ASSOCIATION EXAMINATION REPORT
on
SOUTHERN INSURANCE COMPANY of VIRGINIA
Glen Allen, Virginia
as of
December 31, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Southern Insurance Company of Virginia as of December 31, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 10th day of May, 2016

Jacqueline K. Cunningham

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
March 2, 2016

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and in conformity with § 38.2-1317 of the Code of Virginia, a financial condition examination of

SOUTHERN INSURANCE COMPANY OF VIRGINIA

Glen Allen, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. This examination, covering the period from January 1, 2011 through December 31, 2014, was conducted by the Bureau, representing the Southeastern Zone of the National Association of Insurance Commissioners (NAIC).

HISTORY

The Company was granted a charter on April 9, 1936 by the State Corporation Commission (Commission) and was licensed by the Bureau on May 21, 1937. In 1944, the management of the Company was assumed by duly elected officers and directors, all affiliated with the Northern Neck Mutual Fire Association of Virginia. In July of 1984, the Commission approved the assumption of the management of the Company by Donegal Mutual Insurance Company (Donegal Mutual).

In December of 1988, the Company converted from a mutual insurance company to a stock insurance company and was acquired by Donegal Mutual. The acquisition was completed by the issuance of 1,000,000 shares of common capital stock to Donegal Group Inc. (DGI), a subsidiary of Donegal Mutual, for consideration of $3,000,000. The conversion and acquisition of control were approved by the Commission. The Company changed its name from Southern Mutual Insurance Company to Southern Insurance Company of Virginia.

Effective April 18, 1996, the Company's Articles of Incorporation were amended to increase the number of shares that the Company is authorized to issue to 3,000,000 shares of common stock with a par value of $1.25 per share.

On April 29, 1996, the Company declared and issued a stock dividend of 0.6 shares for each share outstanding. There were 1,000,000 shares outstanding on that date. The 600,000 new shares, with a par value of $1.25 per share, resulted in $750,000 of additional common capital stock. On January 15, 1998, the Company declared and issued a stock dividend of 0.175 shares for each share outstanding. There were 1,600,000 shares outstanding on that date. The 280,000 new shares, with a par value of $1.25 per share, resulted in $350,000 of additional common capital stock.

On March 8, 2001, the Company and Southern Heritage Insurance Company (SHIC), a Georgia domestic, and an affiliate of the Company, entered into an Agreement and Plan of Merger whereby SHIC would merge with and into the Company, with the Company as the surviving entity. On May 1, 2002, the merger of SHIC and the Company was completed. This transaction received the approval of both Virginia and Georgia. Simultaneous with the merger, the Company paid a cash dividend of $3,000,000 to DGI.

In December of 2003 and 2004, the Company received capital contributions from DGI in the amount of $5,000,000 and $6,500,000, respectively.

Effective October 21, 2010, the Company's Articles of Incorporation were amended to increase the number of shares that the Company is authorized to issue to 3,384,000 shares of common stock with a par value of $1.25 per share. On that same date, the Company declared and issued a stock dividend of 0.80 shares for each share outstanding. There were 1,880,000 shares outstanding on that date. The 1,504,000 new shares, with a par value of $1.25 per share, resulted in $1,880,000 of additional common capital stock. At December 31, 2014, the Company had 3,384,000 shares of common stock outstanding with a par value of $1.25 per share.

MANAGEMENT AND CONTROL

The Articles of Incorporation provide that the affairs of the corporation shall be managed by a board of directors consisting of a minimum of seven persons and a maximum of 12 persons, as provided in the bylaws. The directors shall serve in three groups, with each group containing one third of the total number of directors, or as near as may be, for staggered terms of three years. Each year, the terms of the directors in one group shall expire at the annual shareholders' meeting, and directors shall be chosen to succeed those whose terms expire.

The bylaws provide for the Company's officers to be a chairman of the board, a president, a vice president, a secretary, a treasurer and such other assistant vice presidents, assistant secretaries and assistant treasurers as the board may decide. The offices of president, secretary and treasurer are to be held by different persons and the president shall be a member of the board of directors. Directors and officers at December 31, 2014 were as follows:

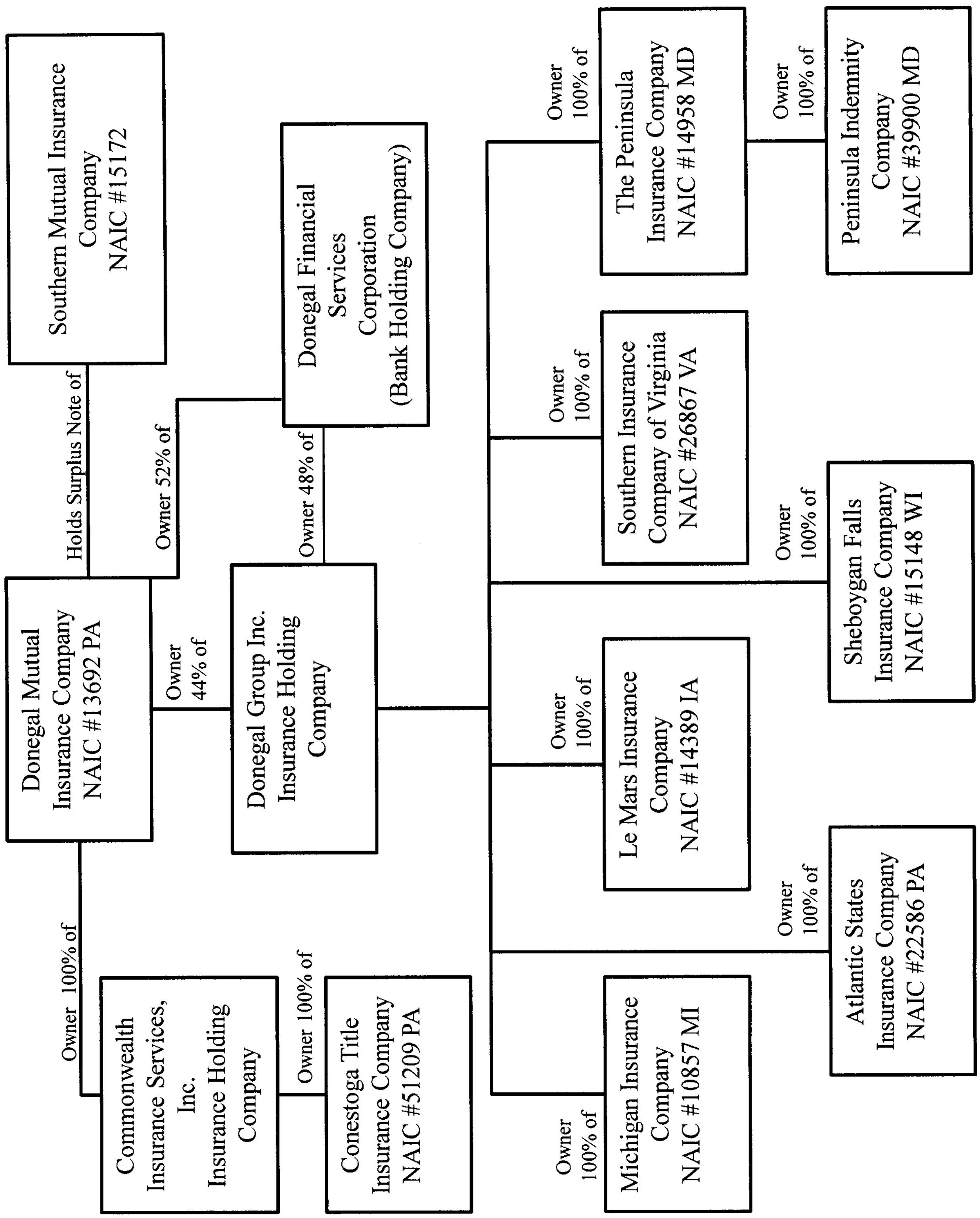
Directors	Principal Occupation
Scott A. Berlucchi	President and Chief Executive Officer Auburn Memorial Hospital Auburn, New York
Robert S. Bolinger	Retired Lancaster, Pennsylvania
Patricia A. Gilmartin	Retired Marietta, Pennsylvania
Philip H. Glatfelter, II	Retired Columbia, Pennsylvania
Jack L. Hess	Retired Lancaster, Pennsylvania
John E. Hiestand	Self-Employed H & H Associates Maytown, Pennsylvania
Kevin M. Kraft, Sr.	Funeral Director Clyde W. Kraft Funeral Home, Inc. Columbia, Pennsylvania

Directors (continued)	Principal Occupation
Jon M. Mahan	Managing Director, Investment Banking Division Stifel Nicolaus & Company, Incorporated Baltimore, Maryland
S. Trezevant Moore, Jr.	Executive Vice President First Key Mortgage, LLC Philadelphia, Pennsylvania
Donald H. Nikolaus	President and Chief Executive Officer Donegal Mutual Insurance Company Marietta, Pennsylvania
Richard D. Wampler, II	Principal – Retired Brown Schultz Sheridan & Fritz Camp Hill, Pennsylvania

Officers:

Donald H. Nikolaus	President and Chief Executive Officer
Kevin G. Burke	Executive Vice President and Chief Operating Officer
Jeffrey D. Miller	Executive Vice President and Chief Financial Officer
Cyril J. Greenya	Senior Vice President and Chief Underwriting Officer
Francis J. Haefner, Jr.	Senior Vice President, Commercial Lines Underwriting
Jeffrey A. Jacobsen	Senior Vice President, Personal Lines Underwriting
Richard G. Kelley	Senior Vice President, Sales and Business Development
Sanjay Pandey	Senior Vice President, Information Technology and Chief Information Officer
Christina M. Springer	Senior Vice President, Internal Audit
Chester J. Szczepanski	Senior Vice President and Chief Actuary
Robert G. Shenk	Senior Vice President, Claims
Vincent A. Viozzi	Senior Vice President, Investments
Daniel J. Wagner	Senior Vice President and Treasurer
James R. Parker	Senior Regional Vice President
William M. Anderson	Regional Vice President
Jason M. Crumbling	Vice President and Controller
Jerry W. Demastus	Vice President and Assistant Treasurer
William A. Folmar	Vice President, Claims
Robert R. Long, Jr.	Vice President, House Counsel
David S. Krenkel	Vice President, Marketing and Advertising
Sheri O. Smith	Vice President and Secretary

The Company is a wholly-owned subsidiary of DGI. At December 31, 2014, DGI was 44% owned by Donegal Mutual, with the remaining 56% publicly held and traded on the NASDAQ Exchange under the symbols DGICA and DGICB. At December 31, 2014, Donegal Mutual held approximately 36% and 76% of DGI's Class A and Class B shares, respectively. The following chart illustrates this relationship at December 31, 2014.


Southern Mutual Insurance Company NAIC #15172
Holds Surplus Note of
Donegal Mutual Insurance Company NAIC #13692 PA
Owner 52% of
Donegal Financial Services Corporation (Bank Holding Company)
Owner 48% of
Owner 44% of
Donegal Group Inc. Insurance Holding Company
Owner 100% of
Commonwealth Insurance Services, Inc. Insurance Holding Company
Owner 100% of
Conestoga Title Insurance Company NAIC #51209 PA
Owner 100% of
The Peninsula Insurance Company NAIC #14958 MD
Owner 100% of
Peninsula Indemnity Company NAIC #39900 MD
Owner 100% of
Southern Insurance Company of Virginia NAIC #26867 VA
Owner 100% of
Sheboygan Falls Insurance Company NAIC #15148 WI
Owner 100% of
Le Mars Insurance Company NAIC #14389 IA
Owner 100% of
Atlantic States Insurance Company NAIC #22586 PA
Owner 100% of
Michigan Insurance Company NAIC #10857 MI

RELATED PARTY TRANSACTIONS

Expense Reimbursement Agreement

The Company, and certain of its affiliates, entered into an Amended and Restated Services Allocation Agreement which went into effect on December 1, 2010. The agreement provides for Donegal Mutual to perform services in the areas of underwriting, claims, reinsurance, investments, information services, and personnel and professional services.

The Company reimburses Donegal Mutual for these services monthly. Total annual reimbursements relating to this agreement during the period under review were $5,072,359, $5,803,254, $6,049,061 and $6,715,706 for 2011, 2012, 2013 and 2014, respectively.

Tax Sharing Agreement

The Company's federal income tax return, pursuant to a tax sharing agreement, is consolidated with DGI, Atlantic States Insurance Company, Le Mars Insurance Company, Michigan Insurance Company, The Peninsula Insurance Company, Peninsula Indemnity Company and Sheboygan Falls Insurance Company. The agreement provides for the terms and conditions for the calculation, payment and any subsequent adjustments of each party's tax liability.

Reinsurance and Retrocession Agreement

Effective July 1, 1996, the Company entered into a reinsurance and retrocession agreement with Donegal Mutual. This agreement provides that the Company will cede and Donegal Mutual will accept 100% of the Company's net losses incurred, including allocated loss adjusting expense incurred. Thereafter, Donegal Mutual will retrocede and the Company will accept 100% of those same net incurred losses assumed by Donegal Mutual. The agreement does not transfer risk; therefore, despite its name, the agreement is not a true reinsurance agreement. The primary purpose of the agreement is to allow the Company to obtain the same A.M. Best rating as Donegal Mutual. If a reinsurance agreement does not transfer insurance risk, all or part of the agreement shall be accounted for and reported utilizing deposit accounting. However, since the net effect of the transactions involved pursuant to this agreement were totally offset and no funds were exchanged between the parties, the transactions are not reflected on the Company's financial statements. This information was included by the Company in the Notes to Financial Statements section of its 2014 Annual Statement.

Dividends

During the period of this examination, the Company paid dividends to DGI in the amount of $4,000,000 in 2014. This dividend did not constitute extraordinary dividends, and thus did not require prior approval from the Commission.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company is a named insured on a financial institution bond providing fidelity coverage with a single loss limit of $2,000,000, subject to a single loss deductible of $50,000, and subject to a $2,000,000 aggregate limit of liability. This coverage is also provided for forgery or alteration, computer systems fraud, and trading loss. Additionally, the Company had other property and liability coverage in force at December 31, 2014.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in the Commonwealth of Virginia to transact the business of fire, miscellaneous property, farmowners' multiple peril, homeowners' multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation–employers' liability, liability other than automobile, automobile liability, automobile physical damage, aircraft liability, air physical damage, fidelity, surety, glass, burglary and theft, boiler and machinery and water damage.

The Company is also licensed in Alabama, Delaware, District of Columbia, Georgia, New York, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee and West Virginia. The primary concentration of business is in Virginia, Georgia and Tennessee The Company does not currently write business in the District of Columbia, New York, Ohio and West Virginia.

Applications for insurance are submitted through a network of independent agents in the Company's operating area. Policies may be issued by the home office or by the agent. Commissions vary between 3% and 20%, based on the line of business. Agents also participate in contingent commission plans, provided they meet minimum premium thresholds and fall within certain loss ratio parameters.

GROWTH OF THE COMPANY

The following data, obtained from annual statements and from examination reports, indicates the growth of the Company for the ten-year period ended December 31, 2014:

Year	Admitted Assets	Liabilities	Common Capital Stock	Gross Paid In eand Contributed Surplus	Unassigned Funds
2005	$117,481,245	$60,678,474	$2,350,000	$46,767,585	$7,685,186
2006	123,610,567	61,408,631	2,350,000	46,767,585	13,084,351
2007	130,797,616	66,290,342	2,350,000	46,767,585	15,389,689
2008	135,145,954	70,873,517	2,350,000	46,767,586	15,154,851
2009	134,338,032	69,818,207	2,350,000	46,767,586	15,402,239
2010	139,398,689	75,789,059	4,230,000	46,767,586	12,612,044
2011	137,669,606	76,793,513	4,230,000	46,767,586	9,878,507
2012	137,203,400	78,362,341	4,230,000	46,767,586	7,843,473
2013	132,039,250	69,336,818	4,230,000	46,771,387	11,701,045
2014	132,755,140	72,693,695	4,230,000	46,885,116	8,946,329

	Premiums Earned	Loss and Loss Adjustment Expenses Incurred	Other Underwriting Expenses	Net Underwriting Gains or (Losses)
2005	$55,423,131	$34,188,126	$18,726,781	$2,508,224
2006	58,306,181	35,883,960	19,592,802	2,829,419
2007	63,050,804	38,530,808	22,942,897	1,577,099
2008	71,624,346	51,059,144	24,609,339	(4,044,137)
2009	70,487,054	56,146,460	22,454,311	(8,113,717)
2010	69,648,633	56,691,045	22,693,596	(9,736,008)
2011	71,564,030	60,621,920	22,849,626	(11,907,516)
2012	75,235,598	60,947,430	23,455,653	(9,167,485)
2013	65,934,291	45,656,372	19,210,081	1,067,838
2014	63,231,954	43,990,797	20,916,147	(1,674,990)

REINSURANCE

As of December 31, 2014, the Company was a named reinsured on the following reinsurance agreements placed through Guy Carpenter & Company, LLC, a reinsurance intermediary, except where noted. These agreements are described briefly as follows:

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Multi-Line Excess of Loss*	Property	$500,000 each risk each loss	$500,000 each risk each loss, $1,500,000 each occurrence
Multi-Line Excess of Loss*	Casualty	$500,000 every loss occurrence	$500,000 each risk each loss, $1,500,000 each occurrence
Multi-Line Excess of Loss*	Property and Casualty Combination	$500,000 limited to one property loss combined with a casualty loss	$1,500,000 ultimate net loss
Underlying Property Catastrophe Excess Of Loss*	Property	$1,500,000 each and every loss occurrence	$3,50,000 in excess of $1,500,000 any one loss occurrence

* Agreement executed directly with the Company's ultimate parent, Donegal Mutual.

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Property Per Risk Excess of Loss	Property	$1,000,000 any one risk each and every loss	100% of the ultimate net loss in excess of $1,000,000 any one risk in respect of each such loss; the limit of liability of the reinsurer is $1,500,000 any one risk any one loss, subject to a loss occurrence limit of $3,000,000
	Excess of Original Policy Limits, Extra Contractual Obligations and Loss Adjustment Expenses, including Declaratory Judgment Expenses, for risks with policy limits of $2,500,000 or less	$2,500,000	$300,000 each risk excess of $2,500,000
Per Person Excess of Loss	Pennsylvania Extraordinary Medical Benefit Coverage written under Automobile Insurance	$100,000 each person each and every loss occurrence	$900,000 in excess of $100,000 per person per occurrence

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Per Occurrence Excess of Loss	Pennsylvania Extraordinary Medical Benefit Coverage written under Automobile Insurance	$200,000 ultimate net loss each and every occurrence	$800,000 per occurrence in excess of $200,000 per occurrence
Workers' Compensation Excess of Loss	Workers' Compensation	$1,000,000 ultimate net loss each and every occurrence	$9,000,000 ultimate net loss each and every loss occurrence in excess of $1,000,000
First Property Catastrophe Excess of Loss	Property	$5,000,000 ultimate net loss each and every loss occurrence	100% of the ultimate net loss in excess of $5,000,000 each and every loss occurrence, up to $10,000,000 each and every loss occurrence
Second Property Catastrophe Excess of Loss	Property	$15,000,000 ultimate net loss each and every loss occurrence	100% of the ultimate net loss in excess of $15,000,000 each and every loss occurrence, up to $20,000,000 each and every loss occurrence

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Third Property Catastrophe Excess of Loss	Property	$35,000,000 ultimate net loss each and every loss occurrence	The ultimate net loss in excess of $35,000,000 each and every loss occurrence, up to $65,000,000 each and every loss occurrence
First Casualty Excess of Loss	Casualty (to include Multiple Peril, General Liability, Workers' Compensation and Automobile)	$1,000,000 each and every loss occurrence	The ultimate net loss in excess of $1,000,000 each and every loss occurrence up to $2,000,000 each and every loss occurrence
Second Casualty Excess of Loss	Casualty (to include Multiple Peril, General Liability, Workers' Compensation and Automobile)	$3,000,000 each and every loss occurrence	The ultimate net loss in excess of $3,000,000 each and every loss occurrence up to $2,000,000 each and every loss occurrence
Third Casualty Excess of Loss	Casualty (to include Multiple Peril, General Liability, Workers' Compensation and Automobile)	$5,000,000 each and every loss occurrence	The ultimate net loss in excess of $5,000,000 each and every loss occurrence up to $10,000,000 each and every loss occurrence

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Fourth Casualty Excess of Loss	Casualty (to include Multiple Peril, General Liability, Workers' Compensation and Automobile)	$15,000,000 each and every loss occurrence	The ultimate net loss in excess of $15,000,000 each and every loss occurrence up to $25,000,000 each and every loss occurrence
Fifth Casualty Excess of Loss	Casualty (to include Multiple Peril, General Liability, Workers' Compensation and Automobile)	$40,000,000 each and every loss occurrence	The ultimate net loss in excess of $40,000,000 each and every loss occurrence up to $10,000,000 each and every loss occurrence

Effective July 1, 1996, the Company entered into a reinsurance and retrocession agreement with Donegal Mutual. This agreement provides for Donegal Mutual to accept 100% of the Company's net losses incurred, including allocated loss adjusting expense incurred. Donegal Mutual then retrocedes and the Company accepts 100% of the net incurred losses assumed by Donegal Mutual. This agreement provides for no risk transfer.

The Company also has in place various facultative reinsurance agreements, each negotiated directly with a separate reinsurer. These agreements provide for umbrella and commercial property coverage.

All of the above agreements contain an insolvency clause and, where applicable, a guarantee of the intermediary's credit.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2010 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The Examination was conducted by the Pennsylvania Department of Insurance on the Association Plan with Pennsylvania acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

Insurer	**Domiciliary Sate**
Atlantic States Insurance Company	Pennsylvania
Conestoga Title Insurance Company	Pennsylvania
Donegal Mutual Insurance Company	Pennsylvania
Michigan Insurance Company	Michigan
Le Mars Insurance Company	Iowa
The Peninsula Insurance Company	Maryland
Peninsula Indemnity Company	Maryland
Sheboygan Falls Insurance Company	Wisconsin
Southern Mutual Insurance Company	Georgia

The services of Merlinos & Associates, Inc. were employed to provide an actuarial analysis as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2014.

The services of Baker Tilly Virchow Krause, LLP (Baker Tilly) were employed to perform a general assessment of the internal controls of the Company's information systems and significant business processes as deemed necessary.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2014, a statement of income for the period ending December 31, 2014, a reconciliation of surplus for the period under review, and a statement of cash flow for the period ending December 31, 2014. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$98,184,915		$98,184,915
Real estate	1,511,060		1,511,060
Cash and short-term investments	6,298,440		6,298,440
Other invested assets	213,636	213,636	
Investment income due and accrued	731,447		731,447
Uncollected premiums and agents' balances in the course of collection	818,085	255,027	563,058
Deferred premiums, agents' balances and installments booked but deferred and not yet due	21,184,185		21,184,185
Amounts recoverable from reinsurers	93,383		93,383
Net deferred tax asset	4,912,273	788,775	4,123,498
Guaranty funds receivable or on deposit	58,168		58,168
Electronic data processing equipment and software	6,986		6,986
Furniture and equipment	39,773	39,773	
Totals	$134,052,351	$1,297,211	$132,755,140

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$27,051,171
Reinsurance payable on paid losses and loss adjustment expenses		137,066
Loss adjustment expenses		4,782,000
Commissions payable, contingent commissions and other similar charges		875,000
Other expenses		1,392,020
Taxes, licenses and fees		1,187,898
Current federal income taxes		734,186
Unearned premiums		34,832,718
Advance premium		615,194
Dividends declared and unpaid:		
Policyholders		245,000
Ceded reinsurance premiums payable		682,213
Amounts withheld or retained by company for account of others		156,987
Remittances and items not allocated		2,242
Total liabilities		$72,693,695
Common capital stock	$4,230,000	
Gross paid in and contributed surplus	46,885,116	
Unassigned funds (surplus)	8,946,329	
Surplus as regards policyholders		60,061,445
Totals		$132,755,140

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$63,231,954
Deductions:	
Losses incurred	$37,825,915
Loss expenses incurred	6,164,882
Other underwriting expenses incurred	20,916,147
Total underwriting deductions	$64,906,944
Net underwriting loss	($1,674,990)

INVESTMENT INCOME

Net investment income earned	$3,264,703
Net realized capital gains	111,723
Net investment gain	$3,376,426

OTHER INCOME

Finance and service charges not included in premiums	$430,968
Total other income	$430,968
Net income before dividends and federal income taxes	$2,132,404
Dividends to policyholders	421,539
Net income before federal income taxes	$1,710,865
Federal income tax incurred	723,530
Net income	$987,335

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2011	2012	2013	2014
Surplus as regards policyholders, December 31, previous year	$63,609,630	$60,876,093	$58,841,059	$62,702,432
Net income	$1,795,195	($1,539,943)	$4,195,635	$987,335
Change in net unrealized capital gains or (losses)	(4,661,532)	(260,845)		(24,073)
Change in net deferred income tax	(296,416)	(59,256)	(310,460)	809,790
Change in nonadmitted assets	(85,254)	(174,990)	(27,603)	(527,768)
Dividends to stockholders				(4,000,000)
Aggregate write-ins for gains or losses in surplus	514,470		3,801	113,729
Change in surplus as regards policyholders for the year	($2,733,537)	($2,035,034)	$3,861,373	($2,640,987)
Surplus as regards policyholders, December 31, current year	$60,876,093	$58,841,059	$62,702,432	$60,061,445

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$63,222,301
Net investment income	3,508,698
Miscellaneous income	430,968
Total	$67,161,967
Benefits and loss related payments	$37,975,562
Commissions, expenses paid and aggregate write-ins for for deductions	26,402,276
Dividends paid to policyholders	322,539
Federal income taxes paid	464,513
Total	$65,164,890
Net cash from operations	$1,997,077

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$15,426,660
Stocks	9,599,087
Other invested assets	67,342
Total investment proceeds	$25,093,089
Cost of investments acquired (long-term only):	
Bonds	$20,071,558
Other invested assets	48,493
Total investments acquired	$20,120,051
Net cash from investments	$4,973,038

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($4,000,000)
Other cash applied	(49,328)
Net cash from financing and miscellaneous sources	($4,049,328)
Net change in cash and short-term investments	$2,920,787

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$3,377,653
End of year	6,298,440
Net change in cash and short-term investments	$2,920,787

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer C. Blizzard, CFE, and Mario A. Cuellar, CFE, of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr. AIAF, CFE, CPCU
Insurance Principal Financial Analyst
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

SOUTHERN
INSURANCE COMPANY of VIRGINIA
A Donegal Insurance Group Company

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(804) 266-7012
www.donegalgroup.com

April 29, 2016

Mr. David H. Smith, Chief Examiner
Commonwealth of Virginia
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:

I am writing in response to your letter dated April 25, 2016 in reference to the Examination Report as of December 31, 2014 for Southern Insurance Company of Virginia.

We hereby acknowledge receipt of the report and accept the report as presented. Please provide five (5) copies of the final report for our present and future needs.

Thank you for your attention to this matter. If any questions arise, please feel free to contact me.

Sincerely,

Jeffrey D. Miller
Executive Vice President
and Chief Financial Officer