

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2023
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number 0-15341

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

23-2424711
(I.R.S. Employer
Identification No.)

1195 River Road, P.O. Box 302, Marietta, PA 17547
(Address of principal executive offices) (Zip code)

(717) 426-1931
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbols	Name of Each Exchange on Which Registered
Class A Common Stock, \$.01 par value	DGICA	The NASDAQ Global Select Market
Class B Common Stock, \$.01 par value	DGICB	The NASDAQ Global Select Market

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 27,565,594 shares of Class A Common Stock, par value \$0.01 per share, and 5,576,775 shares of Class B Common Stock, par value \$0.01 per share, outstanding on August 1, 2023.

DONEGAL GROUP INC.
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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****Donegal Group Inc. and Subsidiaries
Consolidated Balance Sheets**

	June 30, 2023	December 31, 2022
	(Unaudited)	
Assets		
Investments		
Fixed maturities		
Held to maturity, at amortized cost (net of allowance for expected credit losses of \$1,324,097 and \$0)	\$ 685,402,417	\$ 688,439,360
Available for sale, at fair value	560,737,879	523,791,931
Equity securities, at fair value	38,618,870	35,104,840
Short-term investments, at cost, which approximates fair value	23,151,334	57,321,111
Total investments	<u>1,307,910,500</u>	<u>1,304,657,242</u>
Cash	24,748,033	25,123,332
Accrued investment income	9,453,217	8,861,292
Premiums receivable	195,251,963	173,846,294
Reinsurance receivable (net of allowance for expected credit losses of \$1,566,819 and \$0)	450,679,908	456,522,223
Deferred policy acquisition costs	78,903,043	73,170,230
Deferred tax asset, net	22,322,064	21,603,017
Prepaid reinsurance premiums	175,078,615	160,591,399
Property and equipment, net	2,715,757	2,755,105
Accounts receivable - securities	—	1,842
Federal income taxes recoverable	7,901,701	8,510,897
Due from affiliate	6,221,575	—
Goodwill	5,625,354	5,625,354
Other intangible assets	958,010	958,010
Other	1,165,674	1,123,098
Total assets	<u>\$ 2,288,935,414</u>	<u>\$ 2,243,349,335</u>
Liabilities and Stockholders' Equity		
Liabilities		
Losses and loss expenses	\$ 1,122,683,198	\$ 1,121,045,758
Unearned premiums	624,463,273	577,653,130
Accrued expenses	4,528,151	4,226,390
Reinsurance balances payable	6,857,814	3,495,824
Borrowings under lines of credit	35,000,000	35,000,000
Cash dividends declared to stockholders	—	5,296,990
Due to affiliate	—	5,173,289
Other	9,209,412	7,864,942
Total liabilities	<u>1,802,741,848</u>	<u>1,759,756,323</u>
Stockholders' Equity		
Preferred stock, \$0.01 par value, authorized 2,000,000 shares; none issued	—	—
Class A common stock, \$0.01 par value, authorized 50,000,000 shares, issued 30,538,869 and 30,120,263 shares and outstanding 27,536,281 and 27,117,675 shares	305,389	301,203
Class B common stock, \$0.01 par value, authorized 10,000,000 shares, issued 5,649,240 shares and outstanding 5,576,775 shares	56,492	56,492
Additional paid-in capital	332,072,996	325,601,647
Accumulated other comprehensive loss	(45,201,442)	(41,703,747)
Retained earnings	240,186,488	240,563,774
Treasury stock, at cost	(41,226,357)	(41,226,357)
Total stockholders' equity	<u>486,193,566</u>	<u>483,593,012</u>
Total liabilities and stockholders' equity	<u>\$ 2,288,935,414</u>	<u>\$ 2,243,349,335</u>

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Income (Loss)
(Unaudited)

	Three Months Ended June 30,	
	2023	2022
Revenues:		
Net premiums earned	\$ 216,260,037	\$ 204,128,489
Investment income, net of investment expenses	10,157,459	8,203,846
Net investment gains (losses) (includes \$147,636 and \$287,861 accumulated other comprehensive income reclassifications)	2,504,012	(8,376,713)
Lease income	86,708	98,222
Installment payment fees	187,703	257,305
Total revenues	<u>229,195,919</u>	<u>204,311,149</u>
Expenses:		
Net losses and loss expenses	151,234,696	141,608,361
Amortization of deferred policy acquisition costs	37,935,000	35,172,000
Other underwriting expenses	35,948,337	36,235,198
Policyholder dividends	1,345,638	1,288,744
Interest	154,636	239,725
Other expenses, net	324,134	346,200
Total expenses	<u>226,942,441</u>	<u>214,890,228</u>
Income (loss) before income tax expense (benefit)	2,253,478	(10,579,079)
Income tax expense (benefit) (includes \$31,003 and \$60,451 income tax expense from reclassification items)	256,055	(2,371,322)
Net income (loss)	<u>\$ 1,997,423</u>	<u>\$ (8,207,757)</u>
Net income (loss) per share:		
Class A common stock - basic and diluted	<u>\$ 0.06</u>	<u>\$ (0.26)</u>
Class B common stock - basic and diluted	<u>\$ 0.05</u>	<u>\$ (0.24)</u>

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended June 30,	
	2023	2022
Net income (loss)	\$ 1,997,423	\$ (8,207,757)
Other comprehensive loss, net of tax		
Unrealized loss on securities:		
Unrealized holding loss during the period, net of income tax benefit of \$1,964,085 and \$3,174,636	(7,388,700)	(11,942,679)
Reclassification adjustment for gains included in net income (loss), net of income tax expense of \$ 31,003 and \$60,451	(116,633)	(227,410)
Other comprehensive loss	<u>(7,505,333)</u>	<u>(12,170,089)</u>
Comprehensive loss	<u>\$ (5,507,910)</u>	<u>\$ (20,377,846)</u>

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Revenues:		
Net premiums earned	\$ 431,493,197	\$ 403,377,113
Investment income, net of investment expenses	19,606,537	16,062,727
Net investment gains (losses) (includes (\$2,052,037) and \$453,215 accumulated other comprehensive income reclassifications)	2,172,823	(8,452,960)
Lease income	176,055	202,850
Installment payment fees	493,078	748,136
Total revenues	<u>453,941,690</u>	<u>411,937,866</u>
Expenses:		
Net losses and loss expenses	289,340,585	259,491,363
Amortization of deferred policy acquisition costs	75,733,000	69,354,000
Other underwriting expenses	76,559,774	73,341,502
Policyholder dividends	2,688,978	2,937,495
Interest	307,593	392,758
Other expenses, net	761,849	773,588
Total expenses	<u>445,391,779</u>	<u>406,290,706</u>
Income before income tax expense	8,549,911	5,647,160
Income tax expense (includes (\$430,928) and \$95,175 income tax (benefit) expense from reclassification items)	1,348,892	709,888
Net income	<u>\$ 7,201,019</u>	<u>\$ 4,937,272</u>
Net income per share:		
Class A common stock - basic and diluted	<u>\$ 0.22</u>	<u>\$ 0.16</u>
Class B common stock - basic and diluted	<u>\$ 0.20</u>	<u>\$ 0.14</u>

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Net income	\$ 7,201,019	\$ 4,937,272
Other comprehensive loss, net of tax		
Unrealized loss on securities:		
Unrealized holding loss during the period, net of income tax benefit of \$1,360,695 and \$8,613,264	(5,118,804)	(32,402,274)
Reclassification adjustment for losses (gains) included in net income, net of income tax (benefit) expense of (\$430,928) and \$95,175	1,621,109	(358,040)
Other comprehensive loss	<u>(3,497,695)</u>	<u>(32,760,314)</u>
Comprehensive income (loss)	<u>\$ 3,703,324</u>	<u>\$ (27,823,042)</u>

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
Six Months Ended June 30, 2023

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2022	30,120,263	5,649,240	\$ 301,203	\$ 56,492	\$325,601,647	\$ (41,703,747)	\$240,563,774	\$(41,226,357)	\$483,593,012
Issuance of common stock (stock compensation plans)	35,045	—	350	—	440,746	—	—	—	441,096
Share-based compensation	143,004	—	1,431	—	2,218,355	—	—	—	2,219,786
Net income	—	—	—	—	—	—	5,203,596	—	5,203,596
Cash dividends declared	—	—	—	—	—	—	(7,057)	—	(7,057)
Grant of stock options	—	—	—	—	114,724	—	(114,724)	—	—
Cumulative effect of adoption of updated guidance for credit losses at January 1, 2023	—	—	—	—	—	—	(1,895,902)	—	(1,895,902)
Other comprehensive income	—	—	—	—	—	4,007,638	—	—	4,007,638
Balance, March 31, 2023	30,298,312	5,649,240	\$ 302,984	\$ 56,492	\$328,375,472	\$ (37,696,109)	\$243,749,687	\$(41,226,357)	\$493,562,169
Issuance of common stock (stock compensation plans)	44,664	—	447	—	668,933	—	—	—	669,380
Share-based compensation	195,893	—	1,958	—	2,966,842	—	—	—	2,968,800
Net income	—	—	—	—	—	—	1,997,423	—	1,997,423
Cash dividends declared	—	—	—	—	—	—	(5,498,873)	—	(5,498,873)
Grant of stock options	—	—	—	—	61,749	—	(61,749)	—	—
Other comprehensive loss	—	—	—	—	—	(7,505,333)	—	—	(7,505,333)
Balance, June 30, 2023	30,538,869	5,649,240	\$ 305,389	\$ 56,492	\$332,072,996	\$ (45,201,442)	\$240,186,488	\$(41,226,357)	\$486,193,566

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
(Unaudited)
Six Months Ended June 30, 2022

	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2021	28,756,203	5,649,240	\$ 287,562	\$ 56,492	\$304,889,481	\$ 3,283,551	\$263,745,358	\$(41,226,357)	\$531,036,087
Issuance of common stock (stock compensation plans)	33,407	—	335	—	423,665	—	—	—	424,000
Share-based compensation	900	—	9	—	256,451	—	—	—	256,460
Net income	—	—	—	—	—	—	13,145,029	—	13,145,029
Cash dividends declared	—	—	—	—	—	—	(5,490)	—	(5,490)
Grant of stock options	—	—	—	—	98,409	—	(98,409)	—	—
Other comprehensive loss	—	—	—	—	—	(20,590,225)	—	—	(20,590,225)
Balance, March 31, 2022	28,790,510	5,649,240	\$ 287,906	\$ 56,492	\$305,668,006	\$ (17,306,674)	\$276,786,488	\$(41,226,357)	\$524,265,861
Issuance of common stock (stock compensation plans)	54,743	—	547	—	736,349	—	—	—	736,896
Share-based compensation	775,898	—	7,759	—	11,476,429	—	—	—	11,484,188
Net loss	—	—	—	—	—	—	(8,207,757)	—	(8,207,757)
Cash dividends declared	—	—	—	—	—	—	(5,086,617)	—	(5,086,617)
Grant of stock options	—	—	—	—	59,216	—	(59,216)	—	—
Other comprehensive loss	—	—	—	—	—	(12,170,089)	—	—	(12,170,089)
Balance, June 30, 2022	29,621,151	5,649,240	\$ 296,212	\$ 56,492	\$317,940,000	\$ (29,476,763)	\$263,432,898	\$(41,226,357)	\$511,022,482

See accompanying notes to consolidated financial statements.

Donegal Group Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
Cash Flows from Operating Activities:		
Net income	\$ 7,201,019	\$ 4,937,272
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other non-cash items	2,191,794	2,606,357
Net investment (gains) losses	(2,172,823)	8,452,960
Changes in assets and liabilities:		
Losses and loss expenses	1,637,440	5,734,163
Unearned premiums	46,810,143	28,980,638
Premiums receivable	(21,405,669)	(21,461,440)
Deferred acquisition costs	(5,732,813)	(6,218,852)
Deferred income taxes	714,695	(2,169,602)
Reinsurance receivable	4,710,479	10,260,212
Prepaid reinsurance premiums	(14,487,216)	4,529,942
Accrued investment income	(591,925)	(251,516)
Due from affiliate	(11,394,864)	(423,200)
Reinsurance balances payable	3,361,990	105,323
Current income taxes	609,196	(1,645,525)
Accrued expenses	301,761	768,030
Other, net	1,301,884	784,642
Net adjustments	<u>5,854,072</u>	<u>30,052,132</u>
Net cash provided by operating activities	<u>13,055,091</u>	<u>34,989,404</u>
Cash Flows from Investing Activities:		
Purchases of fixed maturities, held to maturity	(23,242,218)	(59,637,406)
Purchases of fixed maturities, available for sale	(99,497,145)	(61,330,076)
Purchases of equity securities, available for sale	(3,608,514)	(5,276,815)
Maturity of fixed maturities:		
Held to maturity	25,869,261	28,714,632
Available for sale	25,585,850	43,862,739
Sales of fixed maturities:		
Available for sale	28,154,556	—
Sales of equity securities, available for sale	4,375,411	14,529,635
Net (purchases) sales of property and equipment	(44,703)	28,289
Net sales (purchases) of short-term investments	34,169,777	(33,992,374)
Net cash used in investing activities	<u>(8,237,725)</u>	<u>(73,101,376)</u>
Cash Flows from Financing Activities:		
Cash dividends paid	(10,802,920)	(10,007,375)
Issuance of common stock	5,610,255	12,220,689
Net cash (used in) provided by financing activities	<u>(5,192,665)</u>	<u>2,213,314</u>
Net increase (decrease) in cash	(375,299)	(35,898,658)
Cash at beginning of period	25,123,332	57,709,375
Cash at end of period	<u>\$ 24,748,033</u>	<u>\$ 21,810,717</u>
Cash paid during period - Interest	\$ 304,204	\$ 307,747
Net cash paid during period - Taxes	\$ —	\$ 4,500,000

See accompanying notes to consolidated financial statements.

DONEGAL GROUP INC. AND SUBSIDIARIES
(Unaudited)
Notes to Consolidated Financial Statements

1 - Organization

Donegal Mutual Insurance Company (“Donegal Mutual”) organized us as an insurance holding company on August 26, 1986. Our insurance subsidiaries, Atlantic States Insurance Company (“Atlantic States”), Michigan Insurance Company (“MICO”), Southern Insurance Company of Virginia (“Southern”) and the Peninsula Insurance Group (“Peninsula”), which consists of Peninsula Indemnity Company and The Peninsula Insurance Company, and our affiliates write personal and commercial lines of property and casualty coverages exclusively through a network of independent insurance agents in certain Mid-Atlantic, Midwestern, New England, Southern and Southwestern states.

At June 30, 2023, we had three segments: our investment function, our commercial lines of insurance and our personal lines of insurance. The commercial lines products of our insurance subsidiaries consist primarily of commercial automobile, commercial multi-peril and workers’ compensation policies. The personal lines products of our insurance subsidiaries consist primarily of homeowners and private passenger automobile policies.

At June 30, 2023, Donegal Mutual held approximately 43% of our outstanding Class A common stock and approximately 84% of our outstanding Class B common stock. This ownership provides Donegal Mutual with approximately 71% of the total voting power of our common stock. Our insurance subsidiaries and Donegal Mutual have interrelated operations due to a pooling agreement and other intercompany agreements and transactions. While each company maintains its separate corporate existence, our insurance subsidiaries and Donegal Mutual conduct business together as the Donegal Insurance Group. As such, Donegal Mutual and our insurance subsidiaries share the same business philosophy, the same management, the same employees and the same facilities and offer the same types of insurance products.

Atlantic States, our largest subsidiary, participates in a proportional reinsurance agreement, or pooling agreement, with Donegal Mutual. Under the pooling agreement, Donegal Mutual and Atlantic States contribute substantially all of their respective premiums, losses and loss expenses to the underwriting pool, and the underwriting pool, acting through Donegal Mutual, then allocates 80% of the pooled business to Atlantic States. Thus, Donegal Mutual and Atlantic States share the underwriting results of the pooled business in proportion to their respective participation in the underwriting pool.

In addition, Donegal Mutual has 100% quota-share reinsurance agreements with Mountain States Commercial Insurance Company, Mountain States Indemnity Company and Southern Mutual Insurance Company. Donegal Mutual places its assumed business from these companies into the underwriting pool.

The same executive management and underwriting personnel administer products, classes of business underwritten, pricing practices and underwriting standards of Donegal Mutual and our insurance subsidiaries. In addition, as the Donegal Insurance Group, Donegal Mutual and our insurance subsidiaries share a combined business plan to achieve market penetration and underwriting profitability objectives. The products our insurance subsidiaries and Donegal Mutual market are generally complementary, thereby allowing the Donegal Insurance Group to offer a broader range of products to a given market and to expand the Donegal Insurance Group’s ability to service an entire personal lines or commercial lines account. Distinctions within the products of Donegal Mutual and our insurance subsidiaries generally relate to specific risk profiles targeted within similar classes of business, such as preferred tier versus standard tier products, but we do not allocate all of the standard risk gradients to one company. Therefore, the underwriting profitability of the business the individual companies write directly will vary. However, the underwriting pool homogenizes the risk characteristics of all business that Donegal Mutual and Atlantic States write directly. The business Atlantic States derives from the underwriting pool represents a significant percentage of our total consolidated revenues.

2 - Basis of Presentation

Our financial information for the interim periods included in this Form 10-Q Report is unaudited; however, our financial information we include in this Form 10-Q Report reflects all adjustments, consisting only of normal recurring adjustments that, in the opinion of our management, are necessary for a fair presentation of our financial position, results of operations and cash flows for those interim periods. Our results of operations for the six months ended June 30, 2023 are not necessarily indicative of the results of operations we expect for the year ending December 31, 2023.

We recommend you read the interim financial statements we include in this Form 10-Q Report in conjunction with the financial statements and the notes to our financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2022.

3 - Net Income (Loss) Per Share

We have two classes of common stock, which we refer to as our Class A common stock and our Class B common stock. Our certificate of incorporation provides that whenever our board of directors declares a dividend on our Class B common stock, our board of directors shall simultaneously declare a dividend on our Class A common stock that is payable to the holders of our Class A common stock at the same time and as of the same record date at a rate that is at least 10% greater than the rate at which our board of directors declared a dividend on our Class B common stock. Accordingly, we use the two-class method to compute our net income (loss) per share. The two-class method is an earnings allocation formula that determines net income (loss) per share separately for each class of common stock based on dividends we have declared and an allocation of our remaining undistributed net income (loss) using a participation percentage that reflects the dividend rights of each class. The table below presents for the periods indicated a reconciliation of the numerators and denominators we used to compute basic and diluted net income (loss) per share for our Class A common stock and our Class B common stock:

	Three Months Ended June 30,			
	2023		2022	
	Class A	Class B	Class A	Class B
	(in thousands, except per share data)			
Basic net income (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$ 1,694	\$ 303	\$ (6,866)	\$ (1,342)
Denominator:				
Weighted-average shares outstanding	27,382	5,577	26,070	5,577
Basic net income (loss) per share	\$ 0.06	\$ 0.05	\$ (0.26)	\$ (0.24)
Diluted net income (loss) per share:				
Numerator:				
Allocation of net income (loss)	\$ 1,694	\$ 303	\$ (6,866)	\$ (1,342)
Denominator:				
Number of shares used in basic computation	27,382	5,577	26,070	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	107	—	—	—
Number of shares used in diluted computation	27,489	5,577	26,070	5,577
Diluted net income (loss) per share	\$ 0.06	\$ 0.05	\$ (0.26)	\$ (0.24)

	Six Months Ended June 30,			
	2023		2022	
	<u>Class A</u>	<u>Class B</u>	<u>Class A</u>	<u>Class B</u>
	(in thousands, except per share data)			
Basic net income per share:				
Numerator:				
Allocation of net income	\$ 6,085	\$ 1,116	\$ 4,140	\$ 797
Denominator:				
Weighted-average shares outstanding	27,288	5,577	25,929	5,577
Basic net income per share	\$ 0.22	\$ 0.20	\$ 0.16	\$ 0.14
Diluted net income per share:				
Numerator:				
Allocation of net income	\$ 6,085	\$ 1,116	\$ 4,140	\$ 797
Denominator:				
Number of shares used in basic computation	27,288	5,577	25,929	5,577
Weighted-average shares effect of dilutive securities:				
Director and employee stock options	140	—	123	—
Number of shares used in diluted computation	27,428	5,577	26,052	5,577
Diluted net income per share	\$ 0.22	\$ 0.20	\$ 0.16	\$ 0.14

We did not include outstanding options to purchase the following number of shares of Class A common stock in our computation of diluted net income per share because the exercise price of the options exceeded the average market price of our Class A common stock during the applicable periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Number of options to purchase Class A shares excluded	2,262,435	—	2,262,435	731,600

We did not include any effect of dilutive securities in the computation of diluted net income (loss) per share for the three months ended June 30, 2022 because we sustained a net loss for the period.

4 - Reinsurance

Atlantic States and Donegal Mutual have participated in a pooling agreement since 1986 under which they pool their direct premiums written, and Atlantic States and Donegal Mutual then share the underwriting results of the pool in accordance with the terms of the pooling agreement. Atlantic States has an 80% share of the results of the pool, and Donegal Mutual has a 20% share of the results of the pool.

Our insurance subsidiaries and Donegal Mutual participate in a consolidated third-party reinsurance program. The coverage and parameters of the program are common to all of our insurance subsidiaries and Donegal Mutual. The program utilizes several different reinsurers. They require their reinsurers to maintain an A.M. Best rating of A- (Excellent) or better or, with respect to foreign reinsurers, have a financial condition that, in the opinion of our management, is equivalent to a company with at least an A- rating from A.M. Best. The following information describes the external reinsurance Donegal Mutual and our insurance subsidiaries have in place for 2023:

- excess of loss reinsurance, under which Donegal Mutual and our insurance subsidiaries recover losses over a set retention of \$3.0 million for all losses other than workers' compensation and a retention of \$2.0 million for workers' compensation losses; and
- catastrophe reinsurance, under which Donegal Mutual and our insurance subsidiaries recover 100% of an accumulation of many losses resulting from a single event, including natural disasters, over a set retention of \$25.0 million up to aggregate losses of \$175.0 million per occurrence.

For property insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$37.0 million per loss over a set retention of \$3.0 million. For liability insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$72.0 million per occurrence over a set retention of \$3.0 million. For workers' compensation insurance, our insurance subsidiaries have excess of loss reinsurance that provides coverage of \$18.0 million on any one life over a set retention of \$2.0 million.

In addition to the pooling agreement and third-party reinsurance, our insurance subsidiaries have a catastrophe reinsurance agreement with Donegal Mutual, under which each of our insurance subsidiaries recovers 100% of an accumulation of multiple losses resulting from a single event, including natural disasters, over a set retention of \$3.0 million up to aggregate losses of \$22.0 million per occurrence. The agreement also provides additional coverage for an accumulation of losses from a single event including a combination of our insurance subsidiaries over a combined retention of \$6.0 million. The purpose of the agreement is to lessen the effects of an accumulation of losses arising from one event to levels that are appropriate given each subsidiary's size, underwriting profile and surplus.

Our insurance subsidiaries and Donegal Mutual also purchase facultative reinsurance to cover certain exposures, including property exposures that exceeded the limits provided by their respective treaty reinsurance.

In order to write automobile insurance in the state of Michigan, Atlantic States and MICO are required to be members of the Michigan Catastrophic Claims Association ("MCCA"). The MCCA provides reinsurance to Atlantic States and MICO for personal automobile and commercial automobile personal injury claims in the state of Michigan over a set retention.

We report reinsurance receivable net of an allowance for expected credit losses. We base the allowance upon our ongoing review of amounts outstanding, historical loss data, changes in reinsurer credit standing and other relevant factors. We use a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses.

5 - Investments

The amortized cost and estimated fair values of our fixed maturities at June 30, 2023 were as follows:

	<u>Carrying Value</u>	<u>Allowance for Credit Losses</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)					
Held to Maturity						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 91,950	\$ 55	\$ 92,005	\$ —	\$ 10,484	\$ 81,521
Obligations of states and political subdivisions	381,021	302	381,323	1,497	53,540	329,280
Corporate securities	201,869	960	202,829	3	20,751	182,081
Mortgage-backed securities	10,562	7	10,569	—	625	9,944
Totals	<u>\$ 685,402</u>	<u>\$ 1,324</u>	<u>\$ 686,726</u>	<u>\$ 1,500</u>	<u>\$ 85,400</u>	<u>\$ 602,826</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 80,775	\$ —	\$ 5,365	\$ 75,410
Obligations of states and political subdivisions	42,238	30	4,674	37,594
Corporate securities	212,567	1	19,577	192,991
Mortgage-backed securities	277,841	—	23,098	254,743
Totals	<u>\$ 613,421</u>	<u>\$ 31</u>	<u>\$ 52,714</u>	<u>\$ 560,738</u>

At June 30, 2023, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$243.4 million and an amortized cost of \$281.7 million. Our holdings at June 30, 2023 also included special revenue bonds with an aggregate fair value of \$123.5 million and an amortized cost of \$141.9 million. With respect to both categories of those bonds at June 30, 2023, we held no securities of any issuer that comprised more than 10% of our holdings of either bond category. Education bonds and water and sewer utility bonds represented 48% and 36%, respectively, of our total investments in special revenue bonds based on the carrying values of these investments at June 30, 2023. Many of the issuers of the special revenue bonds we held at June 30, 2023 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

The amortized cost and estimated fair values of our fixed maturities at December 31, 2022 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Held to Maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 103,362	\$ 1	\$ 10,566	\$ 92,797
Obligations of states and political subdivisions	382,097	1,810	60,494	323,413
Corporate securities	190,949	—	20,510	170,439
Mortgage-backed securities	12,031	—	635	11,396
Totals	<u>\$ 688,439</u>	<u>\$ 1,811</u>	<u>\$ 92,205</u>	<u>\$ 598,045</u>

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Available for Sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 68,538	\$ 109	\$ 5,125	\$ 63,522
Obligations of states and political subdivisions	45,448	34	5,326	40,156
Corporate securities	218,041	8	15,211	202,838
Mortgage-backed securities	239,886	155	22,765	217,276
Totals	<u>\$ 571,913</u>	<u>\$ 306</u>	<u>\$ 48,427</u>	<u>\$ 523,792</u>

At December 31, 2022, our holdings of obligations of states and political subdivisions included general obligation bonds with an aggregate fair value of \$240.7 million and an amortized cost of \$283.5 million. Our holdings also included special revenue bonds with an aggregate fair value of \$122.9 million and an amortized cost of \$144.0 million. With respect to both categories of bonds, we held no securities of any issuer that comprised more than 10% of that category at December 31, 2022. Education bonds and water and sewer utility bonds represented 48% and 35%, respectively, of our total investments in special revenue bonds based on their carrying values at December 31, 2022. Many of the issuers of the special revenue bonds we held at December 31, 2022 have the authority to impose ad valorem taxes. In that respect, many of the special revenue bonds we held are similar to general obligation bonds.

We have segregated within accumulated other comprehensive loss the net unrealized losses of \$15.1 million arising prior to the November 30, 2013 reclassification date for fixed maturities reclassified from available for sale to held to maturity. We are amortizing this balance over the remaining life of the related securities as an adjustment of yield in a manner consistent with the accretion of discount on the same fixed maturities. We recorded amortization of \$ 134,775 and \$298,291 in other comprehensive loss during the six months ended June 30, 2023 and 2022, respectively. At June 30, 2023 and December 31, 2022, net unrealized losses of \$4.5 million and \$4.7 million, respectively, remained within accumulated other comprehensive loss.

We show below the amortized cost and estimated fair value of our fixed maturities at June 30, 2023 by contractual maturity. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(in thousands)	
Held to maturity		
Due in one year or less	\$ 22,678	\$ 22,486
Due after one year through five years	106,904	100,896
Due after five years through ten years	250,813	224,857
Due after ten years	295,762	244,643
Mortgage-backed securities	10,569	9,944
Total held to maturity	<u>\$ 686,726</u>	<u>\$ 602,826</u>
Available for sale		
Due in one year or less	\$ 39,996	\$ 39,179
Due after one year through five years	175,377	162,356
Due after five years through ten years	94,640	82,274
Due after ten years	25,567	22,186
Mortgage-backed securities	277,841	254,743
Total available for sale	<u>\$ 613,421</u>	<u>\$ 560,738</u>

The cost and estimated fair values of our equity securities at June 30, 2023 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Equity securities	\$ 30,376	\$ 8,915	\$ 672	\$ 38,619

The cost and estimated fair values of our equity securities at December 31, 2022 were as follows:

	<u>Cost</u>	<u>Gross Gains</u>	<u>Gross Losses</u>	<u>Estimated Fair Value</u>
	(in thousands)			
Equity securities	\$ 30,771	\$ 5,666	\$ 1,332	\$ 35,105

We present below gross gains and losses from investments and the change in the difference between fair value and cost of investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Gross realized gains:				
Fixed maturities	\$ 419	\$ 438	\$ 441	\$ 672
Equity securities	—	—	285	843
Real estate	—	—	—	477
	<u>419</u>	<u>438</u>	<u>726</u>	<u>1,992</u>
Gross realized losses:				
Fixed maturities	272	31	2,494	100
Equity securities	5	—	51	824
	<u>277</u>	<u>31</u>	<u>2,545</u>	<u>924</u>
Net realized gains (losses)	142	407	(1,819)	1,068
Gross unrealized gains on equity securities	2,473	—	4,675	6
Gross unrealized losses on equity securities	(142)	(8,784)	(627)	(9,527)
Fixed maturities - credit impairment charges	31	—	(56)	—
Net investment gains (losses)	<u>\$ 2,504</u>	<u>\$ (8,377)</u>	<u>\$ 2,173</u>	<u>\$ (8,453)</u>

We held fixed maturities with unrealized losses representing declines that we considered temporary at June 30, 2023 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 54,372	\$ 1,032	\$ 102,559	\$ 14,817
Obligations of states and political subdivisions	45,123	717	285,954	57,497
Corporate securities	74,336	4,359	297,341	35,969
Mortgage-backed securities	88,841	1,811	175,846	21,912
Totals	<u>\$ 262,672</u>	<u>\$ 7,919</u>	<u>\$ 861,700</u>	<u>\$ 130,195</u>

We held fixed maturities with unrealized losses representing declines that we considered temporary at December 31, 2022 as follows:

	Less Than 12 Months		More Than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 90,245	\$ 5,327	\$ 47,238	\$ 10,364
Obligations of states and political subdivisions	261,465	49,327	47,945	16,493
Corporate securities	298,706	22,272	72,959	13,449
Mortgage-backed securities	143,886	10,941	69,879	12,459
Totals	\$ 794,302	\$ 87,867	\$ 238,021	\$ 52,765

We make estimates concerning the valuation of our investments and, as applicable, the recognition of declines in the value of our investments. For equity securities, we measure investments at fair value, and we recognize changes in fair value in our results of operations. With respect to an available-for-sale debt security that is in an unrealized loss position, we first assess if we intend to sell the debt security. If we determine we intend to sell the debt security, we recognize the impairment loss in our results of operations. If we do not intend to sell the debt security, we determine whether it is more likely than not that we will be required to sell the debt security prior to recovery. If we determine it is more likely than not that we will be required to sell the debt security prior to recovery, we recognize the impairment loss in our results of operations. If we determine it is more likely than not that we will not be required to sell the debt security prior to recovery, we then evaluate whether a credit loss has occurred with respect to that security. We determine whether a credit loss has occurred by comparing the amortized cost of the debt security to the present value of the cash flows we expect to collect. If we expect a cash flow shortfall, we consider that a credit loss has occurred. If we determine that a credit loss has occurred, we establish an allowance for credit loss. We then recognize the amount of the allowance in our results of operations, and we recognize the remaining portion of the impairment loss in our other comprehensive income, net of applicable taxes. We regularly review the allowance for credit losses and recognize changes in the allowance in our results of operations. In addition, we may write down securities in an unrealized loss position based on a number of other factors, including when the fair value of an investment is significantly below its cost, when the financial condition of the issuer of a security has deteriorated, the occurrence of industry, issuer or geographic events that have negatively impacted the value of a security and rating agency downgrades. For held-to-maturity debt securities, we make estimates concerning expected credit losses at an aggregated level rather than monitoring individual debt securities for credit losses. We establish an allowance for expected credit losses based on an ongoing review of securities held, historical loss data, changes in issuer credit standing and other relevant factors. We utilize a probability-of-default methodology, which reflects current and forecasted economic conditions, to estimate the allowance for expected credit losses and recognize changes to the allowance in our results of operations. We held 914 debt securities that were in an unrealized loss position at June 30, 2023. Based upon our analysis of general market conditions and underlying factors impacting these debt securities, we considered these declines in value to be temporary.

We amortize premiums and discounts on debt securities over the life of the security as an adjustment to yield using the effective interest method. We compute realized investment gains and losses using the specific identification method.

We amortize premiums and discounts on mortgage-backed debt securities using anticipated prepayments.

6 - Segment Information

We evaluate the performance of our personal lines and commercial lines segments based upon the underwriting results of our insurance subsidiaries using statutory accounting principles ("SAP") that various state insurance departments prescribe or permit. Our management uses SAP to measure the performance of our insurance subsidiaries instead of United States generally accepted accounting principles ("GAAP"). SAP financial measures are considered non-GAAP financial measures under applicable SEC rules because they include or exclude certain items that the most comparable GAAP financial measures do not ordinarily include or exclude.

Financial data by segment for the three and six months ended June 30, 2023 and 2022 is as follows:

	Three Months Ended June 30,	
	2023	2022
	(in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	\$ 128,092	\$ 126,854
Personal lines	88,168	77,274
GAAP premiums earned	216,260	204,128
Net investment income	10,157	8,204
Investment gains (losses)	2,504	(8,377)
Other	275	356
Total revenues	<u>\$ 229,196</u>	<u>\$ 204,311</u>
Income (loss) before income tax expense (benefit):		
Underwriting loss:		
Commercial lines	\$ (5,429)	\$ (4,848)
Personal lines	(6,424)	(8,170)
SAP underwriting loss	(11,853)	(13,018)
GAAP adjustments	1,649	2,842
GAAP underwriting loss	(10,204)	(10,176)
Net investment income	10,157	8,204
Investment gains (losses)	2,504	(8,377)
Other	(204)	(230)
Income (loss) before income tax expense (benefit)	<u>\$ 2,253</u>	<u>\$ (10,579)</u>

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Revenues:		
Premiums earned:		
Commercial lines	\$ 258,558	\$ 251,183
Personal lines	172,935	152,194
GAAP premiums earned	431,493	403,377
Net investment income	19,607	16,063
Investment gains (losses)	2,173	(8,453)
Other	669	951
Total revenues	\$ 453,942	\$ 411,938
Income before income tax expense:		
Underwriting loss:		
Commercial lines	\$ (13,353)	\$ (4,773)
Personal lines	(5,562)	(3,528)
SAP underwriting loss	(18,915)	(8,301)
GAAP adjustments	6,086	6,554
GAAP underwriting loss	(12,829)	(1,747)
Net investment income	19,607	16,063
Investment gains (losses)	2,173	(8,453)
Other	(401)	(216)
Income before income tax expense	\$ 8,550	\$ 5,647

7 - Borrowings

Lines of Credit

In August 2020, we entered into a credit agreement with Manufacturers and Traders Trust Company (“M&T”) that related to a \$20.0 million unsecured demand line of credit. The line of credit has no expiration date, no annual fees and no covenants. At June 30, 2023, we had no outstanding borrowings from M&T and had the ability to borrow up to \$20.0 million at an interest rate equal to the then-current Term SOFR rate plus 2.11%.

Atlantic States is a member of the FHLB of Pittsburgh. Through its membership, Atlantic States has the ability to issue debt to the FHLB of Pittsburgh in exchange for cash advances. Atlantic States has a fixed-rate cash advance of \$35.0 million that was outstanding at June 30, 2023. The cash advance carries a fixed interest rate of 1.74% and is due in August 2024. The table below presents the amount of FHLB of Pittsburgh stock Atlantic States purchased, collateral pledged and assets related to Atlantic States’ membership in the FHLB of Pittsburgh at June 30, 2023.

FHLB of Pittsburgh stock purchased and owned	\$ 1,591,800
Collateral pledged, at par (carrying value \$44,815,721)	48,536,995
Borrowing capacity currently available	7,079,872

8 - Share-Based Compensation

We measure all share-based payments to employees, including grants of stock options, and use a fair-value-based method for the recording of related compensation expense in our results of operations. In determining the expense we record for stock options granted to directors and employees of our subsidiaries and affiliates, we estimate the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The significant assumptions we utilize in applying the Black-Scholes option pricing model are the risk-free interest rate, the expected term, the dividend yield and the expected volatility.

We recorded compensation expense related to our stock compensation plans of \$249,481 and \$241,645 for the three months ended June 30, 2023 and 2022, respectively, with a corresponding income tax benefit of \$52,391 and \$50,745, respectively. We recorded compensation expense related to our stock compensation plans of \$501,254 and \$485,785 for the six months ended June 30, 2023 and 2022, respectively, with a corresponding income tax benefit of \$105,263 and \$102,015, respectively. At June 30, 2023, we had \$1.2 million of unrecognized compensation expense related to nonvested share-based compensation granted under our stock compensation plans that we expect to recognize over a weighted average period of approximately 1.7 years.

We received cash from option exercises under all stock compensation plans during the three months ended June 30, 2023 and 2022 of \$ 2.7 million and \$11.2 million, respectively. We received cash from option exercises under all stock compensation plans during the six months ended June 30, 2023 and 2022 of \$4.7 million and \$11.3 million, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of \$ 66,955 and \$264,659 for the three months ended June 30, 2023 and 2022, respectively. We realized actual tax benefits for the tax deductions related to those option exercises of \$113,143 and \$264,812 for the six months ended June 30, 2023 and 2022, respectively.

9 - Fair Value Measurements

We account for financial assets using a framework that establishes a hierarchy that ranks the quality and reliability of the inputs, or assumptions, we use in the determination of fair value, and we classify financial assets and liabilities carried at fair value in one of the following three categories:

Level 1 – quoted prices in active markets for identical assets and liabilities;

Level 2 – directly or indirectly observable inputs other than Level 1 quoted prices; and

Level 3 – unobservable inputs not corroborated by market data.

For investments that have quoted market prices in active markets, we use the quoted market price as fair value and include these investments in Level 1 of the fair value hierarchy. We classify publicly-traded equity securities as Level 1. When quoted market prices in active markets are not available, we base fair values on quoted market prices of comparable instruments or price estimates we obtain from independent pricing services and include these investments in Level 2 of the fair value hierarchy. We classify our fixed maturity investments and non-publicly traded equity securities as Level 2. Our fixed maturity investments consist of U.S. Treasury securities and obligations of U.S. government corporations and agencies, obligations of states and political subdivisions, corporate securities and mortgage-backed securities.

We present our investments in available-for-sale fixed maturity and equity securities at estimated fair value. The estimated fair value of a security may differ from the amount that could be realized if we sold the security in a forced transaction. In addition, the valuation of fixed maturity investments is more subjective when markets are less liquid, increasing the potential that the estimated fair value does not reflect the price at which an actual transaction would occur. We utilize nationally recognized independent pricing services to estimate fair values or obtain market quotations for substantially all of our fixed maturity and equity investments. We generally obtain two prices per security. These pricing services utilize market quotations for fixed maturity and equity securities that have quoted prices in active markets. For fixed maturity securities that generally do not trade on a daily basis, the pricing services prepare estimates of fair value measurements based predominantly on observable market inputs. The pricing services do not use broker quotes in determining the fair values of our investments. Our investment personnel review the estimates of fair value the pricing services provide to verify that the estimates we obtain from the pricing services are representative of fair values based upon our investment personnel's general knowledge of the market, their research findings related to unusual fluctuations in value and their comparison of such values to execution prices for similar securities. Our investment personnel monitor the market and are familiar with current trading ranges for similar securities and the pricing of specific investments. Our investment personnel review all pricing estimates that we receive from the pricing services against their expectations with respect to pricing based on fair market curves, security ratings, coupon rates, security types and recent trading activity. Our investment personnel periodically review documentation with respect to the pricing services' pricing methodology that they obtain to determine if the primary pricing sources, market inputs and pricing frequency for various security types are reasonable. At June 30, 2023, we received two estimates per security from the pricing services, and we priced substantially all of our Level 1 and Level 2 investments using those prices. In our review of the estimates the pricing services provided at June 30, 2023, we did not identify any material discrepancies, and we did not make any adjustments to the estimates the pricing services provided.

We present our cash and short-term investments at estimated fair value. We classify these items as Level 1.

The carrying values we report in our balance sheet for premium receivables, reinsurance receivables related to paid losses and loss expenses and reinsurance balances payable approximate their fair values. The carrying amounts we report in our balance sheets for our borrowings under lines of credit approximate their fair values. We classify these items as Level 3.

We evaluate our assets and liabilities to determine the appropriate level at which to classify them for each reporting period.

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at June 30, 2023:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 75,410	\$ —	\$ 75,410	\$ —
Obligations of states and political subdivisions	37,594	—	37,594	—
Corporate securities	192,991	—	192,991	—
Mortgage-backed securities	254,743	—	254,743	—
Equity securities	38,619	36,627	1,992	—
Total investments in the fair value hierarchy	<u>\$ 599,357</u>	<u>\$ 36,627</u>	<u>\$ 562,730</u>	<u>\$ —</u>

The following table presents our fair value measurements for our investments in available-for-sale fixed maturity and equity securities at December 31, 2022:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 63,522	\$ —	\$ 63,522	\$ —
Obligations of states and political subdivisions	40,156	—	40,156	—
Corporate securities	202,838	—	202,838	—
Mortgage-backed securities	217,276	—	217,276	—
Equity securities	35,105	32,821	2,284	—
Totals	<u>\$ 558,897</u>	<u>\$ 32,821</u>	<u>\$ 526,076</u>	<u>\$ —</u>

10 - Income Taxes

At June 30, 2023 and December 31, 2022, respectively, we had no material unrecognized tax benefits or accrued interest and penalties. Tax years 2016 through 2022 remained open for examination at June 30, 2023. We provide a valuation allowance when we believe it is more likely than not that we will not realize some portion of our tax assets. We established a valuation allowance of \$8.1 million for our net state operating loss carryforward. We have determined that we are not required to establish a valuation allowance for our other deferred tax assets of \$42.1 million and \$39.8 million at June 30, 2023 and December 31, 2022, respectively, because it is more likely than not that we will realize these deferred tax assets through reversals of existing temporary differences, future taxable income and the implementation of tax planning strategies.

11 - Liabilities for Losses and Loss Expenses

The establishment of appropriate liabilities for losses and loss expenses is an inherently uncertain process, and we can provide no assurance that our insurance subsidiaries' ultimate liabilities for losses and loss expenses will not exceed their loss and loss expense reserves and have an adverse effect on our results of operations and financial condition. For example, legislative, judicial and regulatory actions may expand coverage definitions, retroactively mandate coverage or otherwise require our insurance subsidiaries to pay losses for damages that their policies explicitly excluded or did not intend to cover. Furthermore, we cannot predict the timing, frequency and extent of adjustments to our insurance subsidiaries' estimated future liabilities, because the historical conditions and events that serve as a basis for our insurance subsidiaries' estimates of ultimate claim costs may change. As is the case for substantially all property and casualty insurance companies, our insurance subsidiaries have found it necessary in the past to increase their estimated future liabilities for losses and loss expenses in certain periods, and, in other periods, their estimated future liabilities for losses and loss expenses have exceeded their actual liabilities for losses and loss expenses. Changes in our insurance subsidiaries' estimate of their liabilities for losses and loss expenses generally reflect actual payments and their evaluation of information received subsequent to the prior reporting period.

We summarize activity in our insurance subsidiaries' liabilities for losses and loss expenses as follows:

	Six Months Ended June 30,	
	2023	2022
	(in thousands)	
Balance at January 1	\$ 1,121,046	\$ 1,077,620
Less reinsurance recoverable	(451,184)	(451,261)
Cumulative effect of adoption of updated accounting guidance for credit losses at January 1	1,132	—
Net balance at January 1	670,994	626,359
Incurred related to:		
Current year	297,801	283,906
Prior years	(8,460)	(24,415)
Total incurred	289,341	259,491
Paid related to:		
Current year	129,999	112,253
Prior years	152,890	130,441
Total paid	282,889	242,694
Net balance at end of period	677,446	643,156
Plus reinsurance recoverable	445,237	440,198
Balance at end of period	<u>\$ 1,122,683</u>	<u>\$ 1,083,354</u>

Our insurance subsidiaries recognized a decrease in their liabilities for losses and loss expenses of prior years of \$8.5 million and \$24.4 million for the six months ended June 30, 2023 and 2022, respectively. Our insurance subsidiaries made no significant changes in their reserving philosophy or claims management personnel, and they have made no significant offsetting changes in estimates that increased or decreased their loss and loss expense reserves in those years. The 2023 development represented 1.3% of the December 31, 2022 net carried reserves and resulted from lower-than-expected loss emergence or severity primarily in the commercial automobile, workers' compensation and homeowners lines of business. The majority of the 2023 development related to decreases in the liabilities for losses and loss expenses of prior years for Atlantic States and MICO. The 2022 development represented 3.9% of the December 31, 2021 net carried reserves and resulted primarily from lower-than-expected loss emergence or severity in nearly all lines of business. The majority of the 2022 development related to decreases in the liabilities for losses and loss expenses of prior years for Atlantic States and MICO.

Short-duration contracts are contracts for which our insurance subsidiaries receive premiums that they recognize as revenue over the period of the contract in proportion to the amount of insurance protection our insurance subsidiaries provide. Our insurance subsidiaries consider the policies they issue to be short-duration contracts. We consider the material lines of business of our insurance subsidiaries to be personal automobile, homeowners, commercial automobile, commercial multi-peril and workers' compensation.

Our insurance subsidiaries determine incurred but not reported ("IBNR") reserves by subtracting the cumulative loss and loss expense amounts our insurance subsidiaries have paid and the case reserves our insurance subsidiaries have established at the balance sheet date from their actuaries' estimate of the ultimate cost of losses and loss expenses. Accordingly, the IBNR reserves of our insurance subsidiaries include their actuaries' projections of the cost of unreported claims as well as their actuaries' projected development of case reserves on known claims and reopened claims. Our insurance subsidiaries' methodology for estimating IBNR reserves has been in place for many years, and their actuaries made no significant changes to that methodology during the six months ended June 30, 2023.

The actuaries for our insurance subsidiaries generally prepare an initial estimate for ultimate losses and loss expenses for the current accident year by multiplying earned premium by an "*a priori*," or expected, loss ratio for each line of business our insurance subsidiaries write. Expected loss ratios represent the actuaries' expectation of losses at the time our insurance subsidiaries price and write their policies and before the emergence of any actual claims experience. The actuaries determine an expected loss ratio by analyzing historical experience and adjusting for loss cost trends, loss frequency and severity trends, premium rate level changes, reported and paid loss emergence patterns and other known or observed factors.

The actuaries use a variety of actuarial methods to estimate the ultimate cost of losses and loss expenses. These methods include paid loss development, incurred loss development and the Bornhuetter-Ferguson method from which the actuaries select loss development factor assumptions. The actuaries base their selection of a point estimate on a judgmental weighting of the estimates each of these methods produce.

The actuaries consider loss frequency and severity trends when they develop expected loss ratios and point estimates. Loss frequency is a measure of the number of claims per unit of insured exposure, and loss severity is a measure of the average size of claims. Factors that affect loss frequency include changes in weather patterns and economic activity. Factors that affect loss severity include changes in policy limits, reinsurance retentions, inflation rates and judicial interpretations.

Our insurance subsidiaries create a claim file when they receive notice of an actual demand for payment, an event that may lead to a demand for payment or when they otherwise determine that a demand for payment could potentially lead to a future demand for payment on another coverage under the same policy or another policy they have issued. In recent years, our insurance subsidiaries have noted an increase in the period of time between the occurrence of a casualty loss event and the date at which they receive notice of a liability claim. Changes in the length of time between the loss occurrence date and the claim reporting date affect the actuaries' ability to predict loss frequency accurately and the amount of IBNR reserves our insurance subsidiaries require.

Our insurance subsidiaries generally create a claim file for a policy at the claimant level by type of coverage and generally recognize one count for each claim event. In certain lines of business where it is common for multiple parties to claim damages arising from a single claim event, our insurance subsidiaries recognize one count for each claimant involved in the event. Atlantic States recognizes one count for each claim event, or claimant involved in a multiple-party claim event, related to losses Atlantic States assumes through its participation in its pooling agreement with Donegal Mutual. Our insurance subsidiaries accumulate the claim counts and report them by line of business.

12 - Allowance for Expected Credit Losses
Held-to-Maturity Fixed-Maturity Securities

The following table presents the balances for fixed maturities classified as held-to-maturity, net of the allowance for expected credit losses, at June 30, 2023 and 2022 and changes in the allowance for expected credit losses for the three and six months ended June 30, 2023 and 2022.

	At and For the Three Months Ended June 30, 2023		At and For the Three Months Ended June 30, 2022	
	Held-to- Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Held-to- Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 693,779	\$ 1,355	\$ 690,691	\$ —
Current period change for expected credit losses		(31)		—
Balance at end of period	\$ 685,402	\$ 1,324	\$ 700,335	\$ —

	At and For the Six Months Ended June 30, 2023		At and For the Six Months Ended June 30, 2022	
	Held-to- Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Held-to- Maturity, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 688,439	\$ —	\$ 668,105	\$ —
Cumulative effect of adoption of updated accounting guidance for credit losses at January 1		1,268		—
Current period change for expected credit losses		56		—
Balance at end of period	\$ 685,402	\$ 1,324	\$ 700,335	\$ —

Reinsurance Receivable

The following table presents the balances for reinsurance receivable, net of the allowance for expected credit losses, at June 30, 2023 and 2022, and the changes in the allowance for expected credit losses for the three and six months ended June 30, 2023 and 2022.

	At and For the Three Months Ended June 30, 2023		At and For the Three Months Ended June 30, 2022	
	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 460,681	\$ 1,467	\$ 448,296	\$ —
Current period change for expected credit losses		100		—
Balance at end of period	\$ 450,680	\$ 1,567	\$ 445,151	\$ —

	At and For the Six Months Ended June 30, 2023		At and For the Six Months Ended June 30, 2022	
	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses	Reinsurance Receivable, Net of Allowance for Expected Credit Losses	Allowance for Expected Credit Losses
	(in thousands)			
Balance at beginning of period	\$ 456,522	\$ —	\$ 455,411	\$ —
Cumulative effect of adoption of updated accounting guidance for credit losses at January 1		1,132		—
Current period change for expected credit losses		435		—
Balance at end of period	<u>\$ 450,680</u>	<u>\$ 1,567</u>	<u>\$ 445,151</u>	<u>\$ —</u>

13 - Impact of New Accounting Standards

In September 2016, the FASB issued guidance that amended previous guidance on the impairment of financial instruments by adding an impairment model that requires an entity to recognize expected credit losses as an allowance rather than impairments as credit losses are incurred. The intent of this guidance is to reduce complexity and result in a more timely recognition of expected credit losses. In November 2019, the FASB issued guidance that delayed the effective date for “smaller reporting companies,” as defined in Item 10(f)(1) of Regulation S-K, to annual and interim reporting periods beginning after December 15, 2022 from December 15, 2019. We were a smaller reporting company at the time this guidance was issued, and our adoption of this guidance on January 1, 2023 resulted in an after-tax decrease in retained earnings of \$1.9 million. The adoption of this guidance did not have a significant impact on our results of operations or cash flows.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

We recommend that you read the following information in conjunction with the historical financial information and the footnotes to that financial information we include in this Quarterly Report on Form 10-Q. We also recommend you read Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2022.

Critical Accounting Policies and Estimates

We combine our financial statements with those of our insurance subsidiaries and present our financial statements on a consolidated basis in accordance with United States generally accepted accounting principles (“GAAP”).

Our insurance subsidiaries make estimates and assumptions that can have a significant effect on amounts and disclosures we report in our financial statements. The most significant estimates relate to the liabilities of our insurance subsidiaries for property and casualty insurance losses and loss expenses. While we believe our estimates and the estimates of our insurance subsidiaries are appropriate, the ultimate amounts of these liabilities may differ from the estimates we provided. We regularly review our methods for making these estimates and we reflect any adjustment we consider necessary in our current consolidated results of operations.

Liabilities for Losses and Loss Expenses

Liabilities for losses and loss expenses are estimates at a given point in time of the amounts an insurer expects to pay with respect to incurred policyholder claims based on facts and circumstances the insurer knows at that point in time. For example, legislative, judicial and regulatory actions may expand coverage definitions, retroactively mandate coverage or otherwise require our insurance subsidiaries to pay losses for damages that their policies explicitly excluded or did not intend to cover. At the time of establishing its estimates, an insurer recognizes that its ultimate liability for losses and loss expenses will exceed or be less than such estimates. Our insurance subsidiaries base their estimates of liabilities for losses and loss expenses on assumptions as to future loss trends, expected claims severity, judicial theories of liability and other factors. However, during the loss adjustment period, our insurance subsidiaries may learn additional facts regarding individual claims, and, consequently, it often becomes necessary for our insurance subsidiaries to refine and adjust their estimates for these liabilities. We reflect any adjustments to the liabilities for losses and loss expenses of our insurance subsidiaries in our consolidated results of operations in the period in which our insurance subsidiaries make adjustments to their estimates.

Our insurance subsidiaries maintain liabilities for the payment of losses and loss expenses with respect to both reported and unreported claims. Our insurance subsidiaries establish these liabilities for the purpose of covering the ultimate costs of settling all losses, including investigation and litigation costs. Our insurance subsidiaries base the amount of their liability for reported losses primarily upon a case-by-case evaluation of the type of risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions relating to the type of loss the policyholder incurred. Our insurance subsidiaries determine the amount of their liability for unreported claims and loss expenses on the basis of historical information by line of insurance. Our insurance subsidiaries account for inflation in the reserving function through analysis of costs and trends and reviews of historical reserving results. Our insurance subsidiaries monitor their liabilities closely and recompute them periodically using new information on reported claims and a variety of statistical techniques. Our insurance subsidiaries do not discount their liabilities for losses and loss expenses.

Reserve estimates can change over time because of unexpected changes in assumptions related to our insurance subsidiaries' external environment and, to a lesser extent, assumptions related to our insurance subsidiaries' internal operations. For example, our insurance subsidiaries have experienced an increase in claims severity and a lengthening of the claim settlement periods on bodily injury claims during the past several years. In addition, the COVID-19 pandemic and related government mandates and restrictions resulted in various changes from historical claims reporting and settlement trends during 2020 and resulted in significant increases in loss costs in subsequent years due to a number of factors, including supply chain disruption, higher used automobile values, lengthening of repair completion times, increases in the cost of replacement automobile parts and rising labor rates. These trend changes give rise to greater uncertainty as to the pattern of future loss settlements. Related uncertainties regarding future trends include social inflation, availability and cost of building materials, availability of skilled labor, the rate of plaintiff attorney involvement in claims and the cost of medical technologies and procedures. Assumptions related to our insurance subsidiaries' external environment include the absence of significant changes in tort law and the legal environment that increase liability exposure, consistency in judicial interpretations of insurance coverage and policy provisions and the rate of loss cost inflation. Internal assumptions include consistency in the recording of premium and loss statistics, consistency in the recording of claims, payment and case reserving methodology, accurate measurement of the impact of rate changes and changes in policy provisions, consistency in the quality and characteristics of business written within a given line of business and consistency in reinsurance coverage and collectability of reinsured losses, among other items. To the extent our insurance subsidiaries determine that underlying factors impacting their assumptions have changed, our insurance subsidiaries make adjustments in their reserves that they consider appropriate for such changes. Accordingly, our insurance subsidiaries' ultimate liability for unpaid losses and loss expenses will likely differ from the amount recorded at June 30, 2023. For every 1% change in our insurance subsidiaries' loss and loss expense reserves, net of reinsurance recoverable, the effect on our pre-tax results of operations would be approximately \$6.8 million.

The establishment of appropriate liabilities is an inherently uncertain process and we can provide no assurance that our insurance subsidiaries' ultimate liability will not exceed our insurance subsidiaries' loss and loss expense reserves and have an adverse effect on our results of operations and financial condition. Furthermore, we cannot predict the timing, frequency and extent of adjustments to our insurance subsidiaries' estimated future liabilities, because the historical conditions and events that serve as a basis for our insurance subsidiaries' estimates of ultimate claim costs may change. As is the case for substantially all property and casualty insurance companies, our insurance subsidiaries have found it necessary in the past to increase their estimated future liabilities for losses and loss expenses in certain periods and, in other periods, their estimated future liabilities for losses and loss expenses have exceeded their actual liabilities for losses and loss expenses. Changes in our insurance subsidiaries' estimates of their liability for losses and loss expenses generally reflect actual payments and their evaluation of information received subsequent to the prior reporting period.

Excluding the impact of severe weather events and the COVID-19 pandemic, our insurance subsidiaries have noted stable amounts in the number of claims incurred and the number of claims outstanding at period ends relative to their premium base in recent years across most of their lines of business. However, the amount of the average claim outstanding has increased gradually over the past several years due to various factors such as rising inflation and increased litigation trends. We have also experienced a general slowing of settlement rates in litigated claims and lengthening of repair completion times for property and automobile claims. Our insurance subsidiaries could have to make further adjustments to their estimates in the future. However, on the basis of our insurance subsidiaries' internal procedures, which analyze, among other things, their prior assumptions, their experience with similar cases and historical trends such as reserving patterns, loss payments, pending levels of unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes, we believe that our insurance subsidiaries have made adequate provision for their liability for losses and loss expenses.

Atlantic States' participation in the pool with Donegal Mutual exposes Atlantic States to adverse loss development on the business of Donegal Mutual that the pool includes. However, pooled business represents the predominant percentage of the net underwriting activity of both companies, and Donegal Mutual and Atlantic States share proportionately any adverse risk development relating to the pooled business. The business in the pool is homogeneous and each company has a pro-rata share of the entire pool. Since the predominant percentage of the business of Atlantic States and Donegal Mutual is pooled and the results shared by each company according to its participation level under the terms of the pooling agreement, the intent of the underwriting pool is to produce a more uniform and stable underwriting result from year to year for each company than either would experience individually and to spread the risk of loss between the companies.

Our insurance subsidiaries' liabilities for losses and loss expenses by major line of business at June 30, 2023 and December 31, 2022 consisted of the following:

	June 30, 2023	December 31, 2022
	(in thousands)	
Commercial lines:		
Automobile	\$ 176,673	\$ 174,833
Workers' compensation	122,137	120,539
Commercial multi-peril	208,133	203,567
Other	27,657	23,071
Total commercial lines	<u>534,600</u>	<u>522,010</u>
Personal lines:		
Automobile	107,362	108,715
Homeowners	23,151	28,481
Other	12,333	10,656
Total personal lines	<u>142,846</u>	<u>147,852</u>
Total commercial and personal lines	677,446	669,862
Plus reinsurance recoverable	445,237	451,184
Total liabilities for losses and loss expenses	<u>\$ 1,122,683</u>	<u>\$ 1,121,046</u>

We have evaluated the effect on our insurance subsidiaries' loss and loss expense reserves and our stockholders' equity in the event of reasonably likely changes in the variables we consider in establishing the loss and loss expense reserves of our insurance subsidiaries. We established the range of reasonably likely changes based on a review of changes in accident-year development by line of business and applied those changes to our insurance subsidiaries' loss and loss expense reserves as a whole. The range we selected does not necessarily indicate what could be the potential best or worst case or the most likely scenario. The following table sets forth the estimated effect on our insurance subsidiaries' loss and loss expense reserves and our stockholders' equity in the event of reasonably likely changes in the variables we considered in establishing the loss and loss expense reserves of our insurance subsidiaries:

<u>Percentage Change in Loss and Loss Expense Reserves Net of Reinsurance</u>	<u>Adjusted Loss and Loss Expense Reserves Net of Reinsurance at June 30, 2023</u>	<u>Percentage Change in Stockholders' Equity at June 30, 2023(1)</u>	<u>Adjusted Loss and Loss Expense Reserves Net of Reinsurance at December 31, 2022</u>	<u>Percentage Change in Stockholders' Equity at December 31, 2022(1)</u>
		(dollars in thousands)		
(10.0)%	\$609,701	11.0%	\$602,876	10.9%
(7.5)	626,638	8.3	619,622	8.2
(5.0)	643,574	5.5	636,369	5.5
(2.5)	660,510	2.8	653,115	2.7
Base	677,446	—	669,862	—
2.5	694,382	(2.8)	686,609	(2.7)
5.0	711,318	(5.5)	703,355	(5.5)
7.5	728,254	(8.3)	720,102	(8.2)
10.0	745,191	(11.0)	736,848	(10.9)

(1) Net of income tax effect.

Non-GAAP Information

We prepare our consolidated financial statements on the basis of GAAP. Our insurance subsidiaries also prepare financial statements based on statutory accounting principles state insurance regulators prescribe or permit ("SAP"). SAP financial measures are considered non-GAAP financial measures under applicable SEC rules because the SAP financial measures include or exclude certain items that the most comparable GAAP financial measures do not ordinarily include or exclude. Our calculation of non-GAAP financial measures may differ from similar measures other companies use, so investors should exercise caution when comparing our non-GAAP financial measures to the non-GAAP financial measures other companies use.

Because our insurance subsidiaries do not prepare GAAP financial statements, we evaluate the performance of our personal lines and commercial lines segments utilizing SAP financial measures that reflect the growth trends and underwriting results of our insurance subsidiaries. The SAP financial measures we utilize are net premiums written and statutory combined ratio.

Net Premiums Written

We define net premiums written as the amount of full-term premiums our insurance subsidiaries record for policies effective within a given period less premiums our insurance subsidiaries cede to reinsurers. Net premiums earned is the most comparable GAAP financial measure to net premiums written. Net premiums earned represent the sum of the amount of net premiums written and the change in net unearned premiums during a given period. Our insurance subsidiaries earn premiums and recognize them as revenue over the terms of their policies, which are one year or less in duration. Therefore, increases or decreases in net premiums earned generally reflect increases or decreases in net premiums written in the preceding 12-month period compared to the comparable period one year earlier.

The following table provides a reconciliation of our net premiums earned to our net premiums written for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
Net premiums earned	\$ 216,260	\$ 204,128	\$ 431,493	\$ 403,377
Change in net unearned premiums	10,252	14,318	32,323	33,511
Net premiums written	<u>\$ 226,512</u>	<u>\$ 218,446</u>	<u>\$ 463,816</u>	<u>\$ 436,888</u>

Statutory Combined Ratio

The combined ratio is a standard measurement of underwriting profitability for an insurance company. The combined ratio does not reflect investment income, net investment gains or losses, federal income taxes or other non-operating income or expense. A combined ratio of less than 100% generally indicates underwriting profitability.

The statutory combined ratio is a non-GAAP financial measure that is based upon amounts determined under SAP. We calculate our statutory combined ratio as the sum of:

- the statutory loss ratio, which is the ratio of calendar-year net incurred losses and loss expenses, excluding anticipated salvage and subrogation recoveries, to net premiums earned;
- the statutory expense ratio, which is the ratio of expenses incurred for net commissions, premium taxes and underwriting expenses to net premiums written; and
- the statutory dividend ratio, which is the ratio of dividends to holders of workers' compensation policies to net premiums earned.

The calculation of our statutory combined ratio differs from the calculation of our GAAP combined ratio. In calculating our GAAP combined ratio, we do not deduct installment payment fees from incurred expenses, and we base the expense ratio on net premiums earned instead of net premiums written. Differences between our GAAP loss ratio and our statutory loss ratio result from anticipating salvage and subrogation recoveries for our GAAP loss ratio but not for our statutory loss ratio.

Combined Ratios

The following table presents comparative details with respect to our GAAP and statutory combined ratios for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP Combined Ratios (Total Lines)				
Loss ratio - core losses	55.0%	57.1%	55.8%	57.9%
Loss ratio - weather-related losses	9.1	9.6	7.8	6.8
Loss ratio - large fire losses	5.9	6.6	5.5	5.7
Loss ratio - net prior-year reserve development	(0.1)	(3.9)	(2.0)	(6.1)
Loss ratio	69.9	69.4	67.1	64.3
Expense ratio	34.2	35.0	35.3	35.4
Dividend ratio	0.6	0.6	0.6	0.7
Combined ratio	104.7%	105.0%	103.0%	100.4%
Statutory Combined Ratios				
Commercial lines:				
Automobile	101.9%	100.1%	99.1%	94.7%
Workers' compensation	95.7	78.7	91.0	87.8
Commercial multi-peril	111.8	119.5	113.3	109.8
Other	95.7	87.1	88.2	79.9
Total commercial lines	103.6	101.6	101.8	97.6
Personal lines:				
Automobile	104.4	104.0	104.1	98.9
Homeowners	103.4	123.5	101.8	115.9
Other	105.9	51.3	77.4	47.6
Total personal lines	104.3	107.5	101.6	101.2
Total commercial and personal lines	103.8	103.8	101.7	99.0

Results of Operations - Three Months Ended June 30, 2023 Compared to Three Months Ended June 30, 2022

Net Premiums Earned. Our insurance subsidiaries' net premiums earned for the second quarter of 2023 were \$216.3 million, an increase of \$12.2 million, or 5.9%, compared to \$204.1 million for the second quarter of 2022, primarily reflecting solid premium retention and renewal premium increases.

Net Premiums Written. Our insurance subsidiaries' net premiums written for the second quarter of 2023 were \$226.5 million, an increase of \$8.1 million, or 3.7%, from the \$218.4 million of net premiums written for the second quarter of 2022. Commercial lines net premiums written decreased \$4.3 million, or 3.2%, for the second quarter of 2023 compared to the second quarter of 2022. Personal lines net premiums written increased \$12.4 million, or 14.8%, for the second quarter of 2023 compared to the second quarter of 2022. We attribute the decrease in commercial lines net premiums written primarily to planned attrition in states we are exiting or have targeted for profit improvement, lower new business writings and reinsurance reinstatement premiums on our property excess of loss reinsurance program, offset partially by strong premium retention and a continuation of renewal premium increases in lines other than workers' compensation. We attribute the increase in personal lines net premiums written primarily to renewal premium increases and strong premium retention.

Investment Income. Our net investment income was \$10.2 million for the second quarter of 2023, an increase of \$2.0 million, or 23.8%, compared to \$8.2 million for the second quarter of 2022. We attribute the increase primarily to an increase in the average investment yield relative to the second quarter of 2022.

Net Investment Gains (Losses). Net investment gains for the second quarter of 2023 were \$2.5 million, compared to net investment losses of \$8.4 million for the second quarter of 2022. The net investment gains and losses for the second quarter of 2023 and 2022, respectively, resulted primarily from the net change in unrealized gains and losses within our equity securities portfolio at June 30, 2023 and 2022, respectively. We did not recognize any impairment losses for individual securities in our investment portfolio during the second quarter of 2023 or 2022.

Losses and Loss Expenses. Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, was 69.9% for the second quarter of 2023, an increase from our insurance subsidiaries' loss ratio of 69.4% for the second quarter of 2022. We attribute this increase primarily to a decreased benefit of net favorable development of reserves for losses incurred in prior accident years. Loss ratios for both periods for the automobile and property lines of business reflected the impact of higher costs of labor, parts and materials. Weather-related losses were \$19.7 million, or 9.1 percentage points of the loss ratio, for the second quarter of 2023, compared to \$19.6 million, or 9.6 percentage points of the loss ratio, for the second quarter of 2022. The impact of weather-related loss activity to the loss ratio for the second quarter of 2023 was higher than our previous five-year average of 8.9 percentage points for second quarter weather-related losses. Large fire losses for the second quarter of 2023 were \$12.7 million, or 5.9 percentage points of the loss ratio, compared to \$13.4 million, or 6.6 percentage points of the loss ratio, for the second quarter of 2022. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 67.9% for the second quarter of 2023, compared to 66.2% for the second quarter of 2022, primarily due to an increase in the workers' compensation loss ratio. The personal lines statutory loss ratio of our insurance subsidiaries decreased to 73.4% for the second quarter of 2023, compared to 75.2% for the second quarter of 2022. We attribute this decrease primarily to a decrease in the homeowners loss ratio. Our insurance subsidiaries experienced negligible favorable loss reserve development for the second quarter of 2023, compared to \$7.9 million that decreased the loss ratio for the second quarter of 2022 by 3.9 percentage points.

Underwriting Expenses. The expense ratio for an insurance company is the ratio of policy acquisition costs and other underwriting expenses to premiums earned. The expense ratio of our insurance subsidiaries was 34.2% for the second quarter of 2023, compared to 35.0% for the second quarter of 2022. The decrease in the expense ratio primarily reflected lower underwriting-based incentive costs for our agents and employees for the second quarter of 2023 compared to the prior-year quarter.

Combined Ratio. The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 104.7% and 105.0% for the second quarter of 2023 and 2022, respectively. We attribute the decrease in the combined ratio primarily to a decrease in the expense ratio for the second quarter of 2023 compared to the second quarter of 2022.

Income Tax Expense (Benefit). We recorded income tax expense of \$256,055 for the second quarter of 2023, representing an effective tax rate of 11.4%. We recorded an income tax benefit of \$2.4 million for the second quarter of 2022. The income tax expense (benefit) for the second quarter of 2023 and 2022 represented estimates based on our projected annual taxable income and effective tax rates.

Net Income (Loss) and Net Income (Loss) Per Share. Our net income for the second quarter of 2023 was \$2.0 million, or \$.06 per share of Class A common stock on a diluted basis and \$.05 per share of Class B common stock, compared to a net loss of \$8.2 million, or \$.26 per share of Class A common stock and \$.24 per share of Class B common stock, for the second quarter of 2022. We had 27.5 million and 26.6 million Class A shares outstanding at June 30, 2023 and 2022, respectively. We had 5.6 million Class B shares outstanding at the end of both periods.

Results of Operations - Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022

Net Premiums Earned. Our insurance subsidiaries' net premiums earned for the first half of 2023 were \$431.5 million, an increase of \$28.1 million, or 7.0%, compared to \$403.4 million for the first half of 2022, primarily reflecting solid premium retention and renewal premium increases.

Net Premiums Written. Our insurance subsidiaries' net premiums written for the first half of 2023 were \$463.8 million, an increase of \$26.9 million, or 6.2%, from the \$436.9 million of net premiums written for the first half of 2022. Commercial lines net premiums written increased \$1.8 million, or 0.6%, for the first half of 2023 compared to the first half of 2022. Personal lines net premiums written increased \$25.1 million, or 16.1%, for the first half of 2023 compared to the first half of 2022. We attribute the increase in commercial lines net premiums written primarily to strong premium retention and a continuation of renewal premium increases in lines other than workers' compensation, offset partially by planned attrition in states we are exiting or have targeted for profit improvement, lower new business writings and reinsurance reinstatement premiums on our property excess of loss reinsurance program. We attribute the increase in personal lines net premiums written primarily to renewal premium increases and strong premium retention.

Investment Income. Our net investment income was \$19.6 million for the first half of 2023, an increase of \$3.5 million, or 22.1%, compared to \$16.1 million for the first half of 2022. We attribute the increase primarily to an increase in the average investment yield relative to the first half of 2022.

Net Investment Gains (Losses). Net investment gains for the first half of 2023 were \$2.2 million, compared to net investment losses of \$8.5 million for the first half of 2022. The net investment gains and losses for the first half of 2023 and 2022, respectively, resulted primarily from the net change in unrealized gains and losses within our equity securities portfolio at June 30, 2023 and 2022, respectively. We did not recognize any impairment losses for individual securities in our investment portfolio during the first half of 2023 or 2022.

Losses and Loss Expenses. Our insurance subsidiaries' loss ratio, which is the ratio of incurred losses and loss expenses to premiums earned, was 67.1% for the first half of 2023, an increase from our insurance subsidiaries' loss ratio of 64.3% for the first half of 2022. We attribute this increase primarily to increased weather-related losses and a decreased benefit of net favorable development of reserves for losses incurred in prior accident years. Loss ratios for both periods for the automobile and property lines of business reflected the impact of higher costs of labor, parts and materials. Weather-related losses of \$33.8 million, or 7.8 percentage points of the loss ratio, for the first half of 2023, increased from \$27.5 million, or 6.8 percentage points of the loss ratio, for the first half of 2022. The impact of weather-related loss activity to the loss ratio for the first half of 2023 was higher than our previous five-year average of 6.8 percentage points for first half weather-related losses. Large fire losses for the first half of 2023 were \$23.6 million, or 5.5 percentage points of the loss ratio, compared to \$23.0 million, or 5.7 percentage points of the loss ratio, for the first half of 2022. On a statutory basis, our insurance subsidiaries' commercial lines loss ratio was 65.5% for the first half of 2023, compared to 61.6% for the first half of 2022, primarily due to increases in the commercial automobile, workers' compensation and commercial multi-peril loss ratios. The personal lines statutory loss ratio of our insurance subsidiaries increased to 70.0% for the first half of 2023, compared to 69.2% for the first half of 2022. We attribute this increase primarily to an increase in the personal automobile loss ratio. Our insurance subsidiaries experienced favorable loss reserve development for the first half of 2023 of approximately \$8.5 million that decreased the loss ratio by 2.0 percentage points, compared to \$24.4 million that decreased the loss ratio for the first half of 2022 by 6.1 percentage points. Our insurance subsidiaries experienced favorable development primarily in the commercial automobile, workers' compensation and homeowners lines of business for the first half of 2023, with the majority of the impact relating to reserves for accident years 2021 and 2020.

Underwriting Expenses. The expense ratio for an insurance company is the ratio of policy acquisition costs and other underwriting expenses to premiums earned. The expense ratio of our insurance subsidiaries was 35.3% for the first half of 2023, compared to 35.4% for the first half of 2022. The modest decrease in the expense ratio primarily reflected lower underwriting-based incentive costs for our agents and employees for the first half of 2023 compared to the first half of 2022.

Combined Ratio. The combined ratio represents the sum of the loss ratio, the expense ratio and the dividend ratio, which is the ratio of policyholder dividends incurred to premiums earned. Our insurance subsidiaries' combined ratios were 103.0% and 100.4% for the first half of 2023 and 2022, respectively. We attribute the increase in the combined ratio primarily to an increase in the loss ratio for the first half of 2023 compared to the first half of 2022.

Income Tax Expense. We recorded income tax expense of \$1.3 million and \$709,888 for the first half of 2023 and 2022, respectively, representing effective tax rates of 15.8% and 12.5%, respectively. The income tax expense for the first half of 2023 and 2022 represented estimates based on our projected annual taxable income and effective tax rates.

Net Income and Net Income Per Share. Our net income for the first half of 2023 was \$7.2 million, or \$.22 per share of Class A common stock on a diluted basis and \$.20 per share of Class B common stock, compared to \$4.9 million, or \$.16 per share of Class A common stock on a diluted basis and \$.14 per share of Class B common stock, for the first half of 2022. We had 27.5 million and 26.6 million Class A shares outstanding at June 30, 2023 and 2022, respectively. We had 5.6 million Class B shares outstanding at the end of both periods.

Liquidity and Capital Resources

Liquidity is a measure of an entity's ability to secure enough cash to meet its contractual obligations and operating needs as such obligations and needs arise. Our major sources of funds from operations are the net cash flows we generate from our insurance subsidiaries' underwriting results, investment income and investment maturities.

Our operations have historically generated sufficient net positive cash flow to fund our commitments and add to our investment portfolio, thereby increasing future investment returns and enhancing our liquidity. The impact of the pooling agreement between Donegal Mutual and Atlantic States has historically been cash-flow positive because of the consistent underwriting profitability of the pool. Donegal Mutual and Atlantic States settle their respective obligations to each other under the pool monthly, thereby resulting in cash flows substantially similar to the cash flows that would result from each company writing the business directly. We have not experienced any unusual variations in the timing of claim payments associated with the loss reserves of our insurance subsidiaries. We maintain significant liquidity in our investment portfolio in the form of readily marketable fixed maturities, equity securities and short-term investments. We structure our fixed-maturity investment portfolio following a "laddering" approach, so that projected cash flows from investment income and principal maturities are evenly distributed from a timing perspective, thereby providing an additional measure of liquidity to meet our obligations should an unexpected variation occur in the future. Our operating activities provided net cash flows in the first half of 2023 and 2022 of \$13.1 million and \$35.0 million, respectively.

At June 30, 2023, we had no outstanding borrowings under our line of credit with M&T and had the ability to borrow up to \$20.0 million at an interest rate equal to the then-current Term SOFR rate plus 2.11%. At June 30, 2023, Atlantic States had a \$35.0 million outstanding advance with the FHLB of Pittsburgh that carries a fixed interest rate of 1.74%.

We estimate the timing of claim payments associated with the liabilities for losses and loss expenses of our insurance subsidiaries based on historical experience and expectations of future payment patterns. We show these liabilities net of reinsurance recoverable on unpaid losses and loss expenses to reflect expected future cash flows related to such liabilities. Amounts Atlantic States assumes pursuant to the pooling agreement with Donegal Mutual represent a substantial portion of our insurance subsidiaries' gross liabilities for losses and loss expenses, and amounts Atlantic States cedes pursuant to the pooling agreement represent a substantial portion of our insurance subsidiaries' reinsurance recoverable on unpaid losses and loss expenses. We include cash settlement of Atlantic States' assumed liabilities from the pool in monthly settlements of pooled activity, as we net amounts ceded to and assumed from the pool. Although Donegal Mutual and we do not anticipate any changes in the pool participation levels in the foreseeable future, any such change would be prospective in nature and therefore would not impact the timing of expected payments by Atlantic States for its percentage share of pooled losses occurring in periods prior to the effective date of such change.

We discuss in Note 7 – Borrowings our estimate of the timing of the amounts payable for the borrowings under our lines of credit based on their contractual maturities.

On July 18, 2013, our board of directors authorized a share repurchase program pursuant to which we have the authority to purchase up to 500,000 shares of our Class A common stock at prices prevailing from time to time in the open market subject to the provisions of applicable rules of the SEC and in privately negotiated transactions. We did not purchase any shares of our Class A common stock under this program during the six months ended June 30, 2023 or 2022. We have purchased a total of 57,658 shares of our Class A common stock under this program from its inception through June 30, 2023.

On July 20, 2023, our board of directors declared quarterly cash dividends of \$.17 per share of our Class A common stock and \$.1525 per share of our Class B common stock, payable on August 15, 2023 to our stockholders of record as of the close of business on August 1, 2023. We are not subject to any restrictions on our payment of dividends to our stockholders, although there are state law restrictions on the payment of dividends by our insurance subsidiaries to us. Dividends from our insurance subsidiaries are our principal source of cash for payment of dividends to our stockholders. Our insurance subsidiaries are subject to regulations that restrict the payment of dividends from statutory surplus and may require prior approval of their domiciliary insurance regulatory authorities. Our insurance subsidiaries are also subject to risk based capital ("RBC") requirements that limit their ability to pay dividends to us. Our insurance subsidiaries' statutory capital and surplus at December 31, 2022 exceeded the amount of statutory capital and surplus necessary to satisfy regulatory requirements, including the RBC requirements, by a significant margin. Our insurance subsidiaries did not pay any dividends to us during the first six months of 2023. Amounts remaining available for distribution to us as dividends from our insurance subsidiaries without prior approval of their domiciliary insurance regulatory authorities in 2023 are \$26.4 million from Atlantic States, \$6.5 million from Southern, \$6.0 million from Peninsula and \$7.5 million from MICO, or a total of approximately \$46.4 million.

At June 30, 2023, we had no material commitments for capital expenditures.

Equity Price Risk

Our portfolio of marketable equity securities, which we carry on our consolidated balance sheets at estimated fair value, has exposure to the risk of loss resulting from an adverse change in prices. We manage this risk by having our investment personnel perform an analysis of prospective investments and regular reviews of our portfolio of equity securities.

Credit Risk

Our portfolio of fixed-maturity securities and, to a lesser extent, our portfolio of short-term investments is subject to credit risk, which we define as the potential loss in market value resulting from adverse changes in the borrower's ability to repay its debt. We manage this risk by having our investment personnel perform an analysis of prospective investments and regular reviews of our portfolio of fixed-maturity securities. We also limit the percentage and amount of our total investment portfolio that we invest in the securities of any one issuer.

Our insurance subsidiaries provide property and casualty insurance coverages through independent insurance agencies. We bill the majority of this business directly to the insured, although we bill a portion of our commercial business through licensed insurance agents to whom our insurance subsidiaries extend credit in the normal course of business.

Because the pooling agreement does not relieve Atlantic States of primary liability as the originating insurer, Atlantic States is subject to a concentration of credit risk arising from the business it cedes to Donegal Mutual. Our insurance subsidiaries maintain reinsurance agreements with Donegal Mutual and with a number of other major unaffiliated authorized reinsurers.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our market risk generally represents the risk of gain or loss that may result from the potential change in the fair value of the securities we hold in our investment portfolio as a result of fluctuations in prices and interest rates and, to a lesser extent, our debt obligations. We manage our interest rate risk by maintaining an appropriate relationship between the average duration of our investment portfolio and the approximate duration of our liabilities, i.e., policy claims of our insurance subsidiaries and our debt obligations.

There have been no material changes to our quantitative or qualitative market risk exposure from December 31, 2022 through June 30, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, at June 30, 2023, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information we are required to disclose in the reports that we file or submit under the Exchange Act, and our disclosure controls and procedures were also effective to ensure that information we disclose in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Donegal Mutual implemented a new application system that Donegal Mutual and our insurance subsidiaries began to utilize during 2021 for the allocation of expenses and, beginning in 2022, for reinsurance premiums and commissions. Donegal Mutual and our insurance subsidiaries expanded the utilization of this application system in 2023 to include the preparation of financial statements based on SAP state insurance regulators prescribe or permit. The SAP financial statements of our insurance subsidiaries serve as the starting point for our financial statements prepared using GAAP. The new application system provides for further automation of, and enhanced internal controls over, these processes. The implementation of the new system is part of a multi-year accounting systems and process modernization initiative Donegal Mutual is implementing to achieve various benefits for Donegal Mutual and our insurance subsidiaries, including streamlined financial reporting workflows and a more efficient control environment.

Such changes resulted in changes to procedures related to our financial reporting. Prior to the implementation of the new systems, we identified and designed new internal controls that we incorporated into our internal controls over financial reporting. Following the implementation, we validated these new controls according to our established processes. We did not implement these changes in internal controls to respond to any actual or perceived significant deficiencies in our internal control over financial reporting.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

We base all statements contained in this Quarterly Report on Form 10-Q that are not historic facts on our current expectations. Such statements are forward-looking in nature (as defined in the Private Securities Litigation Reform Act of 1995) and necessarily involve risks and uncertainties. Forward-looking statements we make may be identified by our use of words such as “will,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “seek,” “estimate” and similar expressions. Our actual results could vary materially from our forward-looking statements. The factors that could cause our actual results to vary materially from the forward-looking statements we have previously made include, but are not limited to, adverse litigation and other trends that could increase our loss costs (including labor shortages and escalating medical, automobile and property repair costs), adverse and catastrophic weather events (including from changing climate conditions), our ability to maintain profitable operations (including our ability to underwrite risks effectively and charge adequate premium rates), prolonged economic challenges resulting from the COVID-19 pandemic, the adequacy of the loss and loss expense reserves of our insurance subsidiaries, the availability and successful operation of the information technology systems our insurance subsidiaries utilize, the successful development of new information technology systems to allow our insurance subsidiaries to compete effectively, business and economic conditions in the areas in which we and our insurance subsidiaries operate, interest rates, competition from various insurance and other financial businesses, terrorism, the availability and cost of reinsurance, legal and judicial developments (including those related to COVID-19 business interruption coverage exclusions), changes in regulatory requirements, our ability to attract and retain independent insurance agents, changes in our A.M. Best rating and the other risks that we describe from time to time in our filings with the Securities and Exchange Commission. We disclaim any obligation to update such statements or to announce publicly the results of any revisions that we may make to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Part II. Other Information

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Our business, results of operations and financial condition, and, therefore, the value of our Class A common stock and our Class B common stock, are subject to a number of risks. For a description of certain risks, we refer to “Risk Factors” in our 2022 Annual Report on Form 10-K that we filed with the SEC on March 6, 2023. There have been no material changes in the risk factors we disclosed in that Form 10-K Report during the six months ended June 30, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 April 1-30, 2023	Class A – None Class B – None	Class A – None Class B – None	Class A – None Class B – None	
Month #2 May 1-31, 2023	Class A – 46,000 Class B – None	Class A – \$14.70 Class B – None	Class A – 46,000 Class B – None	(1)
Month #3 June 1-30, 2023	Class A – 177,058 Class B – None	Class A – \$15.51 Class B – None	Class A – 177,058 Class B – None	(1)
Total	Class A – 223,058 Class B – None	Class A – \$15.34 Class B – None	Class A – 223,058 Class B – None	

(1) Donegal Mutual purchased these shares pursuant to its announcement on April 29, 2022 that it will, at its discretion, purchase shares of our Class A common stock and Class B common stock at market prices prevailing from time to time in the open market subject to the provisions of SEC Rule 10b-18 and in privately negotiated transactions. Such announcement did not stipulate a maximum number of shares that may be purchased under this program.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description	
10.1	Amendment to Discretionary Loan Agreement between Donegal Group Inc. and M&T Bank dated September 24, 2021 – terms effective as of June 30, 2023 benchmark transition event.	Filed herewith
Exhibit 31.1	Certification of Chief Executive Officer	Filed herewith
Exhibit 31.2	Certification of Chief Financial Officer	Filed herewith
Exhibit 32.1	Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code	Filed herewith
Exhibit 32.2	Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Title 18 of the United States Code	Filed herewith
Exhibit 101.INS	XBRL Instance Document	Filed herewith
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
Exhibit 101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
Exhibit 101.CAL	XBRL Taxonomy Calculation Linkbase Document	Filed herewith
Exhibit 101.LAB	XBRL Taxonomy Label Linkbase Document	Filed herewith
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith
Exhibit 104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Filed herewith

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DONEGAL GROUP INC.

August 4, 2023

By: /s/ Kevin G. Burke
Kevin G. Burke, President and Chief Executive Officer

August 4, 2023

By: /s/ Jeffrey D. Miller
Jeffrey D. Miller, Executive Vice President
and Chief Financial Officer



AMENDMENT AGREEMENT

(LIBOR TRANSITION – BILATERAL LOAN)

Dated: Sep 24, 2021

BORROWER(S): **DONEGAL GROUP INC**
Referred to herein, individually and collectively as “Borrower”

BANK: **M&T BANK** (a/k/a Manufacturers and Traders Trust Company), a New York banking corporation with an address of One M&T Plaza (Attn: Office of General Counsel), Buffalo, New York 14203 Referred to herein as “Bank”

LOAN: **Loan Facility – \$20,000,000.00**
Account Number: 9965717167000000208 dated on or about 2020-08-01

In consideration of the amendment to the Loan (defined below), the covenants and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and Bank Agree as follows:

1. LOAN DESCRIPTION, PURPOSE STATEMENT AND DEFINED TERMS

a. **Loan Description.** This Amendment Agreement (“Amendment”) relates to that certain loan obligation or credit facility (“Loan”) described at the beginning of this Amendment and evidenced by certain documents and instruments, which may include a promissory note or notes, credit agreement and/or other similar instrument or agreement, together with all other documents and instruments executed in connection with or relating to the Loan or any collateral security for the Loan (as the same may have been or may be amended, modified or supplemented from time to time, including, without limitation, if the Loan is evidenced by a controlling credit agreement together with separate promissory notes evidencing each draw, such separate promissory notes related to such Loan executed on or after the date hereof) (individually a “Loan Document” and collectively, the “Loan Documents”).

b. **Purpose Statement; Acknowledgement and Waiver.** The purpose of this Amendment is to provide for and facilitate a future conditional transition of the interest rate applicable to the Loan (the “Interest Rate”) from a rate determined as set forth in the applicable provisions of the Loan Documents based on the particular U.S. Dollar LIBOR (as defined herein), to a replacement interest rate determined in accordance with the terms provided for in this Amendment (the “Transition”). The parties hereto each (i) acknowledge that they enter into this Amendment with an understanding that the transition provided for herein does not ensure or guaranty economic equivalence, at the point of transition or thereafter, with respect to the Interest Rate, (ii) agree to accept the outcome of the interest rate transition determined by the Bank in accordance with the terms hereof, and (iii) waive and release all Claims (as defined herein) against the other parties hereto related to the Transition.

c. **Defined Terms.** All capitalized terms used herein but not otherwise defined herein shall have the meaning given to such terms (or analogous, synonymous or similar defined terms, as applicable) in the applicable Loan Documents. Notwithstanding the preceding sentence, to the extent any terms defined in the Loan Documents are or become inconsistent with (or are amended or rendered inapplicable or ineffective by) any terms or concepts incorporated into the Loan Documents pursuant to this Amendment, either prior to or in connection with a prescribed Transition, the terms and concepts provided for in this Amendment shall control.

2. AMENDMENTS

a. **Effect of Benchmark Transition Event.** Notwithstanding anything to the contrary contained in the applicable Loan Documents, the terms of the Loan and the applicable Loan Document(s) are hereby amended to include the following provisions under a new section in the applicable Loan Document to be titled “Benchmark Replacement Setting”:

Benchmark Replacement Setting

(a) **Benchmark Replacement.** Notwithstanding anything to the contrary herein or in any other Loan Document, if a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any setting of the then-current Benchmark, then, (i) if a Benchmark Replacement is determined in accordance with clause (a) or (b) of the definition of “Benchmark Replacement” for such Benchmark Replacement Date, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any Loan Document in respect of such Benchmark setting and subsequent Benchmark settings without any amendment or further action or consent of any other party hereto or to any other Loan Document, and (ii) if a Benchmark Replacement is determined in accordance with clause (c) of the definition of “Benchmark Replacement” for such Benchmark Replacement Date or in connection with and Early Opt-in Election, such Benchmark Replacement will replace such Benchmark for all purposes hereunder and under any other Loan Document in respect of any Benchmark setting that occurs more than five (5) Business Days after the date notice of such Benchmark Replacement is provided to the Borrower, without any amendment hereto or to any other Loan Document, or further action or consent of the Borrower, so long as the Bank has not received, by such time, written notice of Borrower’s objection to such Benchmark Replacement (which notice must in all instances be delivered electronically to a designated Bank email address or as otherwise directed by Bank, in accordance with instructions to be included in the Bank’s notice thereof to Borrower). For purposes of this Section titled “Benchmark Replacement Setting” (this “Section”), any interest rate hedging agreement related to the Loan shall be excluded from the definition of a “Loan Document.”

The parties hereto acknowledge that a Benchmark Transition Event has occurred with respect to LIBOR with the public announcements on March 5, 2021, by the ICE Benchmark Administration (IBA) and the U.K. Financial Conduct Authority (FCA), that the IBA will permanently cease to publish all remaining tenors of LIBOR on June 30, 2023, for which the related Benchmark Replacement Date is anticipated to be June 30, 2023.

(b) **Benchmark Replacement Conforming Changes.** In connection with the implementation and administration of a Benchmark Replacement, the Bank will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Loan Document, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of the Borrower or any other party to the Loan Documents. The Bank shall not be liable to the Borrower or any other party to the Loan Documents for any Benchmark Replacement Conforming Changes made by the Bank in good faith.

(c) **Notices; Standards for Decisions and Determinations.** The Bank will provide notification to the Borrower (which may at the Bank’s discretion be electronic, part of a billing statement, a general notice to customers or other communication) of the implementation of any Benchmark Replacement and the effectiveness of any Benchmark Replacement Conforming Changes within a reasonable time prior to such implementation and effectiveness, as applicable. Any determination, decision or election that may be made by the Bank pursuant to this Section, including, without limitation, any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding upon the Borrower and any other parties to the Loan Documents absent manifest error and may be made in the Bank’s sole discretion and without consent from the Borrower or any other party to the Loan Documents, except, in each case, as expressly required pursuant to this Section.

(d) **Unavailability of Tenor of Benchmark.** At any time (including in connection with the implementation of a Benchmark Replacement), (i) if the then-current Benchmark is a term rate (including Term SOFR or LIBOR), then the Bank may remove any tenor of such Benchmark that is unavailable or non-representative for Benchmark (including Benchmark Replacement) settings and (ii) the Bank may reinstate any such previously removed tenor for Benchmark (including Benchmark Replacement) settings.

(e) **Benchmark Unavailability Period.** Upon the Borrower’s receipt of notice of the commencement of a Benchmark Unavailability Period and until a Benchmark Replacement is determined in accordance with this Section, the Borrower may revoke (as applicable) any request for an advance/borrowing of, conversion to or continuation of a loan earning interest at the then-current Benchmark to be made, converted or continued during any Benchmark Unavailability Period and, failing that, the Borrower will be deemed to have converted any such request into a request for an advance/borrowing of or conversion to a loan that shall accrue interest at the Base Rate. During any Benchmark Unavailability Period or at any time that a tenor for the then-current Benchmark is not an Available Tenor, the component of the Base Rate based upon the then-current Benchmark or such tenor for such Benchmark, as applicable, will not be used in any determination of the Base Rate. For the purposes hereof, “Base Rate” shall mean the rate (or rate formula, as applicable) set forth in the Loan Documents as the primary alternative to and/or fallback for the then-current Benchmark, which may be defined or referred to in the Loan Documents as a base rate, alternate base rate or prime-based rate (or any analogous, synonymous or similarly defined term, as applicable).

(f) **Certain Defined Terms.** As used in this Section:

(1) **“Available Tenor”** means, as of any date of determination and with respect to the then-current Benchmark, as applicable, (x) if the then-current Benchmark is a term rate, any tenor for such Benchmark or (y) otherwise, any payment period for interest calculated with reference to such Benchmark, as applicable, that is or may be used for determining the length of an Interest Period pursuant to the Loan Documents as of such date.

(2) **“Benchmark”** means, initially, LIBOR; provided that if a Benchmark Transition Event or an early Opt-in Election, as applicable, and its related Benchmark Replacement Date have occurred with respect to LIBOR or the then-current Benchmark, then “Benchmark” means the applicable Benchmark Replacement to the extent that such Benchmark Replacement has replaced such prior benchmark rate pursuant to clause (a) of this Section.

(3) **“Benchmark Replacement”** means, for any Available Tenor the first alternative set forth in the order below that is applicable (based on the applicability restrictions below) and can be determined by the Bank for the applicable Benchmark Replacement Date:

- (a) the sum of: (i) Term SOFR and (ii) the related Benchmark Replacement Adjustment;
- (b) the sum of: (i) Daily Simple SOFR and (ii) the related Benchmark Replacement Adjustment;
- (c) the sum of: (i) the alternate benchmark rate that has been selected by the Bank as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to (x) any selection or recommendation of a replacement benchmark rate or the mechanism for determining such a rate by the Relevant Governmental Body or (y) any evolving or then-prevailing market convention for determining a benchmark rate as a replacement for the then-current Benchmark for U.S. dollar-denominated syndicated or bilateral credit facilities at such time, and (ii) the related Benchmark Replacement Adjustment;

Notwithstanding the above, clause (a) above shall not be utilized to the extent the applicable tenor of LIBOR is overnight LIBOR, in which case the next available alternative beginning with clause (b) shall apply.

If the Benchmark Replacement as determined pursuant to clause (a), (b) or (c) above would be less than the Floor, the Benchmark Replacement will be deemed to be the Floor.

(4) **“Benchmark Replacement Adjustment”** means, with respect to any replacement of the then-current Benchmark with an Unadjusted Benchmark Replacement for any applicable Interest Period and Available Tenor for any setting of such Unadjusted Benchmark Replacement:

- (a) for purposes of clauses (a) and (b) of the definition of “Benchmark Replacement,” the first alternative set forth in the order below that can be determined by the Bank:

- (i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that has been selected or recommended by the Relevant Governmental Body for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for the Corresponding Tenor;

- (ii) the spread adjustment (which may be a positive or negative value or zero) as of the Reference Time such Benchmark Replacement is first set for such Interest Period that would apply to the fallback rate for a derivative transaction referencing the ISDA Definitions to be effective upon an index cessation event with respect to such Benchmark for the applicable Corresponding Tenor; and

- (b) for purposes of clause (c) of the definition of “Benchmark Replacement,” the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected by the Bank for the applicable Corresponding Tenor giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body on the applicable Benchmark Replacement Date or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of such Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated or bilateral credit facilities;

provided that, in the case of clause (a) above, such adjustment is displayed on a screen or other information service that publishes such Benchmark Replacement Adjustment from time to time as selected by the Bank in its reasonable discretion.

(5) **“Benchmark Replacement Conforming Changes”** means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including, without limitation, changes to the definition of “Business Day,” the definition of “Interest Period,” timing and frequency of determining rates and making payments of interest, timing of borrowing requests or prepayment, conversion or continuation notices, length of lookback periods, the applicability of breakage provisions and other technical, administrative or operational matters) that the Bank decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by the Bank in a manner substantially consistent with market practice (or, if the Bank decides that adoption of any portion of such market practice is not administratively feasible or if the Bank determines that no market practice for the administration of such Benchmark Replacement exists, in such other manner of administration as the Bank decides is reasonably necessary in connection with the administration of the Loan).

(6) **“Benchmark Replacement Date”** means the earliest to occur of the following events with respect to the then-current Benchmark:

- (a) in the case of clause (a) of the definition of “Benchmark Transition Event,” the later of (x) the date of the public statement or publication of information referenced therein and (y) the date on which the administrator of such Benchmark (or the published component used in the calculation thereof) permanently or indefinitely ceases to provide all Available Tenors of such Benchmark (or such component thereof);
- (b) in the case of clause (b) of the definition of “Benchmark Transition Event,” the date of the public statement or publication of information referenced therein; or
- (c) in the case of an Early Opt-in Election, the sixth (6th) Business Day after the date notice of such Early Opt-in Election is provided to the Borrower, so long as the Bank has not received, by 5:00 p.m. (ET) on the fifth (5th) Business Day after the date notice of such Early Opt-in Election is provided to the Borrower, written notice of objection to such Early Opt-in Election from the Borrower.

For the avoidance of doubt, (i) if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination and

(ii) the “Benchmark Replacement Date” will be deemed to have occurred in the case of clause (a) or (b) with respect to any Benchmark upon the occurrence of the applicable event or events set forth therein with respect to all then-current Available Tenors of such Benchmark (or the published component used in the calculation thereof).

(7) **“Benchmark Transition Event”** means, with respect to any then-current Benchmark, the occurrence of a public statement or publication of information by or on behalf of the administrator of the then-current Benchmark, the regulatory supervisor for the administrator of such Benchmark, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, an insolvency official with jurisdiction over the administrator for such Benchmark, a resolution authority with jurisdiction over the administrator for such Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for such Benchmark, announcing or stating that (a) such administrator has ceased, or will cease on a specified date, to provide all Available Tenors of such Benchmark, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide any Available Tenor of such Benchmark or (b) all Available Tenors of such Benchmark are or will no longer be representative of the underlying market and economic reality that such Benchmark is intended to measure and indicating that representativeness will not be restored.

(8) **“Benchmark Unavailability Period”** means the period (if any) (x) beginning at the time that a Benchmark Replacement Date pursuant to clauses (a) or (b) of that definition has occurred if, at such time, no Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with this Section and (y) ending at the time that a Benchmark Replacement has replaced the then-current Benchmark for all purposes hereunder and under any Loan Document in accordance with this Section.

(9) **“Business Day”** means any day other than Saturday, Sunday or another day on which commercial banking institutions in New York, New York are authorized or required by law or other governmental action to remain closed for business.

(10) **“Corresponding Tenor”** with respect to any Available Tenor means, as applicable, either a tenor (including overnight) or an interest payment period having approximately the same length (disregarding business day adjustment) as such Available Tenor.

(11) **“Daily Simple SOFR”** means, for any day, SOFR, with the conventions for this rate (which will include a lookback) being established by the Bank in accordance with the conventions for this rate selected or recommended by the Relevant Governmental Body for determining “Daily Simple SOFR” for business loans; provided, that if the Bank decides that any such convention is not administratively feasible for the Bank, then the Bank may establish another convention in its reasonable discretion.

(12) **“Early Opt-in Election”** means, if the then-current Benchmark is LIBOR, the election by the Bank to trigger a fallback from LIBOR and the provision by the Bank of written notice of such election to the Borrower.

(13) **“Floor”** means the benchmark rate floor, if any, provided in the Loan Documents initially (as of the execution of such Loan Documents, the modification, amendment or renewal of the Loan Documents or otherwise) with respect to LIBOR.

(14) **“ISDA Definitions”** means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time by the International Swaps and Derivatives Association, Inc. or such successor thereto.

(15) **“LIBOR”** means the London interbank offered rate for U.S. dollars as defined in the Loan Documents.

(16) **“Reference Time”** with respect to any setting of the then-current Benchmark means (i) if such Benchmark is LIBOR, 11:00 a.m. (London time) on the day that is two London banking days preceding the date of such setting (except as may otherwise be provided in the Loan Documents for overnight LIBOR pricing), and (ii) if such Benchmark is not LIBOR, the time determined by the Bank in its reasonable discretion.

(17) **“Relevant Governmental Body”** means the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of New York, or any successor thereto.

(18) **“SOFR”** means, with respect to any Business Day, a rate per annum equal to the secured overnight financing rate for such Business Day published by the SOFR Administrator on the SOFR Administrator’s Website on the immediately succeeding Business Day.

(19) **“SOFR Administrator”** means the Federal Reserve Bank of New York (or a successor administrator of SOFR).

(20) **“SOFR Administrator’s Website”** means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org>, or any successor source for SOFR identified as such by the SOFR Administrator from time to time.

(21) **“Term SOFR”** means, for the applicable Corresponding Tenor as of the applicable Reference Time, the forward-looking term rate based on SOFR that (i) has been selected or recommended by the Relevant Governmental Body and (ii) is displayed on a screen or other information service that publishes such rate from time to time, as determined by the Bank in its reasonable discretion.

(22) **“Unadjusted Benchmark Replacement”** means the applicable Benchmark Replacement excluding the related Benchmark Replacement Adjustment.

3. RATIFICATION. Except as expressly set forth herein, all terms, covenants, provisions, representations, warranties and conditions of the Loan Documents, as amended or modified hereby, are ratified, acknowledged, confirmed, and continued in full force and effect as if fully restated herein. All provisions in the Loan Documents that are currently worded in such a manner as to be related only to LIBOR, including, without limitation, provisions relating to any increased costs, illegality or temporary unavailability of LIBOR, are amended hereby to facilitate the continued application of such provisions to the Benchmark Replacement, if and when applicable, as determined in accordance with the terms hereof. All provisions in the Loan Documents evidencing the applicable interest rate margin for the Loan (the number of percentage points or basis points added to the LIBOR component to determine the applicable interest rate) remain in effect, are hereby ratified and shall not be amended or modified hereby. All provisions (if any) in the Loan Documents that provide for a minimum interest rate or floor, including an all-in minimum interest rate and a minimum index rate for the LIBOR benchmark (for which the Replacement Benchmark shall be substituted) shall remain in effect, are here ratified and shall not be amended or modified hereby.

4. CONFIRMATION OF COLLATERAL. Nothing contained herein shall be deemed to be a compromise, satisfaction, accord and satisfaction, novation or release of any of the collateral securing the Loan or the other Loan Documents, or any rights or obligations thereunder, or a waiver by the Bank of any of its rights or remedies under the Loan Documents or at law or in equity. All liens, security interests, rights and remedies granted to the Bank in the collateral and under the Loan Documents are hereby ratified, confirmed and continued.

5. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to the Bank that (i) the execution, delivery and performance of this ratification has been duly and properly authorized; (ii) the person signing on behalf of the Borrower has the authority to do so; and (iii) this Amendment constitutes the legal, valid and binding obligation of such Borrower enforceable in accordance with its terms.

6. ACKNOWLEDGMENT, WAIVER AND RELEASE. In consideration of the Bank's amendment to the Loan, the covenants and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged Borrower hereby confirms, acknowledges and agrees that (i) when LIBOR ceases to exist or is deemed nonrepresentative, it will not be possible for the Bank to continue to charge interest at the LIBOR-based rate set forth in the Loan Documents, (ii) the Benchmark Replacement is a commercially reasonable substitute for, and a commercially substantial equivalent for, LIBOR and (iii) the use of the Benchmark Replacement as provided hereunder shall constitute a commercially reasonable, comparable or analogous substitute for LIBOR under or in any of the Loan Documents and Borrower hereby waives and releases the Bank, its employees, officers and directors from any and all Claims (as defined below) with respect to the discontinuation of the charging interest based on LIBOR and the outcome of the transition to the Benchmark Replacement in accordance with the terms of this Amendment. Borrower further confirms, acknowledges and agrees that as of the date hereof it has no claims or causes of action including, but not limited to offsets, credits, counterclaims, actions, defenses, affirmative defenses, suits, rights, causes of action, lawsuits, set-offs, costs, losses, controversies, agreements, promises and demands, or liabilities, of whatever kind or character (collectively "Claims") against the Bank relating to the Loan. As used herein, Claims shall have the broadest possible meaning and include all defenses to enforcement of the Loan Documents. To the extent that any Claim may exist or might hereafter arise based on facts known or that should have been known that exist as of this date, Borrower hereby expressly and knowingly waives and releases such Claim.

7. MISCELLANEOUS

a. **Condition to Effectiveness of this Amendment.** This Amendment shall be effective upon the execution hereof by Borrower; provided, however, if the Loan is guaranteed by one or more guarantors, this Amendment shall not be effective until all guarantors have executed a ratification of guaranty acceptable to the Bank and substantially in the form appended to this Amendment, except to the extent the Bank, in its sole discretion, waives any such ratification (as may be evidenced by the implementation by the Bank of the amendments made hereby to the Loan).

b. **References.** Subsequent to the date hereof, each and every reference in and to any Loan Document modified hereby shall be deemed to be a reference to such Loan Document, as so modified.

c. **Fees and Expenses.** Borrower agrees to pay all fees, costs, charges and expenses incurred by the Bank in connection with the preparation, execution, negotiation and enforcement of this Amendment, including without limitation, the cost of any title rundown, title insurance endorsement, recording taxes, filing fees and the Bank's reasonable attorneys' fees.

d. **Entire Agreement.** No statements, agreements or representations, oral or written, which may have been made to the Borrower or to any employee or agent of the Borrower, or to any guarantor or third party, either by the Bank or by any employee or agent acting on the Bank's behalf, with respect to the modification of the Loan, shall be of any force or effect, except to the extent documented in this Amendment.

e. **Binding Effect.** This Amendment shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

f. **Governing Law.** The provisions of this Amendment shall be construed, interpreted and enforced in accordance with the laws of the state that govern the applicable Loan Documents as the same may be in effect from time to time.

g. **Severability and Counterparts.** If any provision of this Amendment or portion of such provision or the application thereof to any person or circumstance shall to any extent be held invalid or unenforceable, the remainder of this Amendment (or the remainder of such provision) and the application thereof to other persons or circumstances shall not be affected thereby. The parties may execute this Amendment in one or more counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

h. **Electronic Signature.** Each person executing this Amendment agrees that the electronic signatures, whether pdf, scanned, digital, encrypted, captured or otherwise attached or imposed hereto, are intended to authenticate this Amendment and to have the same effect, validity and enforceability as manual signatures. Each person signing this Amendment and any ratification of guaranty, in their individual capacity, represents and warrants to and covenants to Bank that said signer is executing this Amendment or ratification of guaranty on behalf of the borrower or guarantor and is duly authorized and empowered to do so and to bind the obligor to the terms hereof. Bank is under no obligation to accept electronic signatures in any form or in any format unless expressly agreed to by Bank pursuant its approved procedures. If Bank accepts an electronic signature or an electronically delivered signature as the binding and effective record of this Amendment, the counterpart acknowledged in writing by Bank shall constitute the record hereof and the original document for the purposes of establishing the provisions hereof and shall be legally admissible under the best evidence rule and binding on and enforceable against each party hereto. The counterpart acknowledged in writing by Bank may be marked "Original" and perfection of a security interest by possession may only be accomplished by possession of the counterpart that bears Bank's ink signed acknowledgement and is marked "Original."

[Remainder of page intentionally left blank]

Borrower Signers

The Amendment is hereby executed as of the stated date referenced on page 1 hereof.

Donegal Group Inc

/s/ Jeffrey D Miller

Jeffrey D Miller
Executive Vice President/CFO
jeffmiller@donegalgroup.com
717-471-5105

Counter Signers

/s/ Daniel J May

Daniel J May

Vice President

M&T Bank (a/k/a Manufacturers and Traders Trust Company), a New York banking corporation dmay@mtb.com

717-577-7868

CERTIFICATION

I, Kevin G. Burke, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2023 of Donegal Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2023

/s/ Kevin G. Burke

Kevin G. Burke,
President and Chief Executive Officer

CERTIFICATION

I, Jeffrey D. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2023 of Donegal Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2023

/s/ Jeffrey D. Miller

Jeffrey D. Miller, Executive Vice President
and Chief Financial Officer

CERTIFICATION OF
PRESIDENT AND CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Donegal Group Inc. (the "Company"), on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), Kevin G. Burke, the President and Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2023

/s/ Kevin G. Burke

Kevin G. Burke, President and Chief Executive Officer

CERTIFICATION OF
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Donegal Group Inc. (the "Company"), on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), Jeffrey D. Miller, the Executive Vice President and Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2023

/s/ Jeffrey D. Miller

Jeffrey D. Miller, Executive Vice President
and Chief Financial Officer
