Karin Daly – Vice President, The Equity Group Inc.

Good morning and thank you for joining us today. This morning, Donegal Group issued its Third Quarter 2022 Earnings Release outlining its results. The release and a supplemental investor presentation are available in the Investor Relations section of Donegal's website at www.donegalgroup.com. Please be advised that today's conference was pre-recorded and all participants are in listen-only mode. After management remarks, there will be a question-and-answer session for questions submitted ahead of the call.

Speaking today will be President and Chief Executive Officer, Kevin Burke; Chief Financial Officer, Jeff Miller; Chief Underwriting Officer, Jeff Hay; and Chief Investment Officer, Tony Viozzi.

Please be aware that statements made during this call, that are not historical facts, are "forward-looking statements" and necessarily involve risks and uncertainties that could cause actual results to vary materially. These factors can be found in Donegal Group's filings with the Securities and Exchange Commission, including its annual report on Form 10-K and quarterly reports on Form 10-Q. The Company disclaims any obligation to update or publicly announce the results of any revisions that they may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

With that, it is my pleasure to turn it over to Mr. Kevin Burke. Kevin?

Kevin Burke – President and Chief Executive Officer

Thank you Karin, and welcome everyone.

I will start the call with an update on our strategic initiatives and then ask Jeff Miller to provide details on our financial results for the third quarter of 2022. Jeff Hay will then highlight our commercial and personal lines segment results; followed by Tony Viozzi with an update on activities and results within our investment portfolio. I will then provide a few closing remarks before we address questions that were submitted to us.

As part of our ongoing state strategy initiatives, we continue to evaluate market opportunity, industry performance and outlook to refine our strategy in each state and line of business. We are pleased with the successful execution of this strategy during the third quarter of 2022, as premiums in states we have identified for profit improvement have, as planned, declined by double-digit percentages, while premiums in growth-targeted states increased by more than twice our overall average growth rate while generating loss ratios that were well below our average loss ratio. We continue to realign resources and further refine our state strategies to focus on specific geographical areas and classes of business we believe represent the most promising opportunities for profitable growth. Based

on results to date, we expect the ongoing shift to accelerate underwriting profit improvement over the next few years.

Our new personal lines products and agency portal are now available in 9 of the 10 states in which we offer personal lines, and we remain on schedule to launch the new products in Michigan in early 2023. Personal lines new business production nearly doubled during the quarter compared to the third quarter of 2021, which is slightly ahead of our projections. While the launch of the new personal lines products has been successful in terms of technical execution and market acceptance, we are actively managing new business volumes through rate and comparative rater adjustments to limit growth until we have enough credible data to give us full confidence in the pricing and performance of these new products, particularly in light of current inflationary challenges.

We are making significant strides in our ongoing modernization initiatives, which we believe are positioning us well to excel in the years ahead. We are in the early testing phases of the next deployment, which will include a brand new BOP product and the migration of our commercial auto and commercial umbrella lines to our new operating platform, which will enhance straight-through processing capabilities to increase our operating efficiency and, more importantly, allow us to more effectively compete for smaller commercial accounts. We expect to roll out the new commercial lines capabilities in 25 states starting in the second quarter of 2023.

We are very proud of our dedicated team that has continued to work tirelessly to deliver new products and modernized technology solutions. Our ongoing business transformation goes far beyond a technical infrastructure upgrades. We are truly modernizing our products, processes and capabilities to allow us to compete effectively for profitable accounts that will help us achieve and sustain excellent financial performance.

I would like to take a moment to make a few comments regarding Hurricane Ian. First of all, we are saddened by the loss experienced by individuals and families in Florida and other damaged areas. 2ur hearts go out to all of those recovering from that loss. We do not write insurance in the state of Florida, and we were fortunate in that we had nominal property exposures in the areas of the greatest impact as the storm made its second landfall in South Carolina. We incurred a small number of claims, primarily from Pennsylvania to Virginia, as the remnants of the storm moved into the mainland. That said, we do expect Hurricane Ian losses to result in higher property reinsurance rates, and we have been in discussions with our reinsurance intermediary and many of our reinsurance business partners over the past several weeks to update them on our strategies and CAT risk management practices as we prepare for the 2023 reinsurance renewal. All of our reinsurance treaties renew on January 1, and we will be exploring various options to cost-effectively optimize our reinsurance purchases.

At this point, I'll turn the call over to Jeff Miller for a review of our financial results for the third quarter.

Jeff Miller – Chief Financial Officer

Thank you, Kevin. We continued to see modest premium growth in the third quarter, which was by design in the current environment. Net premiums written for the third quarter grew by 4.7% to $206 million, with the growth primarily related to strong retention results, premium rate increases that averaged 10.5% for all lines other than workers' compensation, and new business writings.

Quarterly underwriting results were impacted by typical third-quarter severe weather activity in our regions and claim severity for large fire losses that exceeded historical norms. The combined ratio was 109.6% for the third quarter of 2022, compared to 107.7% for the prior-year quarter. Claims from weather events and large fires are generally costing more to settle due to ongoing inflationary pressures on repair costs and duration, and we also noted increases in our core loss ratios for the property lines of business that reflect the impact of inflation on smaller claims as well.

As Kevin mentioned, our results did not reflect any material impact from Hurricane Ian. In fact, we did not incur significant losses from any single catastrophe event during the third quarter, but the accumulation of claims from smaller events resulted in total weather-related losses of $19.4 million, or 9.4 percentage points on the loss ratio, which was in line with our previous five-year average weather loss ratio impact for the third quarter.

Our non-weather loss ratio was 66.2%, elevated relative to our target but in line with 66.3% for the third quarter of 2021. Compared to the prior-year quarter, modest core loss ratio improvement and favorable reserve development were offset by higher large fire losses. We experienced an unprecedented quarterly impact from fire losses in the third quarter, totaling $17.4 million, or 8.4 points on the overall loss ratio, compared to $12.7 million, or 6.5 points on the loss ratio for the prior-year quarter. Similar to many other insurance carriers, we have experienced an elevated fire loss trend since early 2021. While the frequency of fire losses has not significantly increased compared to pre-pandemic periods, severity has accelerated. Current inflationary increases in repair and replacement costs are certainly driving higher severity when major losses occur, and Jeff Hay will provide more information about what we are doing to address this trend later in the call.

We continued to experience favorable net development of reserves for losses incurred in prior accident years, totaling $6.2 million, or a 3.0-point reduction in the third quarter loss ratio, compared to $4.3 million, or a 2.2-point reduction in the loss ratio, for the prior-year third quarter. Our insurance subsidiaries experienced favorable

development primarily related to reserves for accident years 2020 and 2019 in the commercial multi-peril, commercial automobile and personal automobile lines of business.

The expense ratio increased to 33.4% for the third quarter of 2022, compared to 31.5% for the third quarter of 2021. We primarily attribute the increase in expenses to higher technology costs related to our ongoing systems modernization initiatives.

The combination of all of the factors I discussed, along with pre-tax net investment losses of $2.4 million, contributed to a net loss of $10.4 million for the quarter. Excluding the net investment losses, we had an operating loss of $8.5 million, or $0.27 per Class A share, for the third quarter. As we continue to work to mitigate the macro-economic headwinds that are outside our control, we expect our ongoing premium rate increases and the effect of ongoing strategic initiatives will lead to improved profitability in future periods.

From a capital perspective, on October 20, 2022, we declared regular quarterly cash dividends of 16.5 cents per share for our Class A common stock and 14.75 cents per share for our Class B common stock, which are payable on November 15, 2022 to stockholders of record as of the close of business on November 1, 2022.

With that, let me turn it to Jeff Hay to provide more details about our commercial and personal lines segment results.

Jeff Hay – Chief Underwriting Officer

Thank you, Jeff. I will start with our commercial lines segment where we are generally pleased with the controlled growth momentum in recognition of the challenging economic environment. Third quarter net premiums written increased 2.0% for the segment, which does reflects premium reductions in several underperforming states. As Kevin mentioned, we are growing at a faster rate in states we have targeted for growth, and ongoing execution of our state strategies will help sustain favorable loss ratio results while continuing to promote growth in our targeted markets. We generated lower levels of new business versus our business plan goals during the quarter, which is consistent with previous quarters. Renewal premium retention for the quarter held strongly in the high-80s across most of our commercial lines of business and regions. As a reminder, retaining these well-performing accounts drives margin expansion and assists in our efforts to keep up with inflationary pressures. Given the ongoing uncertainty surrounding loss trends, we continue to carefully review new business opportunities to ensure we can obtain adequate pricing.

During the quarter, commercial renewal rate increases averaged 10.6%, excluding workers' compensation which does continues to feel pressure from filed bureau loss costs. This average rate increase represents an incremental increase from the second quarter of 2022 across all major lines of business and policy size bands, and we expect to maintain our current rate posture as we enter 2023. Last quarter, I mentioned an initiative to introduce more refined rate strategies to deliver guidance to the commercial underwriters on price adequacy for each individual risk to allow them to pursue higher rate increases on policies our models have identified for margin improvement across the business. We began this approach in Commercial Auto, which continued to provide positive results in the third quarter, as we achieved stronger rate increases in our lowest margin business and higher retention levels in our highest margin business.

The commercial lines statutory combined ratio for the third quarter of 2022 was 112.1%, compared to 109.4% for the prior-year quarter. The deterioration in our profitability was primarily attributable to significant fire losses which accounted for approximately 10.4 points on the commercial loss ratio, compared to 7.1 points in the third quarter of 2021. We have been evaluating correlations across covered peril but have not yet found anything significant, and, as mentioned earlier, this trend appears to be an industry phenomenon. To give further color on the trend for Donegal, from 2018-2020, fire losses accounted for approximately 6% of our property losses. Since the pandemic, fire losses ticked up to approximately 10%. Now that we have several years of increased fire loss data, we will be diving deeper to determine if there are any risk factors contributing to the elevated trend that should be considered in our underwriting process. The increase is partially driven by increases in the costs and duration of repairs due to supply and labor shortages, and that inflationary impact is also evident in most of our major lines of business, with core severity increasing considerably in our property and auto physical damage coverages. We have been and will remain diligent in determining the current value of property exposures as we price new business and renewal policies, and we are using external data sources that go down to a zip-code level when determining current property values. On the casualty side, we are beginning to see a modest uptick in severity for workers' compensation indemnity as employers are increasing pay rates for their workers, but claim trends for liability coverages otherwise remain fairly consistent. In summary for commercial lines, our continuing double-digit rate achievement with strong retention bodes well for future margin expansion as the higher rate earns through our book.

Moving on to personal lines, we are continuing to build momentum after the introduction of our new personal lines product suite earlier in the year, with net premiums written increasing 8.5% for the segment in the quarter. As Kevin mentioned earlier, the new policy management system rollout continues to go very smoothly, and our new agency portal, product pricing and enhanced policy features have been well received by our agents. Kevin also mentioned that we are closely monitoring the success of these products in the marketplace to ensure overall rate adequacy

and refined segmentation. We have already made rate and segmentation adjustments in response to our learnings from our extensive analytical and monitoring tools.

And the new product rollout continues, we are also diligently working to maintain the profitability of our legacy renewal book of business. Policy retention in the quarter was in the high-80s, across both homeowners and personal auto. As a reminder, we have at least two planned rate change revisions in every state where we are offering legacy personal lines products, which enables us to be nimble and respond to the most recent trends. Cumulative rate filings continue to be in the high-single-digit range. Similar to commercial properties, we continue to adjust our automated coverage renewal increase percentages to account for exposure changes in home property values.

Our personal lines statutory combined ratio was 107.8% for the third quarter, compared to 105.2% in the same period last year, driven primarily by higher inflationary impact on the homeowners core loss ratio. Homeowners property frequency remains in-line with our historical trend rate, but we are seeing increases in severity as a result of inflationary pressures on both weather and non-weather property losses. High material prices and labor shortages continue to cause delays and higher costs to repair damages. Personal auto claim frequency has trended upward as miles driven are now close to pre-pandemic levels. Our personal auto core loss ratio improved slightly from the third quarter of 2021, and we expect the core loss ratios in both major personal lines of business will continue to improve as rate revisions are earned through our book. We did not see any increase in home fire losses in the third quarter, but they are elevated in 2022 on a year-to-date basis. Similar to my comments on Commercial Lines, fire losses accounted for approximately 7% of our property losses historically but have ticked up to approximately 12% since the pandemic. Again, we have not found any correlations in these claims, and it appears to be an industry-wide phenomenon.

I will now turn the call to Tony Viozzi, Chief Investment Officer, for an investment update. Tony?

Tony Viozzi – Chief Investment Officer

Thanks Jeff. During the third quarter, we continued to see similar trends to the first half of the year. While equity markets declined for the third consecutive quarter, interest rates continued their rapid move higher, coupled with widening credit spreads. We are pleased to report that for the third consecutive quarter, we have been able to increase our average investment yield, due to modest asset allocation adjustments that allowed us to take advantage of rising rates and widening spreads. We are also pleased to report that during the third quarter, our average reinvestment yield for new money investments exceeded that of the maturities, calls, and MBS cash flow we received.

Total investments increased by $3.9 million from December 31, 2021, as new funds invested were largely offset by $64.0 million of unrealized losses within our available-for-sale fixed-income portfolio. While the market value of our bonds declined as a result of the increase in market interest rates, we generally expect to hold all of our bonds to maturity and expect to recover the full par value at that time.

Net investment income of $8.6 million increased 10.4% from the third quarter of 2021 as a result of additional dollars invested as well as an improvement in portfolio yield. The average investment yield increased 19 basis points from a year ago to 2.66% for the third quarter. We maintain our expectations for higher investment income for the remainder of 2022 and throughout 2023. This projection is based on our expectation of increasing cash equivalent rates and stable fixed income rates going into next year. We are not expecting a retrenchment in rates until we see stabilization of inflation on a national level.

Net investment losses of $2.4 million for the third quarter of 2022 primarily reflect unrealized losses in the fair value of equity securities held as of September 30, due to ongoing volatility in the equity markets. Despite the modest loss on equities during the quarter, we were pleased to be able to say that we slightly outperformed the S&P 500 Index due to our defensive posture.

As interest rates increase, the market value of our available-for-sale bonds simultaneously decreases, driving a tax-adjusted reduction in our stockholders' equity and thus further impacting our book value. This impact, coupled with the business drivers mentioned earlier in the call, contributed to a $2.10 decline in book value per share from December 31, 2021, to $14.85 as of September 30, 2022.

I will now turn it back to Kevin for closing remarks.

Kevin Burke – President and Chief Executive Officer

Thanks, Tony. As we wrap up our prepared remarks, I want to emphasize that we have accomplished significant strides in our ongoing business transformation despite the many headwinds in the current environment, and we are well into planning for continued strategy execution in 2023. While the third quarter results were impacted by ongoing economic and significant large fire losses, we expect to see profit improvement in the near term. As higher premium rates begin to positively impact earned premiums and loss costs stabilize in future periods, we believe the execution of our strategic plan will prove successful and provide increased shareholder value. As always, we want to thank our employees and shareholders for your continuing support.

At this time, I'll ask Karin, our Investor Relations consultant and Vice President at The Equity Group, to moderate our question-and-answer session.

Question & Answer

Karin Daly – Vice President, The Equity Group Inc.

Thank you, Kevin. I'd like to take a moment to outline the format for the question-and-answer session. Along with the announcement of Donegal's third quarter 2022 earnings and webcast schedule, we requested and received questions from interested parties in advance. While we have worked answers to some of these questions into our prepared remarks, where appropriate, there were a few questions that we will address directly:

Karin Daly – Vice President, The Equity Group Inc.

The first question relates to fraud, particularly related to large fire losses – what measures are in place to investigate and mitigate fraudulent claims?

Kevin Burke - President and Chief Executive Officer

Thanks, Karin; I am happy to provide some background on that topic. Donegal employs a staff of professionals in our Special Investigation Unit that is dedicated to supporting the claims investigation process by identifying potential fraud indicators and investigating questionable or fraudulent claims. Additionally, we submit potentially fraudulent claims to law enforcement and/or state regulatory authorities and fully cooperate with their independent investigations. Our investigative staff is comprised mostly of former law enforcement personnel with significant years of experience in state and local law enforcement. We are vigilant in seeking legal and financial remedies when we identify a fraudulent claim.

Karin Daly – Vice President, The Equity Group Inc.

OK, thanks. The next question relates to Hurricane Ian – Donegal experienced nominal losses, but of the claims you received, can you describe the nature of those claims? Were they caused by heavy rain or wind-related?

Jeff Hay – Chief Underwriting Officer

Yeah, this is Jeff Hay. As Jeff Miller mentioned earlier, we received a small number of claims from Virginia and Pennsylvania, and they were generally minor claims related to superficial wind damage to properties and water damage in basements for which we have sub-limit coverage by endorsement on homeowner policies. Hurricane Ian was basically a non-event for us.

Karin Daly – Vice President, The Equity Group Inc.

Thank you. The next question relates to large fire losses – can you provide more details of the large fire losses, and how reinsurance retention fits in with the large losses, if at all?

Jeff Miller – Chief Financial Officer

This is Jeff Miller. We incurred 46 fire claims that exceeded $50,000 in damages in the third quarter, compared to 43 in the prior-year third quarter, but the average severity increased by 25% to the highest level we have experienced in recent years. The fires were heavily weighted toward commercial fires, which accounted for $13.3 million of the $17.4 million total, which is net of reinsurance recoveries. Three of the fires triggered reinsurance recoveries above our $2 million per risk retention. Based on current reserves on those three claims, we will recover approximately $7.5 million in reinsurance for third quarter fire losses.

Karin Daly – Vice President, The Equity Group Inc.

Great. Thank you, Jeff. The next question relates to inflationary impacts: Are you seeing significant medical inflation driving an impact or is inflation primarily related to cost of materials and labor rate?

Jeff Hay – Chief Underwriting Officer

Jeff Hay here, again. As I discussed in my prepared remarks, we are primarily seeing inflation impact on property and auto physical damage claims. I recently saw a Verisk report that estimated a 9.3% increase in reconstruction costs, including materials and labor, from October 2021 to October 2022, with both residential and commercial reconstruction costs increasing in every state across the country. We have also experienced increases in severity on bodily injury losses in our auto lines. Some of that increase is certainly due to the increase in the cost of medical care and hospital services that has outpaced overall inflation, but we also attribute the severity increase to the fact that we have fewer smaller bodily injury claims as the advanced safety features in newer cars have reduced the severity of injuries from minor accidents. We have not seen as much of an impact on medical inflation on workers' compensation claims, as our severity levels have remained fairly consistent over the past several years for that line.

Karin Daly – Vice President, The Equity Group Inc.

Along those same lines, we received questions asking for an update on rate adequacy by line of business and whether you have had any difficulty obtaining regulatory approval for rate increases?

Jeff Hay – Chief Underwriting Officer

Yes, as far as rate adequacy by line of business goes, we expect that the rate increases we have continued to push across all lines other than workers' compensation will lead to improved indications in some lines, but loss severity

and continuing increase in cost will result in deterioration of indications in others, especially in our property and auto physical damage lines. In commercial lines, our rate indications have been generally stable overall with planned premium rate increases for 2022 expected to maintain pace with, or in some cases even exceed, loss trends. We are still playing catch-up in our legacy personal lines book, as the rapid acceleration of inflation hit both the personal auto and homeowners indications fairly hard around this time last year. We expect to see improvement in the indications for both of those lines as a result of the consistent rate actions we implemented throughout 2022. But on the other hand, loss trends remain elevated, and it will likely take some additional time, perhaps late into 2023, before we can say that we believe rates in all lines are adequate.

From a regulatory perspective, it's important to note that we do not write personal lines in several more challenging, more regulatory states, such as Florida and California, where other carriers have mentioned difficulties obtaining approvals. While we routinely respond to questions and challenges with respect to our filings, we have generally been successful in obtaining regulatory approvals for the rate increases we have requested across the 10 states where we offer personal lines.

Karin Daly – Vice President, The Equity Group Inc.

The next question is on personal lines: the new personal lines products are on a 6-month policy, what is the current plan or expectation for the legacy renewal book? Jeff Hay?

Jeff Hay – Chief Underwriting Officer

Sure… To be clear, the 6-month terms apply only to our new personal auto policies. Most of our legacy personal auto policies have annual terms, and they will remain on annual terms at least until such time that we begin to convert our renewal policies to the new operating platform. We are just now beginning the planning for that conversion, so no firm decisions have been made with respect to policy terms we will offer for the legacy auto policies when they convert.

Karin Daly – Vice President, The Equity Group Inc.

Great, thank you. The next question relates to reserve development – can you provide details on prior year reserve development? And can you provide an update on your current reserve status or expectation going forward? Jeff Miller, do you want to handle these questions?

Jeff Miller – Chief Financial Officer

Yes, I'll be glad to provide those details. As I reported in my earlier comments, total favorable development in the third quarter was $6.2 million. For the major lines of business, we had $3.4 million favorable development in

commercial multi-peril, $2 million in personal auto, and $1.8 million in commercial auto, offset in part by $1.5 million adverse development in workers' compensation that was related to a large claim or two that developed beyond reserve expectations.

As far as our current reserve status and expectations going forward, our actuarially determined reserves have continued to increase throughout 2022 at a higher rate than our case reserves and earned premiums, and they are currently at the highest level in our company history. While the higher reserve levels are partially attributable to our shift to commercial lines, where we write higher limits and expect longer reserve duration for liability claims, our actuaries are also incorporating recent inflation trends in their estimation methods. Claim trends in recent years have been significantly disrupted by the impact of the pandemic and subsequent economic volatility, which adds uncertainty as our actuaries attempt to predict ultimate losses. We mention that uncertainty along with many other risk factors related to reserve estimates in our SEC filings. While those risks are heightened in the current environment, we believe our reserves are reasonable based upon on the actions we have taken to date in response to inflationary trends, the relatively short average duration of our reserve liabilities, and our consistent favorable reserve development over the past several years.

Karin Daly – Vice President, The Equity Group Inc.

Great, thank you. The next question relates to the investment portfolio – What percentage of Donegal's investment portfolio are fixed rate assets?

Tony Viozzi – Chief Investment Officer

Thanks Karin. This is Tony Viozzi, and I can take that question. Approximately 8% of our fixed income portfolio is classified as variable rate. While a smaller percentage of these bonds reprice daily, the majority are fixed to variable coupon bonds. With that being said, it is hard to quantify the income impact of an increase in rates, as most variable rate bonds are callable and get called away when rates rise to a certain level. Our strategy has been to manage the portfolio for cash flow to make sure we can reinvest funds from maturities and prepayments in a rising rate environment. I would expect to reinvest anywhere from 6 to 10 percent of the portfolio over the next 12 to 18 months due to bond cash flow from our laddering strategy.

Karin Daly – Vice President, The Equity Group Inc.

The final question is a follow-up on investments, do higher reinvestment yields on the bond portfolio provide a favorable impact on book value? If so, do you know how much of an increase we would see?

Tony Viozzi – Chief Investment Officer

Higher reinvestment yields will boost investment income, which will positively impact book value over time. The challenge is that because the market value of our bond holdings decline when rates rise, there is an immediate reduction in book value and it takes a long time to recover that decline through increases and investment income. That said, book value will increase over time, as our bond holdings get closer to their maturity dates and, of course, any material reduction in market rates at some point in the future would cause an immediate spike in book value. The confluence of these factors and the many uncertain factors in the economy as a whole makes predicting the investment portfolio impact on book value very difficult. We would want to emphasize that we focus on prudent portfolio risk management, laddering our bond portfolios, and focusing on market spreads to take advantage of opportunities to increase yield.

Karin Daly – Vice President, The Equity Group Inc.

Thank you, and that wraps up the questions received in advance of the call. If there are any further questions, please feel free to reach out to us. Thank you to all interested parties for submitting questions and listening in today. I will now turn it back to Kevin for any final remarks.

Kevin Burke – President and Chief Executive Officer

Thanks Karin. We look forward to providing updates next quarter on our ongoing strategic initiatives that we believe will ultimately lead to sustainable positive financial results in our go-forward results. We appreciate the ongoing support and thank you for joining us today.

Karin Daly – Vice President, The Equity Group Inc.

This now concludes the third quarter of 2022 earnings webcast. You may now disconnect.