



# **DONEGAL**<sup>®</sup>

**GROUP INC.**

NASDAQ: DGICA/DGICB  
[www.donegalgroup.com](http://www.donegalgroup.com)

**There when it matters most.**



# SAFE HARBOR

The Company bases all statements made in this presentation that are not historic facts on its current expectations. These statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and involve a number of risks and uncertainties. Actual results could vary materially. Factors that could cause actual results to vary materially include: the Company's ability to maintain profitable operations, the adequacy of the loss and loss expense reserves of the Company's insurance subsidiaries, business and economic conditions in the areas in which the Company operates, interest rates, competition from various insurance and other financial businesses, acts of terrorism, the availability and cost of reinsurance, adverse and catastrophic weather events, legal and judicial developments, changes in regulatory requirements, the Company's ability to integrate and manage successfully the insurance companies it may acquire from time to time and other risks the Company describes from time to time in the periodic reports it files with the Securities and Exchange Commission. You should not place undue reliance on any such forward-looking statements. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that it may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Reconciliations of non-GAAP data are included in the Company's news releases regarding quarterly financial results, available on the Company's website at [investors.donegalgroup.com](http://investors.donegalgroup.com).

# WHAT IS DONEGAL GROUP?

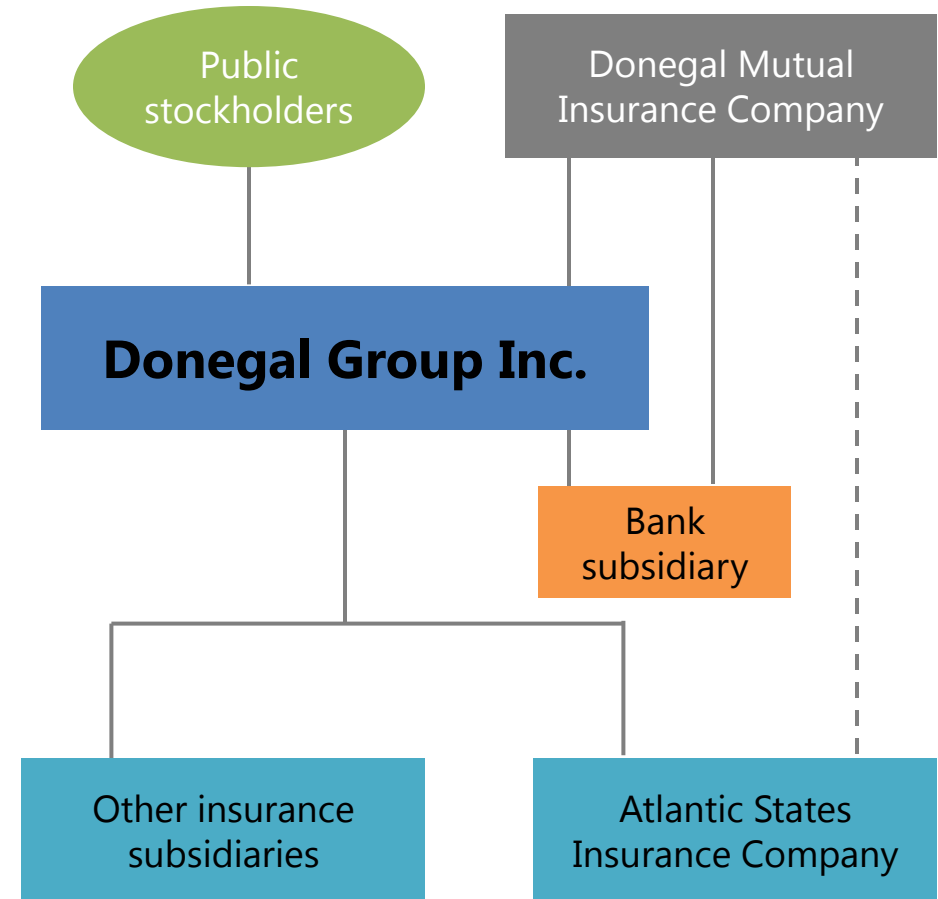
Insurance holding company with mutual affiliate pursuing an effective strategy in regional insurance markets

- Regional property and casualty insurance group
  - 21 Mid-Atlantic, Midwestern, New England and Southern states
  - Distribution force of approximately 2,400 independent agencies
  - Completed 10 M&A transactions between 1988 and 2010
- Interrelated operations and pooling agreement with Donegal Mutual since inception in 1986
- DGICA and DGICB trade on NASDAQ exchange (shares identical with the exception of voting and dividend rights)
  - Majority of equity holders in DGICA
  - Donegal Mutual holds majority voting control
- DGICA dividend yield of 3.3% at 3/31/2017

NASDAQ: DGICA/DGICB		
Corporate Headquarters	Marietta, Pennsylvania	
DGICA Share Description	21.6 million shares outstanding (Voting rights 0.1:1)	
DGICB Share Description	5.6 million shares outstanding (Voting rights 1:1)	
	At 3/31/2017	At 12/31/2016
Cash and Investments	\$994.2 million	\$970.1 million
Total Assets	\$1.66 billion	\$1.62 billion
Total Shareholders' Equity	\$446.7 million	\$438.6 million
Book Value Per Outstanding Common Share	\$16.43	\$16.21
DGICA Annual Dividend Per Share	\$0.56	\$0.55
Current Figures (DGICA)		
	At 3/31/2017	
Stock Price	\$17.62	
Price to Book Value	1.07x	
Price/Earnings (ttm)	20.0x	
Return on Equity (ttm)	5.5%	

# STRUCTURE PROVIDES STABILITY TO PURSUE SUCCESSFUL LONG-TERM BUSINESS STRATEGY

- Outperform industry in service, profitability and book value growth
- Drive revenues with organic growth and opportunistic affiliations
- Focus on margin enhancements and investment contributions

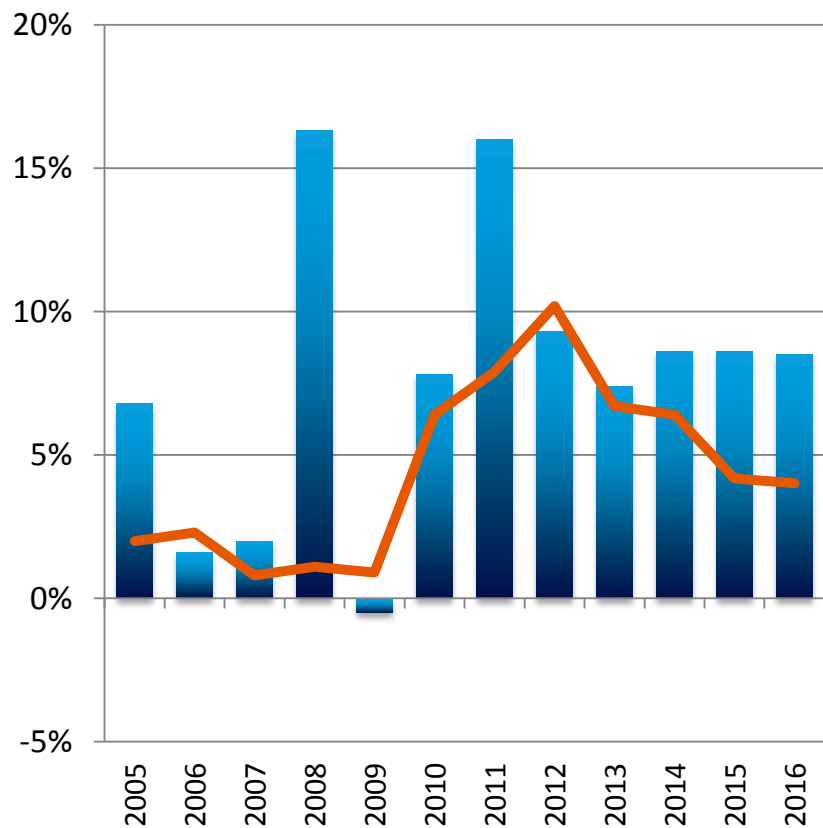


*(Detailed organizational chart included in Supplemental Information – see page 29)*

# OBJECTIVE: STEADY GROWTH AND PROFITABILITY

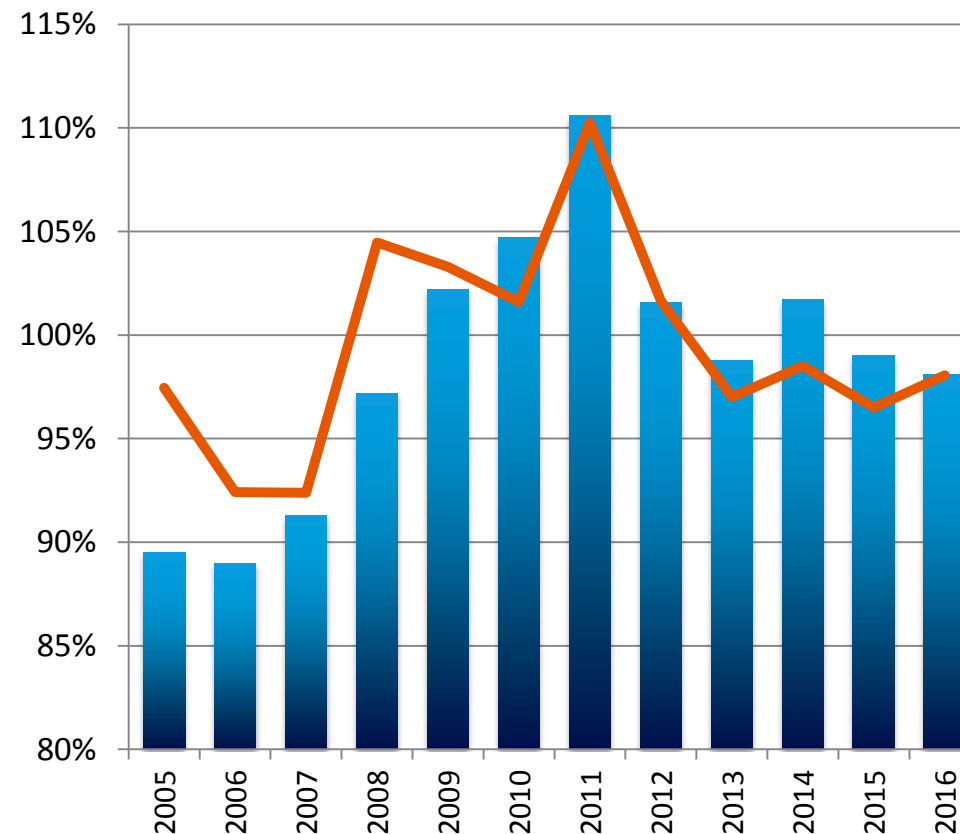
## Change in Net Written Premiums

DGI CAGR: 7.7% Peer CAGR: 5.1%



## GAAP Combined Ratio

DGI Avg: 98.6% Peer Avg: 99.5%



■ Donegal Group

— Peer Group\*

# Q1 FINANCIAL RESULTS: THREE MONTHS ENDED 3/31/2017

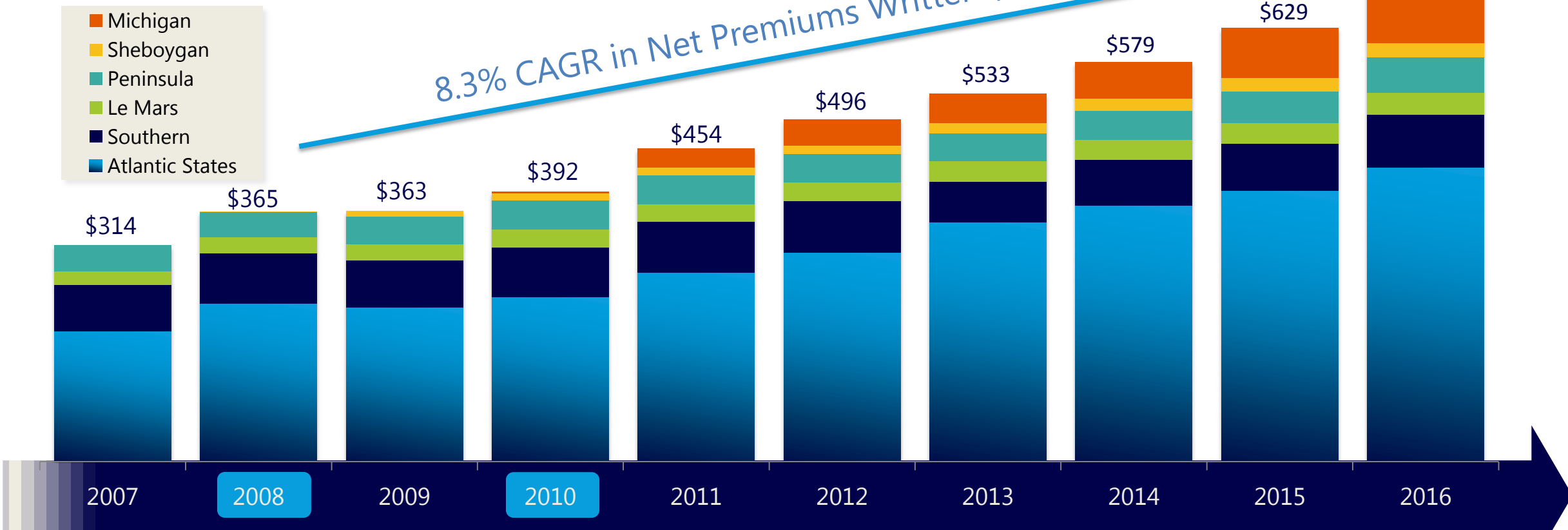
- 8.5% increase in net written premiums
  - Represents a combination of 9.6% growth in commercial lines net premiums written and 7.4% growth in personal lines net premiums written
- 99.6% statutory combined ratio\*
  - Continuing benefits from rate increases and underwriting initiatives offset by higher weather-related losses
- Book value per share of \$16.43, compared to \$16.21 at YE 2016

8.5% increase for 2016

*\* Reconciliations and definitions of non-GAAP data were included in our earnings press release available on our website*

# DRIVE REVENUES WITH ORGANIC GROWTH AND OPPORTUNISTIC AFFILIATIONS

8.3% CAGR in Net Premiums Written (6.6% organic)



USD in millions

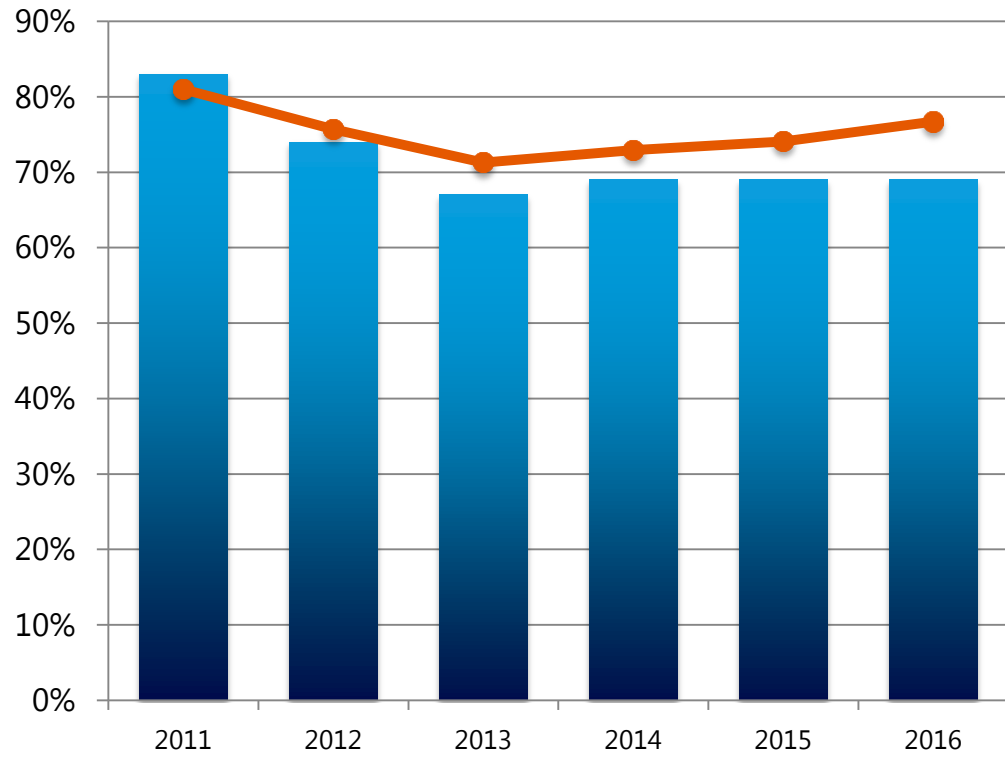
**December 2008**  
Acquired Sheboygan Falls  
Implemented pooling change

**December 2010**  
Acquired Michigan  
Implemented quota share strategy

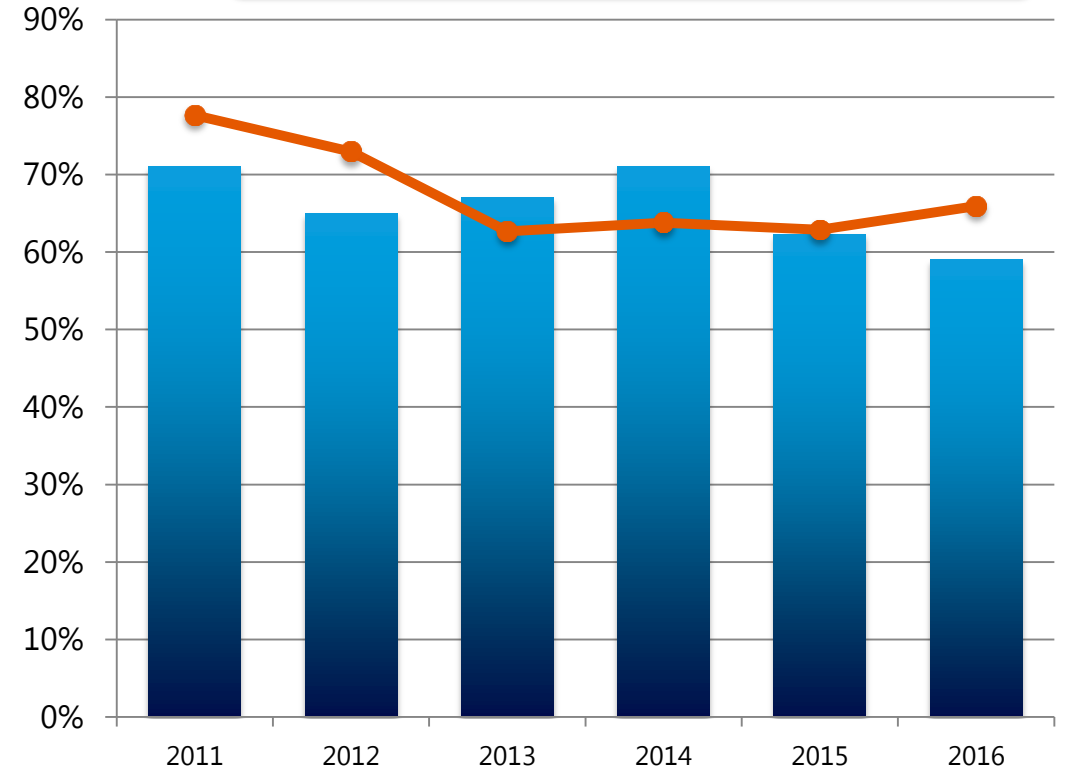
**2012 through 2015**  
Incrementally reduced  
Michigan external quota share

# UNDERWRITING PROFITABILITY TO ENHANCE MARGINS

## Personal Lines Loss Ratio



## Commercial Lines Loss Ratio

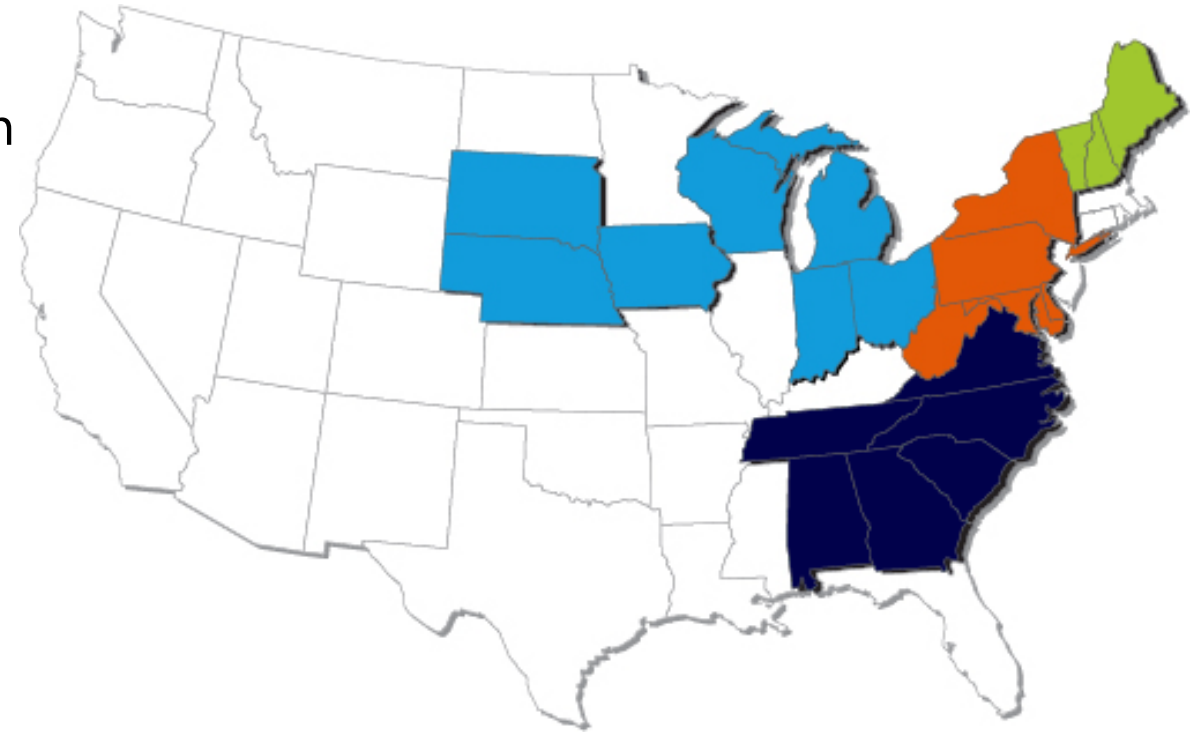


■ Donegal      — SNL P&C Industry (Aggregate)



# MAINTAIN MULTIFACETED REGIONAL GROWTH STRATEGY

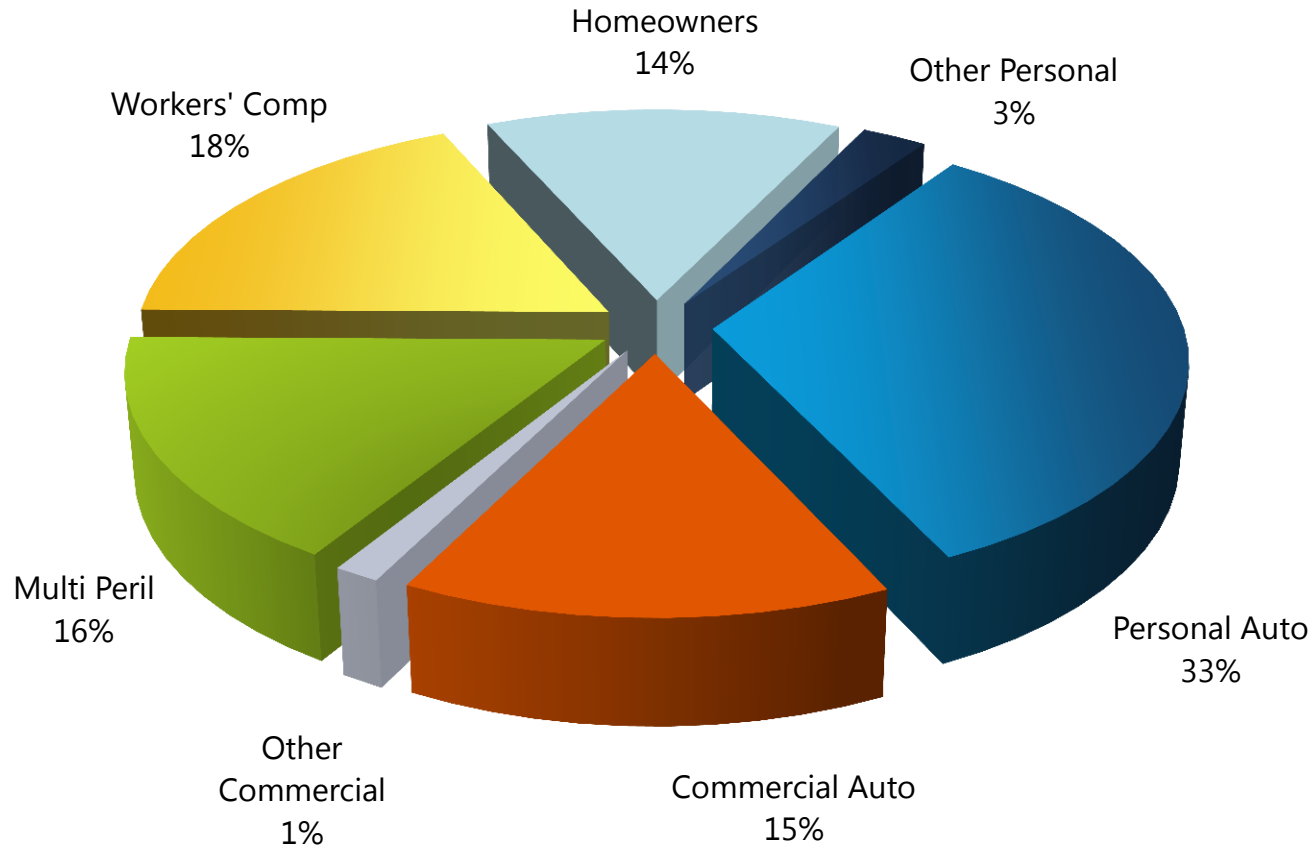
- Net premiums written of \$682 million for the full year 2016 - across 21 states in four operating regions
  - \$868 million in annual direct premiums written for insurance group\*
- 10 M&A transactions since 1988
- Acquisition criteria:
  - Serving attractive geography
  - Favorable regulatory, legislative and judicial environments
  - Similar personal/commercial business mix
  - Premium volume up to \$100 million



\* FY 2016 - Includes Donegal Mutual Insurance Company and Southern Mutual Insurance Company

# STRATEGIC EFFORTS TO BALANCE BUSINESS MIX

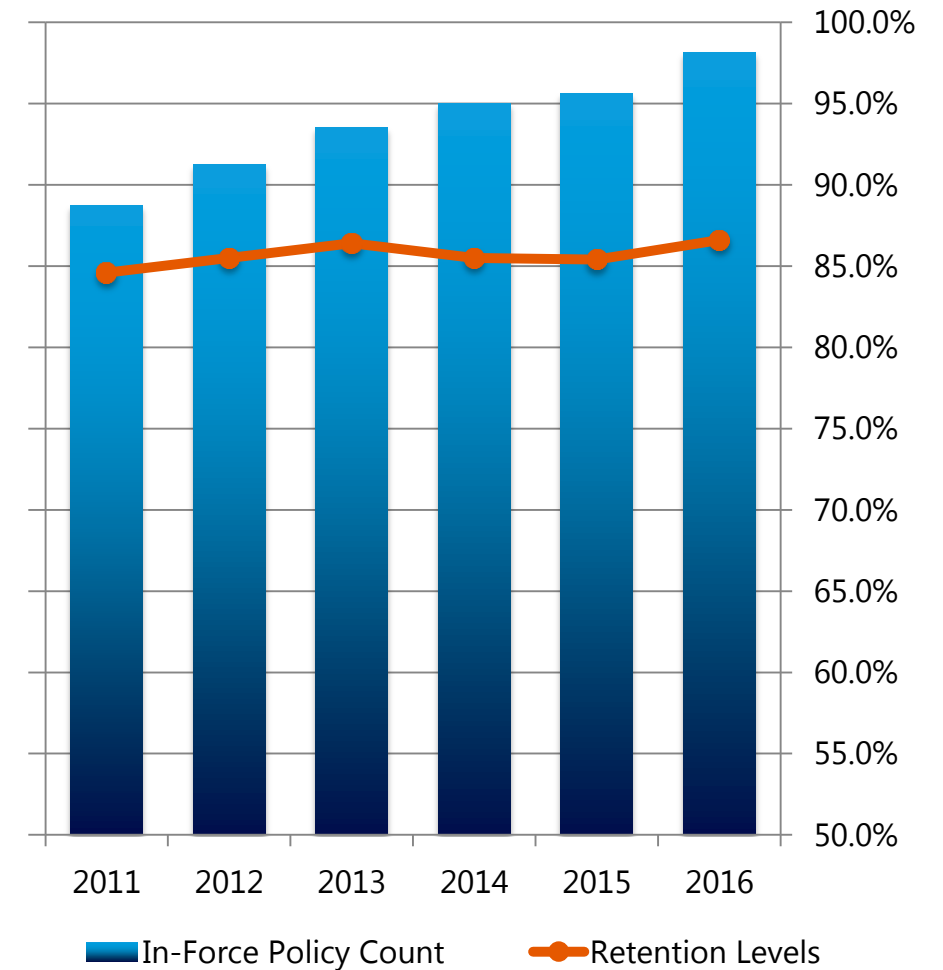
Net Written Premiums in First Quarter 2017  
by Line of Business



- Commercial lines = 50.3% of NWP
  - Commercial lines renewal premium increases in 3-5% range
  - Ongoing emphasis on new business growth in all regions
- Personal lines = 49.7% of NWP
  - Rate increases in 2-4% range
  - Modest new business growth

# EMPHASIZE GROWTH IN COMMERCIAL LINES

- 94.4% statutory combined ratio for the three months ended 3/31/17
- Expand core Donegal products in newer regions
- Growth focus on accounts with premiums in \$10,000 to \$75,000 range
- Expand appetite within classes and lines already written:
  - Agency development
  - Add related classes
  - Appropriately use reinsurance
- Disciplined underwriting:
  - Expand use of predictive modeling
  - Large account reviews
  - Loss control



# FOCUS ON PERSONAL LINES PROFITABILITY

- 99.6% statutory combined ratio for the three months ended 3/31/17
- Focus on the preferred and superior risk markets
- Underwriting initiatives:
  - Modest rate increases in virtually every jurisdiction
  - Expand use of predictive modeling
  - Property inspections
  - Seek geographic spread of risk
  - Balance portfolio (auto/home)
- Strong policy retention

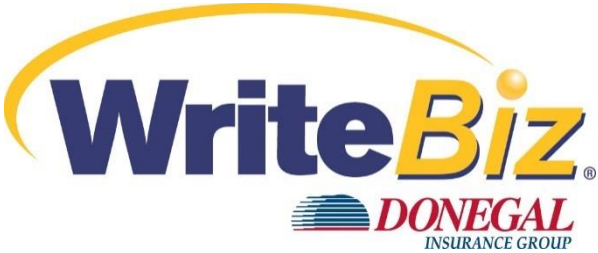


# ORGANIC GROWTH CENTERED ON RELATIONSHIPS WITH ~2,400 INDEPENDENT AGENCIES

- Ongoing objectives:
  - Achieve top-three ranking within appointed agencies in lines of business we write
  - Cultivate relationships with existing agencies to move writings to next premium tier
  - Leverage “regional” advantages and maintain personal relationships as agencies grow and consolidate
- Continuing focus on commercial lines growth:
  - Emphasize expanded commercial lines products and capabilities in current agencies
  - Appoint commercial lines-focused agencies to expand distribution in key geographies
  - Strengthen relationships with agencies appointed in recent years



# SUPPORT AGENTS WITH BEST-IN-CLASS TECHNOLOGY



ClaimsCenter

BillingCenter

ImageRight

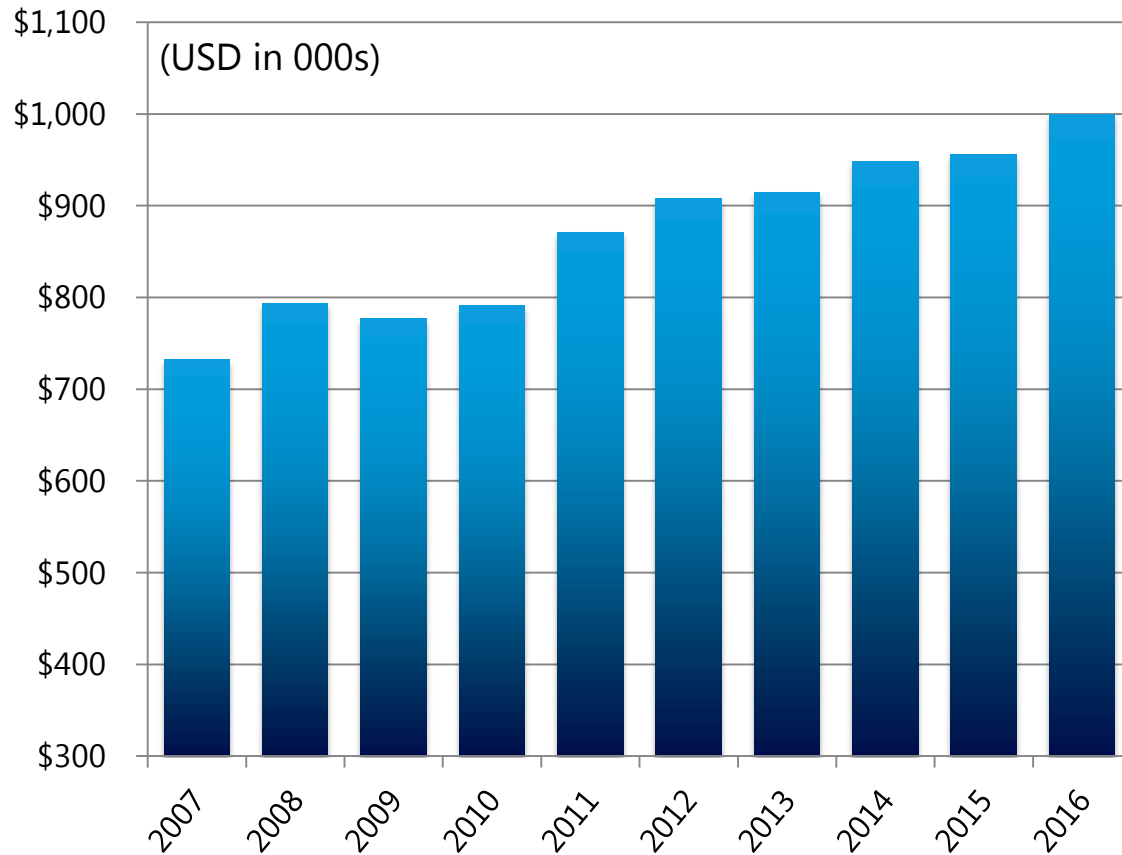
**Call Center**



**Service Center**

# DRIVE INCREASED EFFICIENCY WITH AUTOMATION

## Direct Premiums per Employee



- Current infrastructure can support premium growth
- Premiums per employee rising due to technology systems
- Claims system allows more rapid and efficient claims handling
- Mutual affiliation provides opportunities for operational and expense synergies
- Statutory expense ratio of 31.5% for full year 2016 and 31.1% for the first quarter 2017

# ENHANCE UNDERWRITING PROFITABILITY TO IMPROVE OPERATING MARGINS

- Sustain pricing discipline and conservative underwriting
- Manage exposure to catastrophe/unusual weather events
  - Reinsurance coverage in excess of a 200-year event
- Link employee incentive compensation directly to underwriting performance
- Focus on rate adequacy and pricing sophistication
- Coordinated underwriting across all regions
- Emphasize IT-based programs such as automated decision trees and predictive modeling



# EMPLOY SOPHISTICATED PRICING AND ACTUARIAL TOOLS

- Predictive modeling tools enhance our ability to appropriately price our products
  - Sophisticated predictive modeling algorithms for pricing/tiering risks
  - Territorial segmentation and analysis of environmental factors that affect loss experience
  - Expanding use of predictive modeling to additional lines of business
- Formal schedule of regular rate adequacy reviews for all lines of business, including GLM analysis on claim costs and agency performance
- Telematics/usage-based insurance initiatives

# MAINTAIN EMPHASIS ON RESERVE ADEQUACY

- Reserves at \$347.5 million at YE 2016
  - Midpoint of actuarial range
  - Conservative reinsurance program limits volatility
- Emphasis on faster claims settlements to reduce longer-term exposures
- 2016 development of \$3.0 million within targeted range

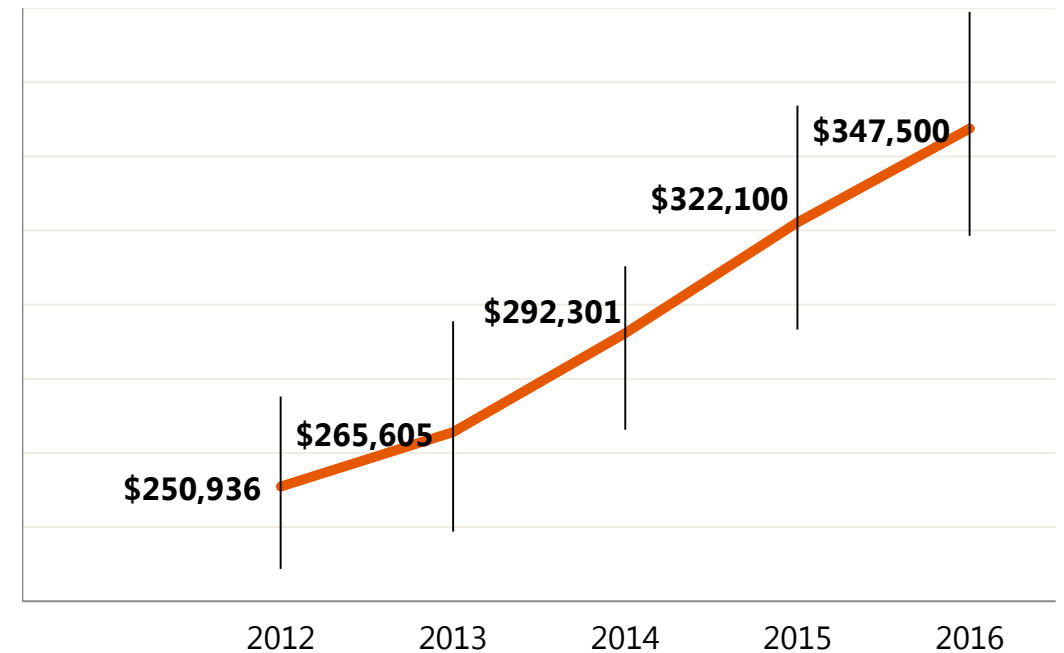
## Established Reserves at Year-end

### Reserve Range at 12/31/2016

Low \$318.6 million

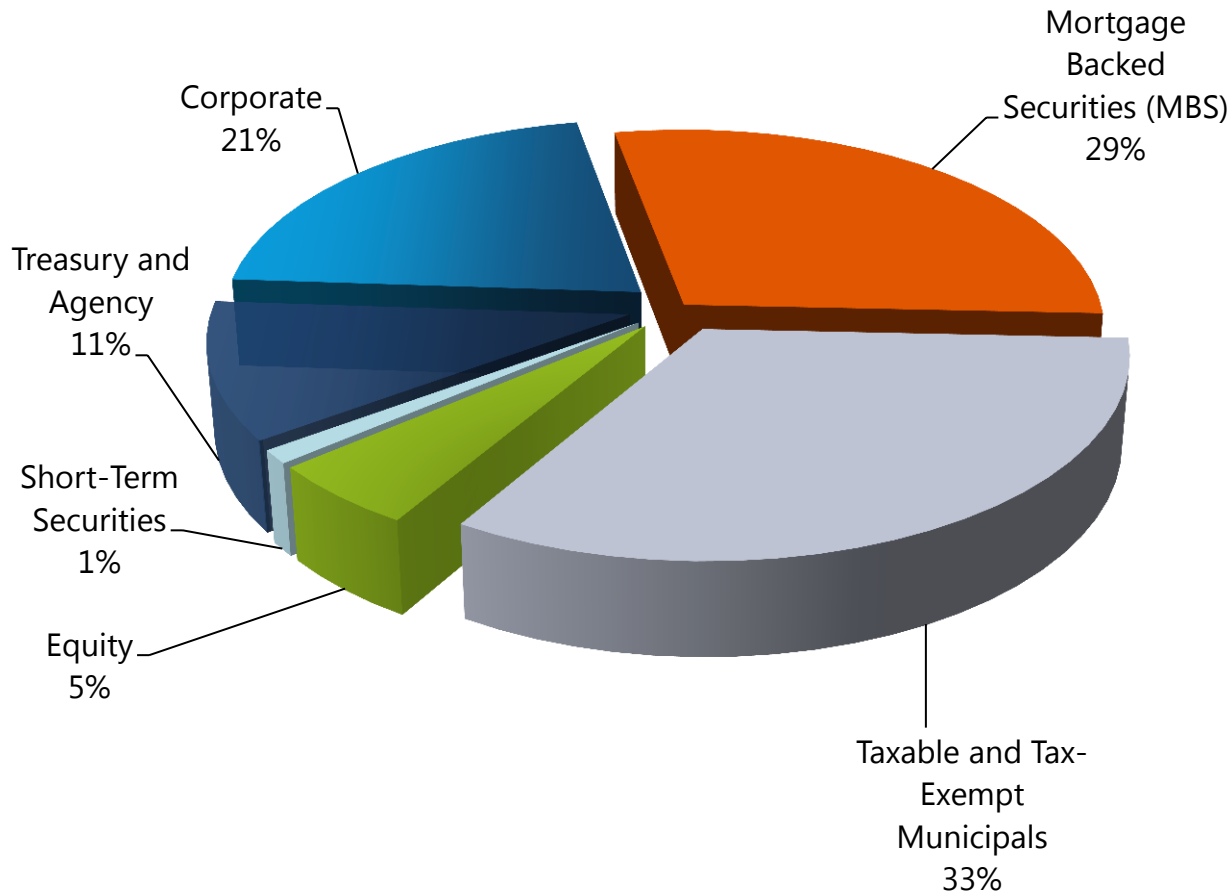
High \$379.0 million

Selected at midpoint



# MAINTAIN CONSERVATIVE INVESTMENT MIX

\$922.3 Million in Invested Assets\*  
(at March 31, 2017)



- 93.6% of portfolio invested in fixed maturities
  - Effective duration = 4.4 years
  - Tax equivalent yield = 2.9%
- Emphasis on quality
  - 73% AA-rated or better
  - 91% A-rated or better
- Liquidity managed through laddering

\* Excluding investment in affiliate

# DONEGAL FINANCIAL SERVICES CORPORATION

*Bank Investment = 5% of Invested Assets*

- DFSC owns 100% of Union Community Bank
  - Serves Lancaster County (location of Donegal headquarters) with 15 branch offices
- Expanded via acquisition in 2011
  - Added scale to banking operation
  - Enhanced value of historic bank investment
  - Increased potential for bottom-line contribution
- DGI owns approximately 48% of DFSC
  - 52% owned by Donegal Mutual
- Union Community Bank is financially strong and profitable



# UNION COMMUNITY BANK

*48% owned by Donegal Group Inc.*

## Q1 2017 financial results:

- \$541.8 million in assets at 3/31/2017
- \$607,000 in Q1 2017 net income

## Excellent capital ratios at March 31, 2017:

Tier 1 capital to average total assets	15.62%
Tier 1 capital to risk-weighted assets	20.43%
Risk-based capital to risk-weighted assets	21.54%

# DONEGAL MUTUAL'S PENDING ACQUISITION OF MOUNTAIN STATES INSURANCE GROUP

## Entering the Southwest

- In December 2016, Donegal Mutual entered into an agreement whereby Mountain States Mutual Casualty Company would merge with and into Donegal Mutual.

## Mountain States Mutual . . .

- is based in Albuquerque, New Mexico;
- offers commercial insurance products in New Mexico, Colorado, Texas and Utah; and
- owns two insurance subsidiaries; three companies comprise the Mountain States Insurance Group.

## A Future Growth Opportunity\*

- The transaction represents a continuation of the acquisition strategy DGI and Donegal Mutual have shared over the past 30 years.

*\* DGI is not a party to, and will have no immediate financial benefit from, the merger.*

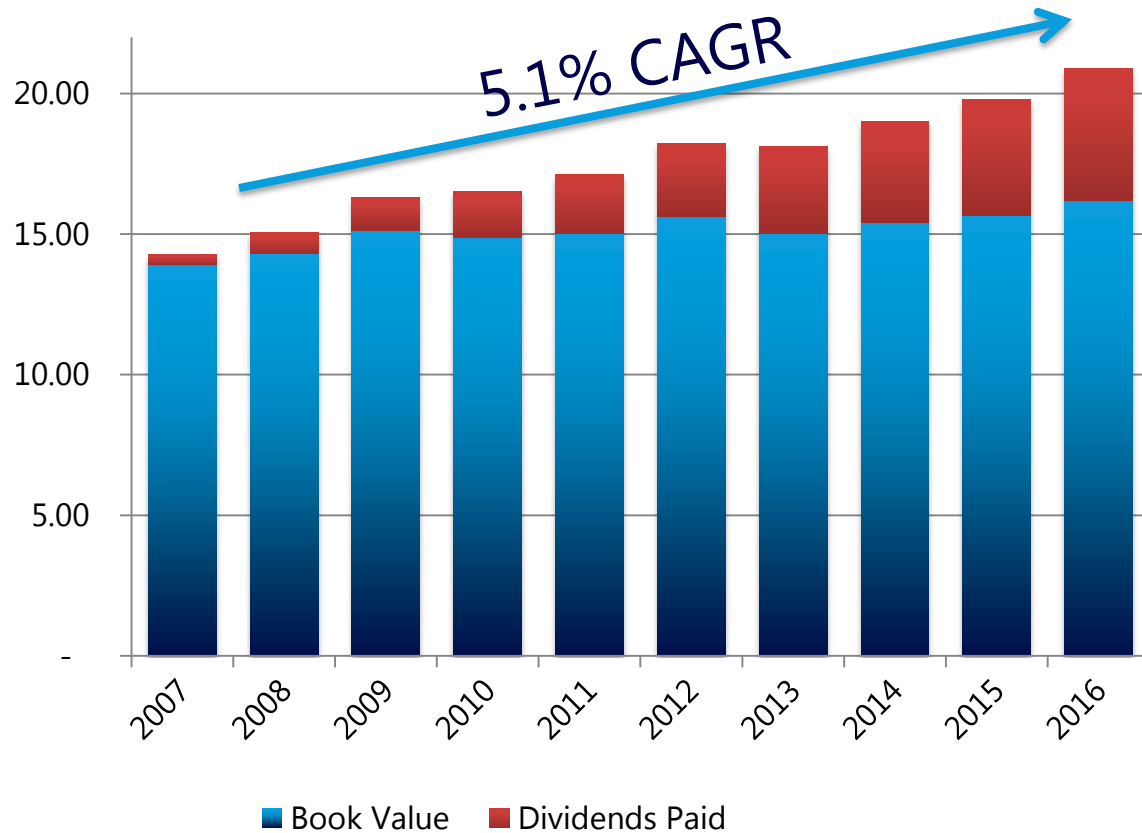
# LONG-TERM GROWTH STRATEGY

- Maximize benefits of regional business approach
- Outperform industry in service, profitability and book value growth
- Drive revenues with organic growth and opportunistic affiliations
- Focus on margin enhancements and investment contributions



# STRONG CAPITAL + SOLID PLAN TO DRIVE RESULTS

## Book Value Plus Cumulative Dividends

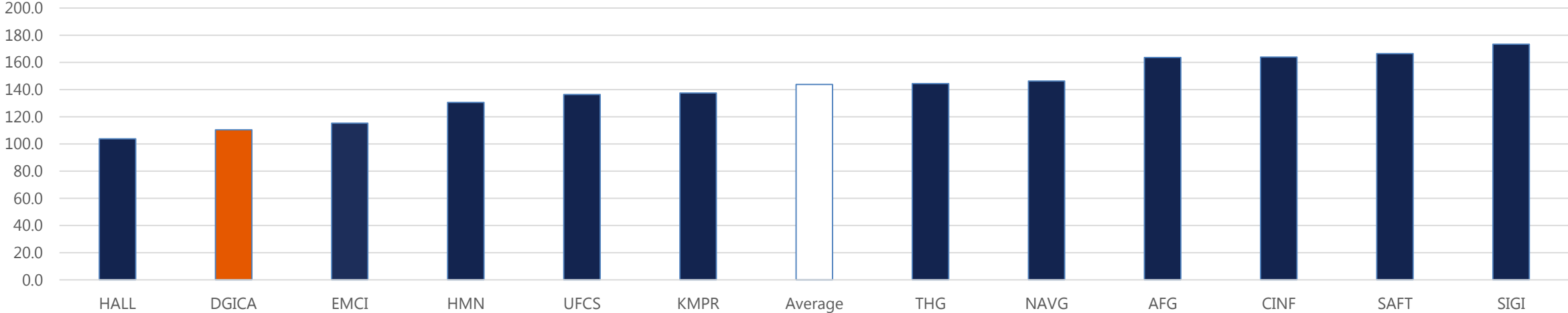


- Rated A (Excellent) by A.M. Best
  - Debt-to-cash/investments of approximately 7.4%
  - Premium-to-surplus of approximately 1.6-to-1
- Dividend yield of 3.3% for Class A shares
- Authorization for repurchase of up to 500,000 shares of Class A common stock

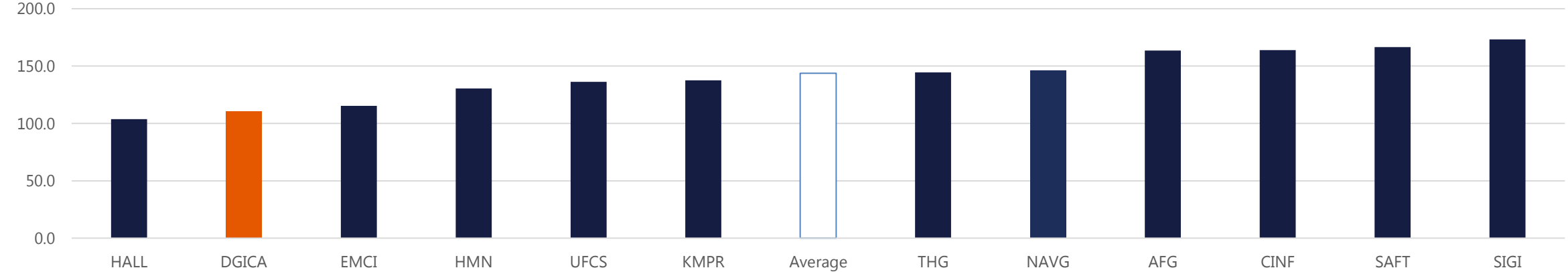


# VALUATION VS. PEERS (AT 5/2/2017)

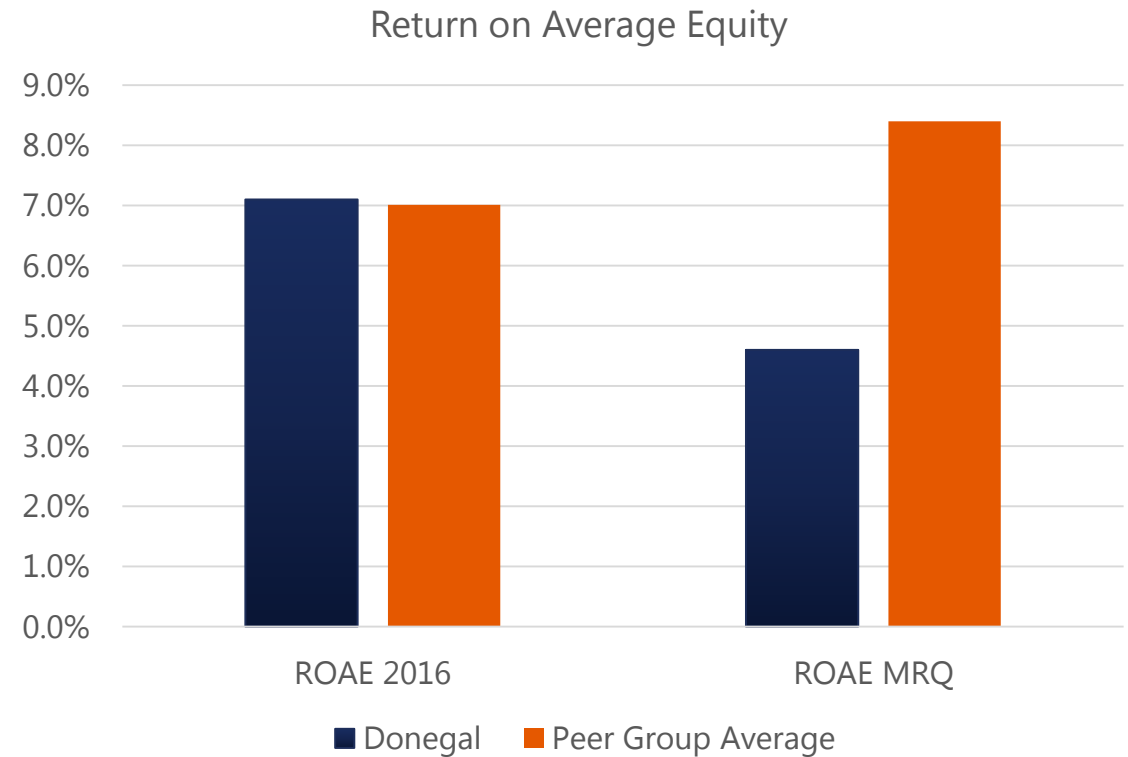
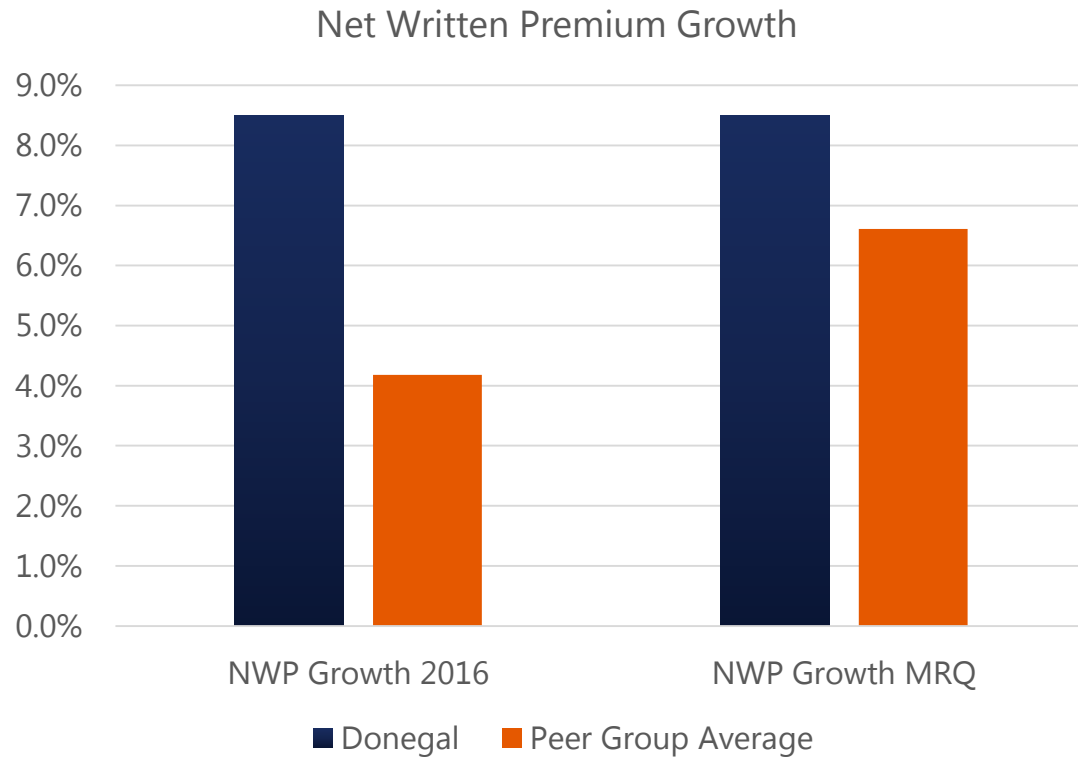
Price to Tangible Book Value (MRY)



Price to Tangible Book Value (MRQ)



# FAVORABLE OPERATING PERFORMANCE VS. PEER GROUP



\* Peer Group consists of EMCI, SAFT, HALL, UFCS, HMN, NAVG, KMPR, SIGI, THG, AFG, and CINF (Source: SNL)

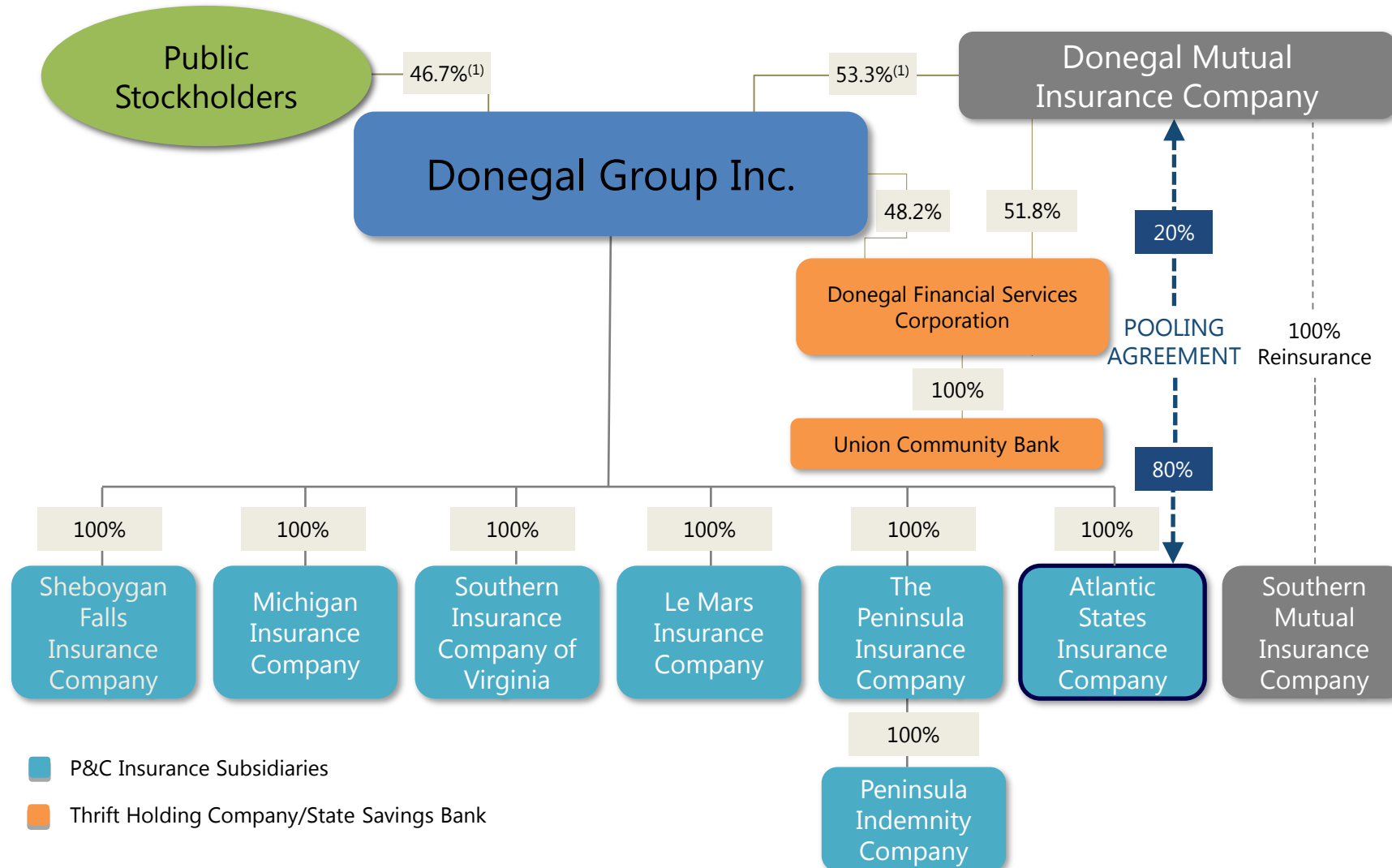
# KEY TAKEAWAYS

- Well-established regional insurance carrier with a diverse book of business of both personal and commercial lines
- Organic top-line growth exceeding that of our peer group
- Strength of brand and proven business strategies provide competitive advantages that enables the Company to deliver higher returns



# SUPPLEMENTAL INFORMATION

# STRUCTURE PROVIDES FLEXIBILITY AND CAPACITY



(1) Because of the different relative voting power of the Company's Class A common stock and Class B common stock, public stockholders hold approximately 27% of the aggregate voting power of the Class A common stock and our Class B common stock. Donegal Mutual holds approximately 73% of the aggregate voting power of the Class A common stock and the Class B common stock.

# HISTORY OF CONTRIBUTING AFFILIATIONS

	<b>Le Mars</b>	<b>Peninsula</b>	<b>Sheboygan</b>	<b>Southern Mutual</b>	<b>Michigan</b>
Year Acquired	2004	2004	2008	2009	2010
Company Type	Mutual	Stock	Mutual	Mutual	Stock
Primary Product Line	Personal	Niche	Personal	Personal	Pers./Comm.
Geographic Focus	Midwest	Mid-Atlantic	Wisconsin	Georgia/ South Carolina	Michigan
Transaction Type	Demutualization	Purchase	Demutualization	Surplus Note	Purchase
Net Premiums Acquired	\$20 million	\$34 million	\$8 million	\$11 million	\$27 million*

*\*Michigan's direct premiums written were \$105 million in 2010*

# NET PREMIUMS WRITTEN BY LINE OF BUSINESS

(USD in millions)	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13
Personal lines:														
Automobile	\$61.3	\$55.9	\$59.8	\$59.0	\$55.1	\$51.0	\$55.6	\$55.6	\$52.3	\$48.5	\$53.2	\$52.0	\$50.5	\$46.7
Homeowners	25.6	29.4	34.2	33.4	25.9	28.5	33.2	33.4	24.4	27.4	32.0	31.1	22.9	25.7
Other	4.7	4.7	4.7	5.3	4.4	4.4	4.7	4.9	4.2	4.1	4.5	4.6	3.8	4.0
Total personal lines	91.6	90.0	98.7	97.7	85.2	84.0	93.5	93.9	80.9	80.0	89.7	87.7	77.2	76.4
Commercial lines:														
Automobile	26.8	20.6	21.2	23.1	22.9	18.0	18.6	20.0	20.1	15.0	15.8	17.5	17.3	13.0
Workers' compensation	33.5	24.9	24.3	28.2	31.0	21.8	22.2	25.3	28.8	19.1	20.7	22.4	26.6	16.3
Commercial multi-peril	30.0	24.2	25.4	26.6	28.5	22.1	22.8	24.3	25.0	19.6	20.1	21.7	22.1	16.8
Other	2.6	2.1	2.3	2.6	2.4	1.8	1.8	2.1	1.8	1.6	1.5	2.1	1.4	1.3
Total commercial lines	92.9	71.8	73.2	80.5	84.8	63.7	65.4	71.7	75.7	55.3	58.1	63.7	67.4	47.4
Total net premiums written	\$184.5	\$161.8	\$171.9	\$178.2	\$170.1	\$147.7	\$158.9	\$165.6	\$156.6	\$135.3	\$147.8	\$151.4	\$144.6	\$123.8

# COMBINED RATIO ANALYSES

(in percentages)	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13
Stat combined ratios:														
Personal lines	104.0	107.5	103.6	100.2	95.6	104.2	101.4	99.4	98.4	106.5	95.2	99.5	102.7	99.3
Commercial lines	94.4	91.9	94.3	88.5	88.0	92.0	92.0	92.4	95.1	95.1	94.4	105.8	104.3	89.4
Total lines	99.6	100.4	99.5	95.0	92.1	98.9	97.4	96.4	96.9	101.8	95.0	102.1	103.2	95.4
GAAP combined ratios (total lines):														
Loss ratio (non-weather)	59.3	62.8	59.6	56.8	55.9	62.9	57.2	59.1	59.5	67.8	56.3	63.2	61.7	59.1
Loss ratio (weather-related)	8.4	4.3	7.0	6.9	4.4	2.9	9.6	5.9	6.0	2.8	7.7	8.5	11.4	3.5
Expense ratio	33.2	32.4	33.5	32.8	33.2	32.2	32.1	33.3	32.7	30.4	32.1	31.9	31.3	31.9
Dividend ratio	0.5	1.0	0.7	0.5	0.5	0.9	0.6	0.4	0.6	0.6	0.7	0.4	0.3	0.4
Combined ratio	101.4	100.5	100.8	97.0	94.0	98.9	99.5	98.7	98.8	101.6	96.8	104.0	104.7	94.9
GAAP supplemental ratios:														
Fire losses greater than \$50,000	3.5	4.4	4.0	2.3	3.7	3.9	4.4	3.9	7.4	4.9	4.4	6.8	7.6	4.8
Development on prior year loss reserves	1.5	0.5	-1.0	2.3	-	1.5	1.0	2.6	-0.4	4.8	1.4	4.4	-0.3	0.1