure to take any action shall be presumed to be in the best interests of the Corporation.

Section 4.13 Amendment. Notwithstanding any other provision of these Bylaws, if any action to amend, repeal or adopt any provision as part of these Bylaws shall be taken that is inconsistent with the purpose or intent of Sections 4.10, 4.11, 4.12 or 4.13 of this Article 4, such action shall become effective only on a prospective basis.

ARTICLE 5

OFFICERS

Section 5.1 Election and Office. The officers of the Corporation shall be elected annually by the Board of Directors at its organization meeting and shall consist of a Chief Executive Officer, a President, a Secretary and a Treasurer. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary. All officers of the Corporation shall be natural persons not less than 18 years old. Each officer of the Corporation shall hold office for such term, have such authority and perform such duties as set forth in these Bylaws or as may from time to time be prescribed by the Board of Directors. The offices of Chief Executive Officer, Secretary and Treasurer must be held by different persons.

Section 5.2 Removal and Vacancies. Each officer shall hold his office until his successor is elected and qualified or until his earlier resignation or removal. The Board of Directors may remove any officer or agent elected or appointed by the Board of Directors at any time and within the period, if any, for which such person was elected or employed whenever in the judgment of the Board of Directors it is in the best interests of the Corporation to do so, and all persons shall be elected and employed subject to the provisions hereof. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors, though less than a quorum, or by a sole remaining Director, and each person so selected shall be an officer to serve for the balance of the unexpired term.

Section 5.3 Powers and Duties of the Chief Executive Officer. Unless otherwise determined by the Board of Directors, the Chief Executive Officer shall have the usual duties of a chief executive officer of a corporation with general supervision over and direction of the policies and affairs of the Corporation. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

Unless otherwise determined by the Board of Directors, the Chief Executive Officer shall have full power and authority on behalf of the Corporation to attend and to act and to vote at any meeting of the shareholders of any corporation in which the Corporation may hold stock, and, at any such meeting, shall possess and may exercise any and all of the rights and powers incident to the ownership of such stock and which, as the owner thereof, the Corporation might have possessed and exercised.

Section 5.4 Powers and Duties of the President. Unless otherwise determined by the Board of Directors or the Chief Executive Officer, the President shall have the usual duties of a chief operating officer with general supervision of the normal day-to-day operations of the Corporation and the implementation of the policies of the Corporation as established from time to time by the Board of Directors or the Chief Executive Officer. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors of the Corporation.

Section 5.5 Powers and Duties of Vice Presidents. Each Vice President shall have such duties as may be assigned to him from time to time by the Board of Directors, the Chief Executive Officer or the President. Any Vice President may, in the discretion of the Board of Directors, be designated as "executive", "senior" or by departmental or functional classification. In the event of a temporary absence of the President on vacation or business, the President may designate a Vice President or Vice Presidents who will perform the duties of the President in such absence. In the event of a prolonged absence of the President due to illness or disability or for any other reason, the Board of Directors shall designate a Vice President or Vice Presidents who will perform the duties of the President during such absence.

Section 5.6 Powers and Duties of the Secretary. The Secretary shall: (a) keep the minutes of the meetings of the Shareholders and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; (c) serve as the custodian of the corporate records; (d) keep a register of the post office address of each Shareholder, as furnished to the Secretary by such Shareholders; (e) have general charge of the stock transfer books of the Corporation; (f) maintain and authenticate the records required to be kept under Section 490.1601 of the Iowa Code and (g) generally perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned by the President, the Chief Executive Officer or by the Board of Directors from time to time, or as may be prescribed by these Bylaws.

Section 5.7 Powers and Duties of the Treasurer. The Treasurer of the Corporation shall have the custody of the Corporation's funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as shall be designated by the Chief Executive Officer or the President, shall disburse the funds of the Corporation as may be ordered by the President, the Chief Executive Officer or the Board of Directors, taking proper vouchers for such disbursements, shall render to the Board of Directors, at the regular meetings of the Board of Directors or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation and shall have the right to affix the seal of the Corporation to any instrument requiring it, and to attest to the same by his signature and, if so required by the Board of Directors, he shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

Section 5.8 Designation of a Chief Financial Officer. The Board of Directors shall have the power to designate from among any Vice President or the Treasurer of the Corporation a Chief Financial Officer who shall be deemed the principal financial and accounting officer and who shall have the ultimate responsibility to oversee the financial operation and performance of the Corporation. In the event that the Treasurer is not designated by the Board of Directors as the Chief Financial Officer, the Treasurer shall report to the Chief Financial Officer from time to time concerning all duties that the Treasurer is obligated to perform and the Chief Financial Officer shall, subject to the reasonable direction of the Board of Directors, at his election, assume such of the duties of the Treasurer as are provided in Section 5.7 of these Bylaws as he shall deem appropriate.

Section 5.9 Fiduciary Duty. An officer of the Corporation shall stand in a fiduciary relation to the Corporation and shall discharge his duties as an officer in good faith, in a manner he reasonably believes to be in the best interests of the Corporation and with that degree of care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would exercise under similar circumstances. In discharging his duties, an officer

shall be entitled to rely upon such information, opinions, reports or statements, including financial statements and other data, if prepared or presented by (i) any of the Corporation's other officers or employees whom such officer reasonably believes to be reliable and competent in the matters presented, (ii) the Board of Directors or any committee of the Board of Directors on which such officer does not serve if such officer reasonably believes the committee merits confidence or (iii) legal counsel, public accountants or any other person as to matters such officer reasonably believes are within such person's professional or expert confidence. An officer shall not be considered to be acting in good faith if he has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

ARTICLE 6

MISCELLANEOUS PROVISIONS

Section 6.1 Facsimile Signatures. Facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 6.2 Corporate Seal. The Board of Directors shall provide for a corporate seal which shall be circular in form and shall bear the name of the Corporation and the words "Corporate Seal" and "Iowa". The Secretary shall be custodian of any such seal. The Board of Directors may also authorize a duplicate seal to be kept and used by any other officer.

Section 6.3 Fiscal Year. The fiscal year of the Corporation shall be at the close of business on the last day of December each year or such other date as may be adopted by resolution of the Board of Directors.

ARTICLE 7

CHECKS AND NOTES

All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE 8

AMENDMENTS

Section 8.1 Amendment by Shareholders. These Bylaws may be amended or repealed and new Bylaws adopted by the affirmative vote of a majority of the Shareholders present at any annual meeting or special meeting thereof.

Section 8.2 Amendment by the Board of Directors. These Bylaws may be amended or repealed and new Bylaws adopted by the affirmative vote of a majority of the members of the Board of Directors at any regular or special meeting thereof duly convened, unless section 490.1021 of the Iowa Code reserves that power exclusively to the shareholders in whole or in part, or the shareholders in amending, repealing, or adopting a bylaw expressly provide that the board of directors shall not amend, repeal, or reinstate that bylaw.

ARTICLE 9

INTERPRETATION OF BYLAWS

All words, terms and provisions of these Bylaws shall be interpreted and defined by and in accordance with the Code of Iowa and applicable regulations of the Iowa Division of Insurance, as the same may be amended from time to time hereafter, and any other applicable Iowa laws, as the same may be amended from time to time hereafter.

Arlene L. Sitzman, Secretary

October __, 2003



Investment Banking

*Legg Mason Wood Walker, Incorporated
100 Light Street, 31st Floor, Baltimore, MD 21202
410 • 539 • 0000 Fax: 410 • 454 • 5343*

Member New York Stock Exchange, Inc./Member SIPC

August 21, 2003

Board of Directors
Le Mars Mutual Insurance Company
of Iowa
One Park Lane
Le Mars, Iowa 51031

Demutualization Committee
Le Mars Mutual Insurance Company
of Iowa
One Park Lane
Le Mars, Iowa 51031

Gentlemen:

You have asked our opinion as to the value of Le Mars Mutual Insurance Company of Iowa (the "Company") as of August 6, 2003 (the "Opinion") within a reasonable range of fair market values for purposes of entering into a Plan of Conversion (the "Plan"), which provides for the conversion (the "Conversion") of the Company from a mutual insurance company into a stock insurance company in accordance with the requirements of Chapter 515G of the Code of Iowa. The Plan also calls for the acquisition (the "Acquisition") of all of the capital stock of the successor stock insurance company by Donegal Group Inc. ("Donegal").

In arriving at our Opinion set forth below we have, among other things:

- (i) reviewed the Company's Iowa statutory financial statements for the years ended December 31, 2002, 2001 and 2000;
- (ii) reviewed the Company's Iowa statutory financial statements for the quarters ended June 30, 2003 and 2002;
- (iii) reviewed the Company's internal statutory financial statements for the seven month periods ended July 31, 2003 and 2002;
- (iv) reviewed the Company's internal GAAP balance sheet as of July 31, 2003 and audited GAAP balance sheet as of December 31, 2002;
- (v) reviewed the Company's December 31, 2002 loss and loss adjustment expense reserve analysis conducted by KPMG LLP;
- (vi) reviewed certain internal information, primarily financial in nature, concerning the business and operations of the Company;

- (vii) reviewed the proxy statement dated March 20, 2002 related to the affiliation between the Company and Donegal;
- (viii) reviewed certain publicly available information concerning the Company;
- (ix) reviewed certain publicly available information concerning the insurance industry in Iowa and throughout the United States;
- (x) reviewed and analyzed certain publicly available financial and stock market data and operating statistics of selected public companies that we deemed relevant to our inquiry;
- (xi) reviewed the real estate appraisal prepared for the Company by NAI LeGrand & Company as of July 30, 2003;
- (xii) analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions that we considered relevant to our inquiry;
- (xiii) reviewed and analyzed certain publicly available information concerning insurance company demutualizations that we considered relevant to our inquiry;
- (xiv) held meetings and discussions with certain officers and employees of the Company concerning the operations, financial condition and prospects of the Company; and
- (xv) conducted such other financial studies, analyses and investigations and considered such other information as we deemed necessary or appropriate for purposes of our Opinion.

In connection with our review, we have assumed and relied upon the accuracy and completeness of all financial and other information supplied to us by the Company, or publicly available, and we have not independently verified such information. We have further relied on the representations of the management of the Company that they have no knowledge of any facts that would make the information they have provided to us incomplete or misleading. We have assumed, with the consent of the management of the Company, that any material liabilities (contingent or otherwise or known or unknown) of the Company are set forth in the financial statements of the Company. We have not been requested to make, and we have not made, an independent appraisal or evaluation of the assets, properties, facilities or liabilities of the Company and we have not been furnished with any such appraisal or evaluation with the exception of an appraisal of certain real estate in Le Mars, Iowa, owned by the Company. We have been advised that the Company does not have available any financial projections because the Company's recent history of losses would make any such projections unreliable and have been requested to produce this Opinion without using any such projections. Furthermore, this Opinion is based upon prevailing market conditions and other circumstances and conditions existing on the date of that information or documentation.

In addition, we have assumed that the Conversion will be consummated on the terms and conditions described in the Plan, without any waiver of material terms or conditions by the Company and that obtaining any necessary regulatory approvals or satisfying any other conditions for consummation of the Conversion will not have an adverse effect on the Company.

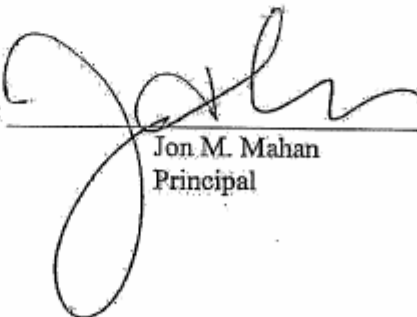
It is understood that this letter is directed to the Company's Board of Directors and its Demutualization Committee. We have acted as financial advisor to the Company and will receive a fee for our services. The Opinion expressed herein is provided for the use of the Company's Board of Directors and its Demutualization Committee in connection with their respective evaluation of the proposed Plan and does not constitute a recommendation to any policyholder of the Company either of the Plan or as to how such policyholder should vote on or otherwise respond to the Plan. In addition, this letter does not constitute a recommendation of the Plan over any other alternative transaction which may be available to the Company and does not address the underlying business decision of the Board of Directors of the Company to proceed with or effect the Plan. This letter is not to be quoted or referred to, in whole or in part, in any registration statement, prospectus or proxy statement, or in any other document used in connection with the offering or sale of securities, nor shall this letter be used for any other purposes, without the prior written consent of Legg Mason Wood Walker, Incorporated; provided that this Opinion may be included in its entirety in any filing made by the Company with the Iowa Division of Insurance with respect to the Plan.

Based upon and subject to the foregoing, we are of the opinion that \$8.2 million is within a reasonable range of fair market values for the Company as of August 6, 2003.

Very truly yours,

LEGG MASON WOOD WALKER, INCORPORATED

By: _____



Jon M. Mahan
Principal

LE MARS MUTUAL INSURANCE COMPANY OF IOWA

BALLOT

SPECIAL MEETING OF MEMBERS TO BE HELD OCTOBER 6, 2003

This ballot is solicited on behalf of the Board of Directors

The undersigned hereby constitutes and appoints Arlene L. Sitzman and Ralph G. Spontak and each or either of them proxies of the undersigned, with full power of substitution, to vote the undersigned's interest in Le Mars Mutual Insurance Company of Iowa ("Le Mars") which the undersigned is entitled to vote at the Special Meeting of Members of Le Mars, to be held at the offices of Le Mars, One Park Lane, Le Mars, Iowa 51031 on Monday, October 6, 2003, at 11:00 a.m., Central Daylight Time, and at any adjournment, postponement or continuation thereof, as follows:

1. PROPOSAL TO APPROVE THE PLAN OF CONVERSION OF LE MARS MUTUAL INSURANCE COMPANY OF IOWA DATED AS OF AUGUST 11, 2003 AND THE TRANSACTIONS THAT ARE PART OF THE DEMUTUALIZATION OF LE MARS. The Board of Directors recommends a vote FOR this proposal.

FOR

AGAINST

2. In their discretion, the proxies are authorized to vote upon procedural matters as may properly come before the Special Meeting and any adjournment, postponement or continuation thereof.

THIS BALLOT MUST BE RECEIVED BY THE SECRETARY OF LE MARS NOT LATER THAN OCTOBER 3, 2003 OR IT WILL NOT BE VOTED AT THE SPECIAL MEETING. PLEASE COMPLETE, DATE, SIGN AND MAIL THIS BALLOT PROMPTLY.

LE MARS MUTUAL INSURANCE COMPANY OF IOWA

THIS BALLOT WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER
DIRECTED HEREIN BY THE UNDERSIGNED MEMBER.

This ballot should be dated, signed by the Member exactly as his or her name appears hereon
and returned promptly to Le Mars Mutual Insurance Company of Iowa, c/o Arlene L.
Sitzman, Secretary, at P.O. Box 912, Le Mars, Iowa 51031. Persons signing in a fiduciary
capacity should so indicate.

_____(SEAL)

_____(SEAL)

Date: _____, 2003