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

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 20, 2006

Donegal Group Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

0-15341

(Commission
file number)

23-02424711

(I.R.S. employer
identification no.)

1195 River Road, Marietta, Pennsylvania

(Address of principal executive offices)

17547

(Zip code)

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

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

At a special meeting of the board of directors of Donegal Group Inc. (“DGI”) held on June 21, 2006, DGI’s management proposed that DGI’s board of directors consider (i) a proposed amendment and restatement of the Services Allocation Agreement dated September 29, 1986 (the “Prior Agreement”) among DGI, Donegal Mutual Insurance Company (“Donegal Mutual”) and Atlantic States Insurance Company (“Atlantic States”), a subsidiary of DGI, and (ii) a proposed amendment and restatement of DGI’s By-laws. At the June 21, 2006 special meeting, DGI’s board of directors appointed a special committee, consisting of the disinterested members of DGI’s board of directors, to review the fairness of the proposed amendments to the Services Allocation Agreement and DGI’s By-laws to the stockholders of DGI other than Donegal Mutual, which owns approximately 61% of the voting power of DGI’s common stock. The special committee appointed Ballard Spahr Andrews & Ingersoll, LLP as its independent counsel.

At DGI’s regular quarterly board meeting on July 20, 2006, the special committee reported on its consideration of the proposed amendments. The special committee concluded the proposed amendments were fair to DGI’s stockholders other than Donegal Mutual and recommended to DGI’s full board of directors that it approve the Amended and Restated Services Allocation Agreement (the “Agreement”) and the Amended and Restated By-laws (the “Amended By-laws”) provided certain changes were made to the amendments as proposed at the June 21, 2006 special board meeting. DGI’s full board of directors reviewed the recommendation of the special committee and, on July 20, 2006, approved the Agreement and adopted the Amended By-laws with the changes recommended by the special committee.

Following this board action, on July 20, 2006, DGI, each of DGI’s insurance subsidiaries (Atlantic States, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company and Peninsula Indemnity Company) and Donegal Mutual entered into the Agreement. The Agreement provides for the continued allocation of shared costs of certain employees of Donegal Mutual who provide certain functions and services to DGI and DGI’s insurance subsidiaries.

The parties entered into the Agreement for the following purposes:

- to consolidate various services allocation agreements between Donegal Mutual and individual insurance subsidiaries of DGI into a single agreement with uniform provisions;
- to reflect developments in the respective businesses of DGI and its insurance subsidiaries and Donegal Mutual since the date of execution of the Prior Agreement and the interrelated nature of their businesses as conducted under the name Donegal Insurance Group; and

- to provide for the appropriate allocation and payment of expenses in accordance with the current practices of Donegal Mutual, DGI and DGI's insurance subsidiaries.

The material terms of the Agreement are as follows:

- Donegal Mutual will continue to provide employees to perform the services listed below for Atlantic States. All of the costs and expenses of Donegal Mutual for providing those services and employees to Atlantic States will continue to be allocated between Donegal Mutual and Atlantic States either in proportion to their respective participation from time to time under the Proportional Reinsurance Agreement between Donegal Mutual and Atlantic States dated as of September 29, 1986 and most recently amended as of April 20, 2000 or otherwise allocated as set forth in Exhibit A to the Agreement.
- Donegal Mutual will continue to provide employees to perform the services listed below for DGI and its insurance subsidiaries other than Atlantic States. DGI and DGI's insurance subsidiaries other than Atlantic States will continue either to reimburse Donegal Mutual or allocate among Donegal Mutual and DGI and DGI's insurance subsidiaries other than Atlantic States the costs and expenses of Donegal Mutual in providing such services and employees. Exhibit A to the Agreement provides specific but non-exclusive guidelines as to how such allocations and reimbursements are calculated and settled, which may be amended from time to time by mutual agreement of Donegal Mutual, DGI and DGI's insurance subsidiaries.
- The services to be provided under the Agreement include: underwriting, claims, reinsurance, investments, information services, personnel and professional services, financial reporting, tax administration, accounting services, policyholder services, internal audit and compliance services, actuarial services and marketing, sales and advertising services.
- Each party has agreed to indemnify the other parties in connection with the services performed under the Agreement under certain circumstances.
- The Agreement has a term that initially expires on December 31, 2011, which is automatically extended on each December 31 for one year so that at all times the Agreement has a then current term of five years, except that the Agreement may be terminated at any time prior to its

then termination date in any of the following events, subject to receipt of any necessary insurance regulatory filings or actions:

- By Donegal Mutual, upon 180 days prior written notice to DGI, if a Change of Control of DGI, as defined in the Agreement, occurs.
- By DGI or DGI's insurance subsidiaries, upon 30 days prior written notice to Donegal Mutual, if Donegal Mutual becomes insolvent or becomes subject to any voluntary or involuntary conservatorship, receivership, reorganization, liquidation or bankruptcy case or proceeding.
- By Donegal Mutual and DGI and DGI's insurance subsidiaries at any time by mutual written agreement.

The Prior Agreement was terminable by either party on 30 days' notice to the other.

- "Change of Control" is defined under the Agreement as (i) the acquisition of shares of DGI by any "person" or "group," as such terms are used in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act") as now or hereafter amended, in a transaction or series of transactions that result in such person or group directly or indirectly becoming the beneficial owner of 25% or more of the voting power of DGI's common stock after July 20, 2006, (ii) the consummation of a merger or other business combination after which the holders of voting common stock of DGI before the consummation of the merger or other business combination do not collectively own 60% or more of such voting common stock of the entity surviving such merger or other business combination, (iii) the sale, lease, exchange or other transfer in a transaction or series of transactions of all or substantially all of the assets of DGI, but excluding therefrom the sale and reinvestment of the investment portfolio of DGI and its insurance subsidiaries or (iv) as the result of or in connection with any cash tender offer or exchange offer, merger or other business combination, sale of assets or contested election of directors or any combination of the foregoing transactions specified in clauses (i), (ii), (iii) and (iv), each, a "Transaction," the persons who constituted a majority of the members of the board of directors of DGI on July 20, 2006 and persons whose election as members of the board of directors of DGI was approved by such members then still in office or whose election was previously so approved after July 20, 2006 but before the event that constitutes a Change of Control, no longer constitute such a majority of the members of the board of directors of DGI then in office.

A Transaction will be deemed to constitute a Change in Control only upon the consummation of the Transaction.

The foregoing description summarizes the material provisions of the Agreement, but is subject to, and qualified in its entirety by reference to, the Agreement, which is filed as Exhibit 10.1 to this Form 8-K and incorporated by reference into Item 1.01 of this Form 8-K.

On July 20, 2006, DGI entered into a First Amendment to Credit Agreement (the "Amendment") with Manufacturers and Traders Trust Company ("M&T"). The principal change effected by the Amendment is to extend the expiration of the \$35.0 million unsecured line of credit agreement between DGI and M&T to July 20, 2010. No amounts are outstanding under the Credit Agreement. The foregoing description summarizes the material provisions of the Amendment, but is subject to, and qualified in its entirety by reference to, the Amendment, which is filed as Exhibit 10.2 to this Form 10-K and incorporated by reference into Item 1.01 of this Form 8-K.

On July 20, 2006, Donegal Mutual entered into a Credit Agreement with M&T under which Donegal Mutual has a \$25.0 million line of credit.

Item 2.02. Results of Operations and Financial Condition.

On July 21, 2006, DGI issued a press release regarding DGI's financial results for its second quarter ended June 30, 2006. The press release is attached as Exhibit 99.1 to this Form 8-K and is incorporated by reference into this Form 8-K. The information in Item 2.02 of this Form 8-K and Exhibit 99.1 shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934 or incorporated by reference in any filing under the Securities Act of 1933.

Item 5.03. Amendments to Articles of Incorporation or By-laws; Change in Fiscal Year.

On July 20, 2006, DGI's board of directors adopted the Amended By-laws. A summary of the material provisions of the Amended By-laws follows:

Stockholder Nominations of Persons for Election to DGI's Board of Directors and Other Proposed Business

The advance notice provisions of the former By-laws were amended to permit direct nomination by stockholders of persons for election to DGI's board of directors at an annual meeting of stockholders provided the stockholder timely complies with certain notice requirements. Under the advance notice provisions of DGI's By-laws as in effect prior to the By-law amendments, stockholder proposals for nominations at annual meetings were made to the nominating committee of DGI's board of directors, which had the exclusive authority

to nominate candidates for election by stockholders to DGI's board of directors. The advance notice provisions, as amended, are summarized as follows:

Nominations of persons for election to DGI's board of directors ("Stockholder Nominations") and proposals of business to be transacted by DGI's stockholders ("Stockholder Proposals") may be made at an annual meeting of stockholders (i) pursuant to DGI's notice to stockholders with respect to such annual meeting, (ii) by or at the direction of DGI's board of directors or (iii) by any stockholder of record of DGI who (A) was a stockholder of record at the time of the giving of the notice provided in the advance notice provisions of the Amended By-laws, (B) who is entitled to vote at the meeting and (C) who has complied with the prior notice procedures in the advance notice provisions of the Amended By-laws.

For Stockholder Nominations or Stockholder Proposals to be brought properly before an annual meeting by a stockholder, (i) the stockholder must have given timely notice (a "Proposing Stockholder's Notice") in writing of the nomination or item of proposed business to the Secretary of DGI and (ii) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware (the "DGCL"). To be timely, a Proposing Stockholder's Notice must be received by the Secretary of DGI at the principal executive offices of DGI, 1195 River Road, Marietta, Pennsylvania 17547; attention: Secretary, not less than 90 calendar days nor more than 120 calendar days prior to the first anniversary of the date on which DGI first mailed its proxy statement to stockholders for its annual meeting of stockholders in the immediately preceding year; provided, however, that in the case of an annual meeting of stockholders that is called for on a date that is not within 30 calendar days before or 30 calendar days after the first anniversary of the annual meeting of stockholders in the immediately preceding year, the Proposing Stockholder's Notice, to be timely, must be received by the Secretary of DGI not later than the close of business on the later of (x) the 90th day prior to such annual meeting or (y) the 10th day following the day on which a public announcement, as defined in the By-laws, of the date of such annual meeting is first made. These time periods are substantially the same as the time periods in DGI's advance notice By-law provisions prior to the July 20, 2006 adoption of the Amended By-laws.

The Proposing Stockholder's Notice shall set forth (i) as to each person whom the Proposing Stockholder nominates for election or reelection as a director all information relating to such person as would be required to be disclosed in a solicitation of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act and the written consent of each such person to serve as a director if elected; (ii) as to any other business that the Proposing Stockholder intends to bring before the annual meeting, a brief description of such business, the Proposing Stockholder's reasons for presenting such business at the annual meeting and any material interest of the Proposing Stockholder in such business; (iii) as to the Proposing Stockholder (A) the name and address of the

Proposing Stockholder, as the same appears on DGI's books, (B) the number of shares of DGI's Class A Common Stock and Class B Common Stock that are owned beneficially within the meaning of Rule 13d-3 under the Exchange Act and of record by the Proposing Stockholder; (C) the principal occupation or employment of each person whose nomination is so proposed during the five-year period preceding the date of the Proposing Stockholder's Notice and (D) a description of any arrangement or understanding between each person whose nomination is proposed and the Proposing Stockholder with respect to such person's nomination and election as a director and actions to be proposed or taken by such person if elected as a director.

Only persons nominated in accordance with the foregoing procedures will be eligible for election as directors of DGI and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before such annual meeting in accordance with the foregoing procedures. The chairman of the annual meeting shall determine in his discretion whether a nomination or an item of business has been proposed in accordance with the foregoing procedures. If any Stockholder Nomination or Stockholder Proposal has not been made in compliance with the Amended By-laws, the chairman of the meeting shall declare that the improperly proposed Stockholder Nomination or improperly proposed Stockholder Proposal has not been properly presented for stockholder action at the annual meeting and such Stockholder Nomination or Stockholder Proposal shall not be considered or acted upon at the annual meeting.

Notwithstanding those provisions of the Amended By-laws, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to those matters. Nothing in the Amended By-laws will affect any rights of stockholders to request inclusion of proposals in DGI's proxy statements for annual meetings pursuant to Rule 14a-8 under the Exchange Act.

Call of Special Meetings of Stockholders and Conduct of Business at Special Meetings

Special meetings of stockholders of DGI may be called at any time by (i) DGI's board of directors acting pursuant to a resolution adopted by a majority of the "Whole Board," as that term is defined in the Amended By-laws, (ii) by DGI's President or (iii) by stockholders holding one-fifth or more of the voting power of DGI's outstanding common stock of all classes. Under the By-law provisions that were in effect prior to the adoption of the Amended By-laws, special meetings could be called by the President of DGI and were required to be called by the Secretary of DGI at the request in writing of a majority of the board of directors of DGI or stockholders of DGI owning at least one-fifth of the entire capital stock of DGI issued and outstanding and entitled to vote at such meeting.

The term "Whole Board" is defined under the Amended By-laws to mean the number of directors then in office notwithstanding that the number of directors then in office

is less than the number of directors determined by the board of directors pursuant to the Amended By-laws.

DGI's board of directors may, in its discretion, postpone or reschedule any previously scheduled special meeting of stockholders. Only such business may be conducted at a special meeting of stockholders as has been brought before the meeting pursuant to DGI's notice of meeting.

If DGI's notice of the special meeting provides for the election of directors, the only persons who may be nominated for such election are candidates who are nominated pursuant to (i) DGI's notice of meeting (ii) by or at the discretion of DGI's board of directors or (iii) by any stockholder of record of DGI (A) who is a stockholder of record at the time of giving of notice provided for in the Amended By-laws, (B) who shall be entitled to vote at the special meeting and (C) who furnishes all of the information with respect to nominees and the Proposing Stockholder required under the annual meeting provisions summarized above within the time limits set forth in the Amended By-laws.

Nominations by stockholders of candidates for election to DGI's board of directors may be made at a special meeting of stockholders if timely notice in writing of such nominations is given to DGI's Secretary. To be timely, such notice must be received by DGI's Secretary at DGI's principal executive offices, 1195 River Road, Marietta, Pennsylvania 17547; attention: Secretary, not later than the close of business on the later of (x) the 90th day prior to the special meeting of the stockholders or (y) the 10th day following the day on which a public announcement, as defined in the Amended By-laws, of the date of such special meeting is first made.

The provision of the Amended By-laws relating to the ability to call a special meeting of stockholders may have the effect of discouraging transactions that may involve an actual or potential change of control of DGI. DGI's board of directors is not aware of any application to the relevant insurance regulatory authorities for its approval that is a prerequisite to an effort to seek control of DGI.

Amended By-law Provisions Relating to Conduct of Stockholder Meetings

Other Amended By-law provisions relating to the conduct of meetings of stockholders of DGI include the following:

- The removal of a provision that had permitted one or more stockholders to participate in any meeting of stockholders by means of conference telephone or similar communications equipment.
- The addition of provisions relating to the appointment of a person to call a stockholder meeting to order and to serve as chairman of the meeting, which person has the power to determine the order of business and the

voting and other procedures of such meeting, to adjourn the meeting and to set the time for opening and closing of polls for each matter voted upon by the stockholders.

- The addition of a provision that requires that voting in any election of directors to take place by ballot.
- The addition of a provision that permits the use of a copy, facsimile telecommunication or other reliable reproduction of a proxy in lieu of the original writing or transmission of the proxy.
- The addition of a provision that explicitly states that all elections shall be determined by a plurality of the votes cast, and, except as otherwise provided in the DGCL, all other matters shall be determined by a majority of the voting power of the shares cast affirmatively or negatively.

Other

Other provisions of the Amended By-laws include the authorization of delivery of notices of meetings of the board of directors by electronic mail, the elimination of the requirement for a specified time period for advance notice of regular meetings of the board of directors and the authorization of the transaction of any and all business at a special meeting of the board of directors, unless otherwise indicated in the notice of such special meeting.

The provisions of the Amended By-laws relating to procedures applicable to the Coordinating Committee of DGI's board of directors also include a change. The Coordinating Committee consists of two members of DGI's board of directors, each of whom is not a member of the board of directors or an officer of Donegal Mutual, and two members of Donegal Mutual's board of directors, each of whom is not a member of the board of directors or an officer of DGI. The Amended By-law provisions provide that matters involving actual or potential conflicts of interest between DGI and Donegal Mutual will first be submitted to the Coordinating Committee and then, assuming the requisite approval by the Coordinating Committee, to the respective boards of directors of DGI and Donegal Mutual. The Amended By-laws also require Coordinating Committee approval to amend the By-law provision relating to the Coordinating Committee. Prior to the amendment, such matters were required to be submitted first to the respective boards of directors of DGI and Donegal Mutual and then submitted to the Coordinating Committee.

This Item 5.03 summarizes the material provisions of the By-laws, as amended and restated, but is subject to, and qualified in its entirety by reference to, the By-laws, a copy of which is filed as Exhibit 3.2 to this Form 8-K and incorporated by reference into Item 5.03 of this Form 8-K.

Item 9.01. Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.2	Amended and Restated By-laws of Donegal Group Inc.
10.1	Amended and Restated Services Allocation Agreement dated July 20, 2006 between Donegal Group Inc., Atlantic States Insurance Company, Southern Insurance Company of Virginia, Le Mars Insurance Company, The Peninsula Insurance Company, Peninsula Indemnity Company and Donegal Mutual Insurance Company
10.2	First Amendment to Credit Agreement dated July 20, 2006 between Donegal Group Inc. and Manufacturers and Traders Trust Company
99.1	Press release issued by Donegal Group Inc. dated July 21, 2006

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 hereunto duly authorized.

DONEGAL GROUP INC.

By: /s/ Jeffrey D. Miller

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

Date: July 21, 2006

EXHIBIT INDEX

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99.1	Press release issued by Donegal Group Inc. dated July 21, 2006	Submitted herewith.

AMENDED AND RESTATED
BY-LAWS
of
DONEGAL GROUP INC.

Adopted July 20, 2006

Article 1

CORPORATION OFFICE

Section 1.1. Registered Office. The registered office of the Corporation shall be Capitol Corporate Services, Inc., 32 Loockerman Square, Suite 109, Dover, Delaware 19904.

Section 1.2. Principal Office. The principal office of the Corporation shall be in Marietta, Pennsylvania.

Section 1.3. Other Offices. The Corporation may also have offices at such other places as the Board of Directors may from time to time designate or the business of the Corporation may from time to time require.

Article 2

STOCKHOLDERS

Section 2.1. Place and Time of Meetings. All meetings of the stockholders shall be held at such time and place as may be fixed from time to time by the Board of Directors and stated in the notice of meeting.

Section 2.2. Annual Meeting.

(a) The annual meeting of the stockholders shall be held on the third Thursday in April in each year, if not a legal holiday, and, if a legal holiday, then on the next succeeding business day, at the Corporation's principal office or at such other place, date and time as shall be designated from time to time by the Board of Directors and stated in the notice of meeting.

(b) At each annual meeting, the stockholders shall elect successors to the directors whose terms shall expire that year to serve for the following three years and until their successors shall have been duly elected or until their earlier death, resignation or removal. The stockholders also shall transact such other business as may properly be brought before the annual meeting and is in compliance with the provisions of these By-laws.

Section 2.3. Stockholder Proposals.

(a) Nominations of persons for election to the Board of Directors (“Stockholder Nominations”) and proposals of business to be transacted by the stockholders (“Stockholder Proposals”) may be made at an annual meeting of stockholders (i) pursuant to the Corporation’s notice to stockholders with respect to such annual meeting, (ii) by or at the direction of the Board of Directors of the Corporation or (iii) by any stockholder of record of the Corporation who (A) was a stockholder of record at the time of the giving of the notice provided in paragraph (b) of this Section 2.3, (B) who is entitled to vote at the meeting and (C) who has complied with the prior notice procedures in paragraph (b) of this Section 2.3.

(b) For Stockholder Nominations or Stockholder Proposals to be brought properly before an annual meeting by a stockholder pursuant to clause (a)(iii) of this Section 2.3, (i) the stockholder must have given timely notice (a “Proposing Stockholder’s Notice”) in writing of the nomination or item of proposed business to the Secretary of the Corporation and (ii) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware (the “DGCL”). To be timely, a Proposing Stockholder’s Notice must be received by the Secretary of the Corporation at the principal executive offices of the Corporation not less than 90 calendar days nor more than 120 calendar days prior to the first anniversary of the date on which the Corporation first mailed its proxy statement to stockholders for its annual meeting of stockholders in the immediately preceding year; provided, however, that in the case of an annual meeting of stockholders that is called for a date that is not within 30 calendar days before or 30 calendar days after the first anniversary of the annual meeting of stockholders in the immediately preceding year, the Proposing Stockholder’s Notice, to be timely, must be received by the Secretary of the Corporation not later than the close of business on the later of (x) the 90th day prior to such annual meeting or (y) the 10th day following the day on which a Public Announcement, as defined in Section 2.3(e) of these By-laws, of the date of such annual meeting is first made.

(c) The Proposing Stockholder’s Notice shall set forth (i) as to each person whom the Proposing Stockholder nominates for election or reelection as a director all information relating to such person as would be required to be disclosed in a solicitation of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the written consent of each such person to serve as a director if elected; (ii) as to any other business that the Proposing Stockholder intends to bring before the annual meeting, a brief description of such business, the Proposing Stockholder’s reasons for presenting such business at the annual meeting and

any material interest of the Proposing Stockholder in such business; (iii) as to the Proposing Stockholder (A) the name and address of the Proposing Stockholder, as the same appears on the Corporation's books, (B) the number of shares of the Corporation's Class A Common Stock and Class B Common Stock that are owned beneficially within the meaning of Securities and Exchange Commission ("SEC") Rule 13d-3 and of record by the Proposing Stockholder; (C) the principal occupation or employment of each person whose nomination is so proposed during the five-year period preceding the date of the Proposing Stockholder's Notice and (D) a description of any arrangement or understanding between each person whose nomination is proposed and the Proposing Stockholder with respect to such person's nomination and election as a director and actions to be proposed or taken by such person if elected as a director.

(d) Only persons nominated in accordance with the procedures set forth in this Section 2.3 shall be eligible for election as directors of the Corporation and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before such annual meeting in accordance with the procedures set forth in this Section 2.3. The chairman of the annual meeting shall determine in his discretion whether a nomination or an item of business has been proposed in accordance with the procedures set forth in this Section 2.3. If any Stockholder Nomination or Stockholder Proposal has not been made in compliance with these By-laws, the chairman of the meeting shall declare that the improperly proposed Stockholder Nomination or improperly proposed Stockholder Proposal has not been properly presented for stockholder action at the annual meeting and such Stockholder Nomination or Stockholder Proposal shall not be considered or acted upon at the annual meeting.

(e) For purposes of these By-laws, "Public Announcement" shall mean disclosure by the Corporation in a press release reported by the Dow Jones News Service, the Associated Press or a comparable national news service or in a document filed by the Corporation with the SEC pursuant to the Exchange Act.

(f) Notwithstanding the foregoing provisions of this Section 2.3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.3. Nothing in this Section 2.3 shall affect any rights of stockholders to request inclusion of proposals in a proxy statement of the Corporation pursuant to Rule 14a-8 under the Exchange Act.

Section 2.4. Special Meetings.

(a) Special meetings of the stockholders may be called at any time by the President of the Corporation and shall be called by the Secretary of the Corporation at the request in writing of the Board of Directors acting pursuant to a resolution adopted by a majority of the Whole Board or by stockholders owning at least one-fifth of the voting power of the entire outstanding capital stock of the Corporation entitled to vote thereat. For purposes of these

By-laws, the term "Whole Board" shall mean the number of directors then in office notwithstanding that the number of directors then in office is less than the number of directors determined by the Board of Directors pursuant to Section 3.2 of these By-laws. The Board of Directors may, in its discretion, postpone or reschedule any previously scheduled special meeting of the stockholders.

(b) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. If the Corporation's notice of the special meeting provides for the election of directors, the only persons who may be nominated for such election are candidates who are nominated pursuant to (i) the Corporation's notice of meeting (ii) by or at the discretion of the Board of Directors of the Corporation or (iii) by any stockholder of record of the Corporation (A) who is a stockholder of record at the time of giving of notice provided for in this Section 2.4 (b), (B) who shall be entitled to vote at the special meeting and (C) who furnishes all of the information with respect to nominees and the Proposing Stockholder set forth in Section 2.3(c) of these By-laws within the time limits set forth in Section 2.4(c) of these By-laws.

(c) Nominations by stockholders of candidates for election to the Board of Directors of the Corporation may be made at a special meeting of stockholders if timely notice in writing of such nominations is given to the Secretary of the Corporation. To be timely, such notice must be received by the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the later of (x) the 90th day prior to the special meeting of the stockholders or (y) the 10th day following the day on which a Public Announcement of the date of such special meeting is first made.

Section 2.5. Notice of Meetings. Written notice of all meetings of stockholders other than adjourned, postponed or continued meetings of stockholders, stating the place, date and hour, and, in the case of special meetings of stockholders, the purpose or purposes thereof, shall be served upon or mailed, postage prepaid, or telegraphed, charges prepaid, not less than ten nor more than sixty days before the date of the meeting to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation. Such notices may be given at the discretion of, or in the name of, the Board of Directors, the President, any Vice President, the Secretary or any Assistant Secretary. When a meeting is adjourned, postponed or continued, it shall not be necessary to give any notice of the adjourned, postponed or continued meeting or of the business to be transacted at the adjourned, postponed or continued meeting, other than by announcement at the meeting at which such adjournment, postponement or continuation is taken, provided, however, that if the date of any adjourned meeting is more than 30 days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, notice of the place, date and time of the adjourned meeting shall be given in conformity with this Section 2.5. At any adjourned meeting, any business may be transacted that might have been transacted at the originally noticed meeting.

Section 2.6. Quorum of and Action by Stockholders. The presence, in person or by proxy, of the holders of a majority of the voting power of all of the shares of stock which all stockholders are entitled to cast on the particular matter shall constitute a quorum for purposes of considering such matter, and, unless otherwise specifically provided by the DGCL, the acts of such stockholders at a duly organized meeting shall be the acts of stockholders with respect to such matter. If, however, such quorum shall not be present at any meeting of the stockholders, the stockholders entitled to vote present in person or by proxy at the meeting may, except as otherwise provided by the DGCL, adjourn, postpone or continue the meeting from time to time to such time, date and place as they may determine, without notice other than an announcement at the meeting, except as otherwise provided in Section 2.5 of these By-laws, until a quorum shall be present in person or by proxy.

At any adjourned, postponed or continued meeting at which a quorum had been present, stockholders present in person or by proxy at a duly organized and constituted meeting, can continue to do business with respect to any matter properly submitted to the meeting until adjournment, postponement or continuation thereof notwithstanding the withdrawal of enough stockholders to leave less than a quorum for the purposes of considering any particular such matter.

Section 2.7. Organization and Conduct of Business at Meetings of Stockholders.

(a) Such person as the Board of Directors may have designated or, in the absence of such a designation, the President of the Corporation or, in the absence of the President, such person as may be chosen by the holders of a majority of the voting power of the shares of the Corporation's stock entitled to vote who are present, in person or by proxy, shall call to order any meeting of stockholders and serve as chairman of the meeting. In the absence of the Secretary of the Corporation, the chairman of the meeting shall appoint the Secretary of the meeting.

(b) The chairman of the meeting of stockholders shall determine the order of the business and the procedure at such meeting, including such regulation of the manner of voting and the conduct of discussion as the chairman of the meeting determines, in his sole discretion, to be in order. The chairman of the meeting shall have the power to adjourn the meeting to another place, date and time. The time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting.

Section 2.8. Voting. Except as may be otherwise provided by the DGCL or by the Certificate of Incorporation, at every meeting of the stockholders, every holder of Class A Common Stock entitled to vote thereat shall have the right to one-tenth of one vote for every share of Class A Common Stock standing in such stockholder's name on the stock transfer books of the Corporation on the record date fixed for the meeting and every holder of Class B Common Stock entitled to vote thereat shall have the right to one vote for every share of

Class B Common Stock standing in such stockholder's name on the stock transfer books of the Corporation on the record date fixed for the meeting.

When a quorum exists at any meeting, the vote of the holders of Class A Common Stock and Class B Common Stock having a majority of the voting power present at such meeting in person or by proxy, shall decide any question brought before such meeting, unless the question is one for which, by express provision of the DGCL or of the Certificate of Incorporation or of these By-laws, a different vote is required. At any election of directors, the election shall be by ballot, and the inspector or inspectors of election or, if none, the Secretary of the meeting, shall tabulate the ballots and certify the results of such vote.

Section 2.9. Voting by Proxy. At any meeting of stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing or by a transmission permitted by the DGCL filed in accordance with the procedure established for the meeting. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this Section 2.9 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. Every proxy shall be filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the Secretary of the Corporation. A proxy shall not be revoked by the death or incapacity of the maker, unless, before the vote is counted or the authority is exercised, written notice of such death or incapacity is given to the Secretary of the Corporation.

Section 2.10. Record Date. The Board of Directors may fix a time, not more than sixty nor less than ten days prior to the date of any meeting of the stockholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights or the date when any change or conversion or exchange of shares will be made or go into effect, as the record date for the determination of the stockholders entitled to notice of, or to vote at, such meeting, or to receive any such allotment of rights or to exercise the rights in respect to any such change or conversion or exchange of shares. In such case, only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting or to receive payment of such dividend, or to receive such allotment of rights or to exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any record date fixed as aforesaid.

Section 2.11. Stockholders List. The officer or agent having charge of the stock transfer books for shares of the Corporation shall make, at least ten days before each meeting of the stockholders, a complete alphabetical list of the holders of each class of stock entitled to vote at the meeting, with their addresses and the number and class of shares held by each,

which list shall be kept on file either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held and shall be subject to inspection by any stockholder for any purpose germane to the meeting during usual business hours for a period of at least 10 days prior to the meeting. Such list shall be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. The original stock transfer books of the Corporation shall be prima facie evidence as to who are the stockholders entitled to exercise the rights of a stockholder.

Section 2.12. Inspectors of Election. In advance of any meeting of the stockholders, the Board of Directors shall appoint one or more inspectors of election, who need not be stockholders, to act at such meeting or any adjournment, postponement or continuation thereof. Each inspector of election, before conducting his duties, shall take and sign an oath of office to execute faithfully the duties of inspector with strict impartiality and to the best of his ability. The number of inspectors of election shall be one or three. If no inspector of election so appointed is able to act at a meeting of stockholders, the chairman of any such meeting shall make such appointment at the meeting. No person who is a candidate for office shall act as an inspector of election.

All elections shall be determined by a plurality of the votes cast, and, except as otherwise provided by the DGCL, all other matters shall be determined by a majority of the voting power of the shares cast affirmatively or negatively.

The inspectors of election shall do all such acts as may be proper to conduct the election or vote and such other duties as may be prescribed by the DGCL with fairness to all stockholders, and shall make a written report of any matter determined by them and execute a certificate as to any fact found by them. If there is more than one inspector of election, the decision, act or certificate of a majority shall be the decision, act or certificate of all.

Section 2.13. Action by Majority Consent of the Stockholders. Any action required to be taken at an annual or special meeting of stockholders, or of a class thereof, or any action which may be taken at any annual or special meeting of such stockholders, or of a class thereof, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing setting forth the action so taken shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Secretary of the Corporation at its principal place of business as specified in Section 1.2.

Article 3

DIRECTORS

Section 3.1. Powers.

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

(b) Specific Powers. Without limiting the general powers conferred by the last preceding clause and the powers conferred by the Certificate of Incorporation and the By-laws of the Corporation, it is hereby expressly declared that the Board of Directors shall have the following powers:

(i) To appoint any person, firm or corporation to accept and hold in trust for the Corporation any property belonging to the Corporation or in which it is interested, and to authorize any such person, firm or corporation to execute any documents and perform any duties that may be requisite in relation to any such trust;

(ii) To appoint a person or persons to vote shares of another corporation held and owned by the Corporation and, in the absence of any such appointment, the Board of Directors of the Corporation shall have the authority to vote any such shares;

(iii) By resolution adopted by a majority of the Whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation. To the extent provided in any such resolution, and to the extent permitted by law, a committee so designated shall have and may exercise the authority of the Board of Directors in the management of the business and affairs of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. If specifically granted this power by the Board of Directors in its resolution establishing the committee, in the absence or disqualification of any member and all designated alternates of such committee or committees or if the Whole Board has failed to designate alternate members, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another director to act at the meeting in the place of any such absent or disqualified member;

(iv) To fix the place, time and purpose of meetings of the stockholders;

(v) To appoint or terminate officers of the Corporation and to fix the compensation of officers for their services as set forth in Article 4 of these By-laws; and

(vi) To fix the compensation of directors for their services.

Section 3.2. Number and Terms of Directors. The number of directors which shall constitute the whole Board of Directors shall be not less than seven nor more than twelve. Directors shall be natural persons of full age and need not be residents of Delaware or stockholders of the Corporation. Within the limits above specified, the number of directors shall be as determined from time to time by resolution of the Board of Directors. Except as hereinafter provided in the case of vacancies, each director shall be elected by the affirmative vote of a plurality of the votes cast by the holders of Class A Common Stock and of Class B Common Stock voting together as a single class for a term of three years and until his successor has been elected.

Section 3.3. Classes. The Board of Directors shall be divided into three classes: Class A, Class B and Class C. At each annual meeting of the stockholders, the successors to the directors of the class whose term shall expire in that year shall be elected for a term of three years so that the term of office of one class of directors shall expire in each year. The number of directors in each class shall be as nearly equal as possible so that, except for temporary vacancies, the number in any class shall not exceed the number in any other class by more than one.

Section 3.4. Powers and Duties of the Chairman of the Board of Directors. The Board of Directors shall appoint one of their number as the Chairman of the Board who shall preside at all meetings of the Board of Directors and who shall have such other powers and duties as may be assigned to him from time to time by the Board of Directors.

Section 3.5. Powers and Duties of the Vice Chairman of the Board of Directors. The Board of Directors may, in its discretion, appoint one of its number as a Vice Chairman of the Board of Directors. In the absence of the Chairman of the Board of Directors, the Vice Chairman of the Board of Directors shall preside at all meetings of the Board of Directors. In addition, the Vice Chairman of the Board of Directors shall have such other powers and duties as may be assigned to him from time to time by the Board of Directors.

Section 3.6. Vacancies. Vacancies on the Board of Directors, including vacancies resulting from an increase in the number of directors or resulting from a death, resignation, retirement, removal from office or other cause, shall be filled by a majority of the remaining members of the Board of Directors, though less than a quorum (and not by stockholders) , or by the sole remaining director, as the case may be, irrespective of whether holders of any class or series of stock or other voting securities of the Corporation are entitled to elect one or more directors to fill such vacancies or newly created directorships at the next annual meeting of the stockholders. Each person so elected shall be a director until his successor is elected by the stockholders at the annual meeting of the stockholders at which the class of directors to which he was elected is up for election. No decrease in the number of authorized directors shall shorten the term of any incumbent director.

Section 3.7. Organization Meetings. The organization meeting of each newly elected Board of Directors shall be held immediately following each annual meeting of the stockholders at which directors were elected without the necessity of notice to such directors to constitute a legally convened meeting or at such time and place as may be fixed by a notice, or a waiver of notice, or a consent signed by all of such directors. At such meeting, the Board of Directors shall elect officers of the Corporation and may also choose an Executive Committee consisting of two members of the Board of Directors in addition to the President.

Section 3.8. Regular Meetings. The Board of Directors shall have the power to fix by resolution the place, date and hour of regular meetings of the Board of Directors. A notice of each regular meeting shall not be required.

Section 3.9. Special Meetings. Special meetings of the Board of Directors may be called by the President of the Corporation on one day's notice to each director, either personally or by mail, telephone or electronic mail. Special meetings of the Board of Directors shall be called by the President or the Secretary of the Corporation in like manner and on like notice upon the written request of any five directors. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 3.10. Notices of Meetings. All meetings of the Board of Directors may be held at such times and places as may be specified in the notice of meeting or in a duly executed waiver of notice thereof. One or more directors may participate in any meeting of the Board of Directors, or of any committee thereof, by means of a conference telephone or similar communications equipment which enables all persons participating in the meeting to hear one another, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.11. Quorum. At all meetings of the Board of Directors, the presence, in person or by telephonic or similar communications equipment, of a majority of the members of the Whole Board shall constitute a quorum for the transaction of business and the acts of a majority of the directors present at a duly convened meeting at which a quorum is present shall be the acts of the Board of Directors, except as may be otherwise specifically provided by the DGCL, by the Certificate of Incorporation of the Corporation or by these By-laws. If a quorum shall not be present, in person or by telephonic or similar communications equipment, at any meeting of the Board of Directors, the directors present may adjourn, postpone or continue the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be so present.

Section 3.12. Action by Unanimous Written Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or a committee

thereof, as the case may be, consent thereto in writing, and such consent is filed with the minutes of proceedings of the Board of Directors or committee.

Section 3.13. Compensation. Directors, as such, may receive a stated salary for their services, or a fixed sum and expenses for attendance at regular or special meetings of the Board of Directors, or any committee thereof, or any combination of the foregoing as may be determined from time to time by resolution of the Board of Directors, and nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.14. Coordinating Committee. The Coordinating Committee shall consist of two members of the Corporation's Board of Directors, each of whom is not a member of the Board of Directors or an officer of Donegal Mutual Insurance Company ("Donegal Mutual"), and two members of the Board of Directors of Donegal Mutual, each of whom is not a member of the Board of Directors or an officer of the Corporation. The Coordinating Committee shall review and either approve or disapprove all contracts and other matters involving actual or potential conflicts of interest between the Corporation and Donegal Mutual, including any proposed amendment to this Section 3.14. Whenever any new contract between the Corporation and Donegal Mutual is proposed, any change is proposed in any existing contract between the Corporation and Donegal Mutual, any amendment is proposed to this Section 3.14 or any other matter arises that presents an actual or potential conflict of interest between the Corporation and Donegal Mutual, such new contract, change in an existing contract, proposed amendment to this Section 3.14 or other matter shall (i) first be submitted to the Coordinating Committee for its consideration thereof and only if (A) both of the Corporation's members of the Coordinating Committee conclude that such new contract, change in an existing contract, amendment to this Section 3.14 or other matter is fair and equitable to the Corporation and its stockholders and (B) both of Donegal Mutual's members of the Coordinating Committee conclude that such new contract, change in an existing contract, amendment to this Section 3.14 or other matter is fair and equitable to Donegal Mutual and its policyholders and (ii) if conditions (A) and (B) have been satisfied, such proposed new contract, change in an existing contract, amendment to this Section 3.14 or other matter shall be submitted for approval to the respective Boards of Directors of the Corporation and Donegal Mutual. For purposes of this Section 3.14, the term "the Corporation" shall mean Donegal Group Inc. and its direct and indirect wholly owned subsidiaries and the term "Donegal Mutual" shall mean Donegal Mutual Insurance Company and its direct and indirect wholly owned subsidiaries.

Section 3.15. Executive Committee. There shall be an Executive Committee that shall have and exercise all power and authority of the Board of Directors between meetings of the Board of Directors to the extent consistent with the DGCL. The Executive Committee shall consist of not fewer than three members of the Board of Directors, one of whom shall be the Chief Executive Officer of the Corporation and who shall be Chairman of the Executive

Committee, unless another member shall be designated by resolution of the Board of Directors. The members of the Executive Committee shall be designated from time to time by resolution of the Board of Directors. Not less than one-third of the members of the Executive Committee must be directors who are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Executive Committee shall meet at any time and place designated upon not fewer than six hours oral or written notice given by or on behalf of the Chairman of the Executive Committee. The Executive Committee shall report promptly to the entire Board of Directors the substance of any action taken by the Executive Committee.

Section 3.16. Audit Committee. The Board of Directors shall appoint annually an Audit Committee that shall consist of not fewer than three directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Audit Committee shall operate in accordance with its written charter adopted by the Board of Directors on March 19, 2004 as the same may be amended from time to time and shall have responsibility for the selection of the Corporation's independent registered public accounting firm, reviewing the scope and results of the audit and reviewing the adequacy of the Corporation's accounting, financial, internal and operating controls.

Section 3.17. Nominating Committee. The Board of Directors shall appoint annually a Nominating Committee which shall consist of not fewer than two directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting securities of the Corporation. The Nominating Committee shall operate in accordance with its written charter, as adopted by the Board of Directors on March 19, 2004, as the same may be amended from time to time, and shall have responsibility for identification of individuals believed to be qualified to become members of the Board of Directors and to recommend to the Board of Directors nominees to stand for election as directors, identification of members of the Board of Directors qualified to serve on the various committees of the Board of Directors, evaluation of the procedures and processes by which the committees of the Board of Directors conduct a self-evaluation of their performance and provision to the Board of Directors of an annual performance evaluation of the Nominating Committee.

Section 3.18. Compensation Committee. The Board of Directors shall appoint annually a Compensation Committee that shall consist of not fewer than two directors who satisfy applicable independence requirements, are not officers or employees of the Corporation or of any entity controlling, controlled by or under common control with the Corporation and who are not beneficial owners of a controlling interest in the voting

securities of the Corporation. The Compensation Committee shall be responsible for the annual review of the compensation of the Corporation's executive officers, the provision of annual compensation recommendations to the Board of Directors for all of the Corporation's employees, including its executive officers, the determination of employees who participate in the Corporation's employee stock option plans and the provision of recommendations to the Board of Directors as to individual stock option grants, the review of the Corporation's employee benefit plans and the performance of such other responsibilities as may be assigned to it by the Board of Directors.

Section 3.19. Conduct of Business by Committees. Each committee of the Board of Directors of the Corporation may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided in these By-laws or the DGCL. Adequate provision shall be made for notice to members of all Committee meetings.

Article 4

OFFICERS

Section 4.1. Election and Office. The officers of the Corporation shall be elected annually by the Board of Directors at its organization meeting and shall consist of a President, a Secretary and a Treasurer. The Board of Directors may also elect one or more Vice Presidents and such other officers and appoint such agents as it shall deem necessary. Each officer of the Corporation shall hold office for such term, have such authority and perform such duties as set forth in these By-laws or as may from time to time be prescribed by the Board of Directors in consultation with the President. Any two or more offices may be held by the same person.

Section 4.2. Salaries. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 4.3. Removal and Vacancies. The Board of Directors may remove any officer or agent elected or appointed at any time and within the period, if any, for which such person was elected or employed whenever in the judgment of the Board of Directors it is in the best interests of the Corporation, and all persons shall be elected and employed subject to the provisions hereof. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

Section 4.4. Powers and Duties of the President. Unless otherwise determined by the Board of Directors, the President shall have the usual duties of a chief executive officer with general supervision over and direction of the affairs of the Corporation. In the exercise of these duties and subject to the limitations of the DGCL or any other applicable law, these By-

laws and the actions of the Board of Directors, he may appoint, suspend and discharge employees, agents and assistant officers, may fix the compensation of all officers and assistant officers, shall preside at all meetings of the stockholders at which he shall be present, and, unless there is a Chairman of the Board of Directors, shall preside at all meetings of the Board of Directors and shall be a member of all committees. He shall also do and perform such other duties as from time to time may be assigned to him by the Board of Directors.

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

Section 4.5. Powers and Duties of Vice Presidents. Each Vice President shall have such duties as may be assigned to him from time to time by the Board of Directors, the Executive Committee or the President. In the event of a temporary absence of the President on vacation or business, the President may designate a Vice President or Vice Presidents who will perform the duties of the President in such absence. In the event of a prolonged absence of the President due to illness or disability or for any other reason, the Board of Directors shall designate a Vice President or Vice Presidents who will perform the duties of the President during such absence.

Section 4.6. Powers and Duties of the Secretary. The Secretary of the Corporation shall attend all meetings of the Board of Directors and of the stockholders and shall keep accurate records thereof in one or more minute books kept for that purpose, shall give, or cause to be given, the required notice of all meetings of the stockholders and of the Board of Directors, shall keep in safe custody the corporate seal of the Corporation and affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or any Assistant Secretary or Assistant Treasurer of the Corporation. The Secretary also shall keep, or cause to be kept, the stock certificate books, stock transfer books and stock ledgers of the Corporation, in which shall be recorded all stock issues, transfers, the dates of same, the names and addresses of all stockholders and the number of shares held by each, shall, when necessary, prepare new certificates upon the transfer of shares and the surrender of the old certificates, shall cancel such surrendered certificates and shall perform such other duties as may be assigned to him by the President.

Section 4.7. Powers and Duties of the Treasurer. The Treasurer of the Corporation shall have the custody of the Corporation's funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as shall be designated by the President, shall disburse the funds of the

Corporation as may be ordered by the President or the Board of Directors, taking proper vouchers for such disbursements, shall render to the President and the Board of Directors, at the regular meetings of the Board of Directors or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation and shall have the right to affix the seal of the Corporation to any instrument requiring it, and to attest to the same by his signature and, if so required by the Board of Directors, he shall give bond in such sum and with such surety as the Board of Directors may from time to time direct.

Section 4.8. Designation of a Chief Financial Officer. The Board of Directors shall have the power to designate from among the President, any Vice President or the Treasurer of the Corporation a Chief Financial Officer who shall be deemed the principal financial and accounting officer.

Article 5

INDEMNIFICATION

Section 5.1. Indemnification. The Corporation shall indemnify any director or officer of the Corporation and any director or officer of its subsidiaries against expenses, including legal fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him to the fullest extent now or hereafter permitted by law in connection with any threatened, pending or completed action, suit, investigation or proceeding, whether derivative or nonderivative, and whether civil, criminal, administrative or investigative, brought or threatened to be brought against him by reason of his performance or status as a director or officer of the Corporation, any of its subsidiaries or any other entity in which he was serving at the request of the Corporation or in any other capacity on behalf of the Corporation, its parent or any of its subsidiaries if such officer or director acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Notwithstanding the foregoing, in the case of any threatened, pending or completed action or suit by or in the right of the Corporation, no indemnification shall be made in respect of any claim, issue or matter as to which such officer or director shall have been adjudged to be liable to the Corporation unless and only to the extent the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

The Board of Directors by resolution adopted in each specific instance may similarly indemnify any person other than a director or officer of the Corporation for liabilities

incurred by him in connection with services rendered by him for or at the request of the Corporation or any of its subsidiaries.

The provisions of this Section 5.1 shall be applicable to all actions, suits, investigations or proceedings commenced after its adoption, whether such arise out of acts or omissions which occurred prior or subsequent to such adoption and shall continue as to a person who has ceased to be a director or officer or to render services for or at the request of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such a person. The rights of indemnification provided for herein shall not be deemed the exclusive rights to which any such director, officer or other person may be entitled.

Section 5.2. Authorization and Determination of Indemnification. Any indemnification under this Article 5, unless ordered by a court, shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or other person is proper in the circumstances because he has met the applicable standard of conduct as specified in Section 5.1 of this Article 5. A person shall be deemed to have met such applicable standard of conduct if his action is based in good faith on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise.

Such determination shall be made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion or (iii) by the stockholders. To the extent, however, that a director, officer or other person has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys' fees, actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

The provisions of this Section 5.2 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met such applicable standard of conduct.

Section 5.3. Advances. Expenses incurred in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer or other person to repay such amount if it shall ultimately be

determined that he is not entitled to be indemnified by the Corporation as authorized in this Article 5.

Section 5.4. Scope and Alteration of Indemnification Provisions. The indemnification and advancement of expenses provided by, or granted pursuant to, the other sections of this Article 5 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, contract, vote of the stockholders or disinterested directors or pursuant to the direction, howsoever embodied, of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of, and advancement of expenses to, the persons specified in Section 5.1 of this Article 5 shall be made to the fullest extent permitted by the DGCL.

To this end, the provisions of this Article 5 shall be deemed to have been amended for the benefit of such persons effective immediately upon any modification of the DGCL which expands or enlarges the power or obligation of corporations organized under such law to indemnify, or advance expenses to, such persons. The provisions of this Article 5 shall not be deemed to preclude the indemnification of, or advancement of expenses to, any person who is not specified in this Section 5.4 or Section 5.1 of this Article 5 but whom the Corporation has the power or obligation to indemnify, or to advance expenses for, under the provisions of the DGCL.

Section 5.5. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer or employee of the Corporation, or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article 5.

Section 5.6. Definitions. For purposes of this Article 5, references to the "Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article 5 with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

The term “another enterprise” as used in this Article 5 shall mean any other corporation or any partnership, joint venture, trust or other entity of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent and shall include employee benefit plans.

Section 5.7. Nature of Rights to Indemnification. The rights of indemnification conferred upon directors and officers of the Corporation in this Article 5 shall be contract rights. Any amendment, alteration or repeal of this Article 5 that adversely affects any right of a person indemnified under this Article 5 shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment, alteration or repeal.

Article 6

CAPITAL STOCK

Section 6.1. Stock Certificates. The certificates for shares of the Corporation’s capital stock shall be numbered and registered in a share register as they are issued, shall bear the name of the registered holder, the number and class of shares represented thereby and the par value of each share or a statement that such shares are without par value, as the case may be, shall be signed by the President or any Vice President of the Corporation and the Secretary, any Assistant Secretary or the Treasurer of the Corporation or any other person properly authorized by the Board of Directors and shall bear the seal of the Corporation, which seal may be a facsimile engraved or printed. Where the certificate is signed by a transfer agent or a registrar, the signature of any corporate officer on such certificate may be a facsimile engraved or printed. In case any officer who has signed, or whose facsimile signature has been placed upon, any share certificate shall have ceased to be such officer because of death, resignation or otherwise before the certificate is issued, it may be issued by the Corporation with the same effect as if the officer had not ceased to be such at the date of its issue.

Section 6.2. Transfer of Shares. Upon surrender to the Corporation of a share certificate duly endorsed by the person named in the certificate or by an attorney duly appointed in writing and accompanied where necessary by proper evidence of succession, assignment or authority to transfer, a new certificate shall be issued to the person entitled thereto and the old certificate cancelled and the transfer recorded upon the stock transfer books and share register of the Corporation.

Section 6.3. Lost Certificates. Should any stockholder of the Corporation allege the loss, theft or destruction of one or more certificates for shares of the Corporation and request the issuance by the Corporation of a substitute certificate therefor, the Board of Directors may

direct that a new certificate of the same tenor and for the same number of shares be issued to such person upon such person's making of an affidavit in form satisfactory to the Board of Directors setting forth the facts in connection therewith, provided that prior to the receipt of such request the Corporation shall not have either registered a transfer of such certificate or received notice that such certificate has been acquired by a bona fide purchaser. When authorizing such issuance of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance of such certificate, require the owner of such lost, stolen or destroyed certificate, or his heirs or legal representatives, as the case may be, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such form and for such sum and with such surety or sureties, with fixed or open penalty, as shall be satisfactory to the Board of Directors, as indemnity for any liability or expense which it may incur by reason of the original certificate remaining outstanding.

Section 6.4. Dividends. The Board of Directors may, from time to time, at any duly convened regular or special meeting or by unanimous consent, declare and pay dividends upon the outstanding shares of capital stock of the Corporation in cash, property or shares of the Corporation.

Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, shall deem proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation or for such other purposes as the Board of Directors shall believe to be in the best interests of the Corporation, and the Board of Directors may reduce or abolish any such reserve in the manner in which it was created.

Article 7

FINANCIAL REPORT TO STOCKHOLDERS

The President of the Corporation and the Board of Directors shall present at each annual meeting of the stockholders a full and complete statement of the business and affairs of the Corporation for the preceding year. Such statement shall be prepared and presented in whatever manner the Board of Directors shall deem advisable and need not be verified by a certified public accountant or sent to the stockholders of the Corporation.

Article 8

CHECKS AND NOTES

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

Article 9

FISCAL YEAR

The fiscal year of the Corporation shall be as determined from time to time by resolution of the Board of Directors.

Article 10

SEAL

The seal of the Corporation shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

Article 11

NOTICES; COMPUTING TIME PERIODS

Section 11.1. Method and Contents of Notice. Whenever, under the provisions of the DGCL or of the Certificate of Incorporation or of these By-laws, written notice is required to be given to any person, it may be given to such person either personally or by sending a copy thereof through the mail, postage prepaid or by electronic mail, to his address appearing on the books of the Corporation or supplied by him to the Corporation for the purpose of notice. If the notice is sent by mail, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail. Such notice shall specify the place, day and hour of the meeting, if any, and, in the case of a special meeting of the stockholders, the general nature of the business to be transacted.

Section 11.2. Waiver of Notice. Any written notice required to be given to any person may be waived in a writing signed by the person entitled to such notice whether before or after the time stated therein. Attendance of any person entitled to notice, whether in person

or by proxy, at any meeting shall constitute a waiver of notice of such meeting, except where any person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Where written notice is required for any meeting, the waiver thereof must specify the purpose only if it is for a special meeting of the stockholders.

Section 11.3. Computing Time Periods. In computing the number of days for purposes of these By-laws, all days shall be counted, including Saturdays, Sundays or holidays; provided, however, that if the final day of any time period falls on a Saturday, Sunday or holiday, then the final day shall be deemed to be the next day which is not a Saturday, Sunday or holiday. In computing the number of days for the purpose of giving notice of any meeting, the date upon which the notice is given shall be counted but the day set for the meeting shall not be counted.

Article 12

AMENDMENTS

These By-laws may be altered, amended or repealed by an affirmative vote of holders of a majority of the voting power of the shares of common stock of the Corporation entitled to vote thereon at any annual or special meeting duly convened after notice to the stockholders of that purpose or by a majority vote of the members of the Board of Directors at any regular or special meeting of the Board of Directors duly convened after notice to the Board of Directors of that purpose, subject always to the power of the stockholders to change such action of the Board of Directors.

Article 13

INTERPRETATION OF BY-LAWS

All words, terms and provisions of these By-laws shall be interpreted and defined by and in accordance with the DGCL and as the same may be amended from time to time hereafter.

Last Amended July 20, 2006

AMENDED AND RESTATED SERVICES ALLOCATION AGREEMENT

THIS AMENDED AND RESTATED SERVICES ALLOCATION AGREEMENT (this "Agreement") is entered into this 20th day of July 2006 among DONEGAL GROUP INC., a Delaware corporation ("DGI"), ATLANTIC STATES INSURANCE COMPANY, a Pennsylvania stock casualty insurance company ("Atlantic States"), SOUTHERN INSURANCE COMPANY OF VIRGINIA, a Virginia stock casualty insurance company ("Southern"), LE MARS INSURANCE COMPANY, an Iowa stock casualty insurance company ("Le Mars"), THE PENINSULA INSURANCE COMPANY, a Maryland stock casualty insurance company ("Peninsula"), PENINSULA INDEMNITY COMPANY, a Maryland stock casualty insurance company ("PIC", and, together with Atlantic States, Southern, Le Mars and Peninsula, the "Insurance Subsidiaries") and DONEGAL MUTUAL INSURANCE COMPANY, a Pennsylvania mutual fire insurance company ("Donegal Mutual").

WITNESSETH:

WHEREAS, Donegal Mutual formed DGI in August 1986 as part of a strategy to utilize a downstream holding company as a means of providing alternative sources of capital for Donegal Mutual's insurance business;

WHEREAS, DGI, Donegal Mutual and Atlantic States, a wholly owned subsidiary of DGI, are parties to a Services Allocation Agreement dated September 29, 1986 (the "Prior Agreement");

WHEREAS, the purpose of the Prior Agreement was to provide for the allocation of shared costs of certain employees of Donegal Mutual who have provided certain functions and services to DGI and certain of its subsidiaries since October 1, 1986 in connection with an intercompany pooling agreement between Donegal Mutual and Atlantic States;

WHEREAS, since October 1, 1986, DGI has acquired, and may in the future acquire, insurance companies for which employees of Donegal Mutual provide full-time services and Donegal Mutual is reimbursed on a direct basis for such services;

WHEREAS, Donegal Mutual has provided such services to DGI and the Insurance Subsidiaries in an efficient and effective manner;

WHEREAS, Donegal Mutual and DGI wish to continue a mutually beneficial relationship among Donegal Mutual and DGI for the respective benefit of Donegal Mutual and DGI and the Insurance Subsidiaries; and

WHEREAS, DGI, Atlantic States and Donegal Mutual wish to amend the Prior Agreement to remove Atlantic States as a party, to reflect developments in the respective businesses of DGI and the Insurance Subsidiaries and Donegal Mutual since the date of execution of the Prior Agreement and the interrelated nature of their businesses as conducted under the name Donegal Insurance Group and to provide for the appropriate allocation and payment of expenses in accordance with the current practices of Donegal Mutual, DGI and the Insurance Subsidiaries;

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained and intending to be legally bound hereby, Donegal Mutual, DGI and the Insurance Subsidiaries agree as follows:

1. Effective Date. The effective date of this Agreement shall be August 1, 2006 (the "Effective Date"). This Agreement shall continue in effect unless and until terminated pursuant to Section 5.

2. Services To Be Provided.

(a) Donegal Mutual agrees to provide employees who shall perform the services described in Section 2(d) for and on behalf of and in the name of Atlantic States, and Donegal Mutual and Atlantic States agree that all of the costs and expenses of Donegal Mutual in providing those services and employees to Atlantic States shall be allocated between Donegal Mutual and Atlantic States in proportion to their respective participation from time to time under the Proportional Reinsurance Agreement dated as of September 29, 1986 and most recently amended as of April 20, 2000 between Donegal Mutual and Atlantic States.

(b) Donegal Mutual agrees to provide employees who shall, directly or indirectly, perform the services described in Section 2(d) for and on behalf of DGI and the Insurance Subsidiaries other than Atlantic States, and DGI and the Insurance Subsidiaries other than Atlantic States, agree either to reimburse Donegal Mutual or to allocate among Donegal Mutual, on the one hand, and DGI and the Insurance Subsidiaries other than Atlantic States, on the other hand, the costs and expenses of Donegal Mutual in providing such services and employees to DGI and the Insurance Subsidiaries other than Atlantic States.

(c) Donegal Mutual, DGI and the Insurance Subsidiaries agree that the fundamental purposes of this Agreement are (i) to secure the provision of the services described in Section 2(d) to DGI and the Insurance Subsidiaries and (ii) to assure that

Donegal Mutual receives appropriate payments from DGI and the Insurance Subsidiaries so that Donegal Mutual has no net cost for providing the services and employees, or, in the case of Atlantic States, for providing Atlantic States' proportionate share of such services and employees as described in Section 2(a), pursuant to this Agreement. Exhibit A to this Agreement provides specific but non-exclusive guidelines as to how such allocations and reimbursements shall be calculated and settled, and Exhibit A may be amended from time to time by the mutual agreement of Donegal Mutual, DGI and the Insurance Subsidiaries.

(d) The services are as follows:

(i) Underwriting — the development, implementation and administration of policies relating to underwriting and the acceptance of risks, the maintenance of underwriting manuals and guidelines and services relating to the development of insurance products and rates, the provision of all actuarial services necessary or appropriate for the operation of the Insurance Subsidiaries, the analysis of loss trends and reserve developments and risk concentrations and the arranging for insurance, loss control and other reasonable risk management services in the underwriting process to protect the Insurance Subsidiaries and their respective properties and other assets against loss, damage and liabilities;

(ii) Claims — the admitting, adjusting, compromising, rejection and settlement of claims under insurance policies issued by the Insurance Subsidiaries and the collection of reinsurance and recoverables;

(iii) Reinsurance — the review, negotiation, monitoring and coordination of all reinsurance contracts and placements, including the determination of the amounts, terms, types and structure of reinsurance to be obtained and the selection of the reinsurers;

(iv) Investments — the investment of all available funds in the name of DGI and the Insurance Subsidiaries pursuant to their respective investment policies, and the management of the respective investments of DGI and the Insurance Subsidiaries;

(v) Information Services — the purchase and maintenance of computer hardware and software systems and the creation, implementation and maintenance of computer programs utilized within those systems. Such systems shall include, but not be limited to, accounting and bookkeeping systems, automated underwriting and policy issuance systems, claims processing systems, premium billing systems, electronic imaging systems, Internet web systems and storage and processing systems for maintaining information to enable the preparation and analysis of daily, weekly and monthly reports;

(vi) Personnel and Professional Services — the appointment, direction, removal and suspension, in the name of DGI and the Insurance Subsidiaries, of employees

and agents, including the determination of the appropriate levels thereof, and the ongoing review and analysis of professional services, including the retention of counsel, accountants, actuaries and other consultants;

(vii) Financial Reporting — the analysis and reporting of actual performance to budgeted performance, including analysis of financial results through the budgeted period and the preparation of all statements and reports necessary or appropriate for the respective businesses of DGI and the Insurance Subsidiaries, including reports to insurance regulatory authorities and the Securities and Exchange Commission;

(viii) Tax Administration — the ordinary and necessary tax administration services for income taxes, premium taxes, sales and use taxes, franchise and similar taxes and any other taxes incurred;

(ix) Accounting Services — the providing of routine accounting and bookkeeping services relating to cash, cash equivalents, receivables, supplies and other inventory items, fixed assets and other asset accounting, accounts payable, notes payable, other trade payables, payroll and payroll taxes, other general ledger items, accounting services relating to investments and the reconciliation of all bank accounts;

(x) Policyholder Services — the maintenance of policyholders' customer relation services and the maintenance of policyholder information, including names, addresses, policy anniversary dates and premiums due;

(xi) Internal Audit and Compliance Services — the providing of internal audit and compliance services to obtain an ongoing independent and objective evaluation of the internal control systems designed to provide reasonable assurance regarding the efficiency and effectiveness of operations, the reliability of financial reporting and compliance with applicable laws and regulations;

(xii) Actuarial Services — the providing of actuarial services including review and analysis of claims reserving assumptions, historical claims experience and 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; and

(xiii) Marketing, Sales and Advertising Services — the creation and development of marketing, sales and advertising programs, media and agency co-op promotional materials to further increase brand awareness and promote the sales of insurance products and services.

(e) Donegal Mutual shall use its best efforts to provide the services described above and such other or additional services as DGI or the Insurance Subsidiaries may from time to time request pursuant to this Agreement. Notwithstanding the foregoing, DGI and the Insurance Subsidiaries agree that Donegal Mutual shall have no obligation to

provide services to DGI and the Insurance Subsidiaries of a quality greater than the quality of such services that Donegal Mutual maintains for its own operations.

(f) Donegal Mutual shall, within 90 days after the expiration of each calendar year during the term of this Agreement, furnish the Boards of Directors of DGI and the Insurance Subsidiaries with a written report as to the allocations and reimbursements between Donegal Mutual, on the one hand, and DGI and the Insurance Subsidiaries, on the other hand, during such year as shall be sufficient, (i) in the discretion of the disinterested members of the Boards of Directors of DGI and the Insurance Subsidiaries, to provide a commercially reasonable basis to reach the conclusion that the transactions between Donegal Mutual, on the one hand, and DGI and the Insurance Subsidiaries, on the other hand, have been fair to DGI and its stockholders under prevailing circumstances and (ii) as shall be sufficient in the discretion of the disinterested members of Donegal Mutual's Board of Directors, to provide a commercially reasonable basis to reach the conclusion that the transactions between Donegal Mutual, on the one hand, and DGI and the Insurance Subsidiaries, on the other hand, have been fair to Donegal Mutual and its policyholders under prevailing circumstances.

(g) Nothing in this Agreement shall constitute or be construed to be or create a partnership or joint venture relationship between DGI and the Insurance Subsidiaries, on the one hand and Donegal Mutual, on the other hand, and Donegal Mutual's status under this Agreement shall be that of an independent contractor. In connection with the performance of services under this Agreement, neither DGI, the Insurance Subsidiaries nor Donegal Mutual shall make any statement or take any action that is inconsistent with the provisions of this Section 2(g). It is understood and agreed that the management, control and direction of the operations and policies of DGI and the Insurance Subsidiaries shall remain at all times under the exclusive control of the respective boards of directors of DGI and the Insurance Subsidiaries.

(h) In the event that an issue or question arises in the future as to how this Agreement should be interpreted or whether the provisions of this Agreement should or should not apply in a particular set of circumstances as to a particular transaction between Donegal Mutual and DGI or one of the Insurance Subsidiaries, the issue or question shall be referred, upon the request of any of Donegal Mutual, DGI or the Insurance Subsidiary, for resolution to the Coordinating Committee maintained by the Boards of Directors of Donegal Mutual and DGI, and the decision of the Coordinating Committee with respect to such issue or question shall be final and binding on Donegal Mutual, DGI and the Insurance Subsidiaries.

3. Books and Records.

(a) Donegal Mutual shall keep accurate records and accounts of all services provided pursuant to this Agreement. Such records and accounts shall be maintained in

accordance with sound business practices and shall be subject to such systems of internal control as are required by law. All records and accounts shall be available for inspection by DGI, the Insurance Subsidiaries and their respective representatives, including DGI's independent registered public accounting firm, at any time upon request during commercially reasonable hours.

(b) All such records and accounts shall be the property of Donegal Mutual, subject to the right of inspection of DGI and the Insurance Subsidiaries under Section 3(a) of this Agreement and the examination rights of insurance and other applicable regulatory authorities.

(c) DGI and the Insurance Subsidiaries, as the case may be, shall be solely responsible, severally and not jointly, for, and shall hold harmless and indemnify Donegal Mutual, including its successors, officers, directors, employees, agents and affiliates, from and against all losses, claims, damages, liabilities and expenses, including any and all reasonable expenses and attorneys' fees and disbursements incurred in investigating, preparing or defending against any litigation or proceeding, whether commenced or threatened, or any other claim whatsoever, whether or not resulting in any liability, suffered, incurred, made, brought or asserted by any person not a party to this Agreement in connection with Donegal Mutual's provision of services to DGI and the Insurance Subsidiaries, unless such loss, claim, damage, liability or expense results from the negligence, willful misconduct or fraud of Donegal Mutual or its officers, directors, employees, agents or affiliates or any other person engaged by Donegal Mutual to provide services to DGI and the Insurance Subsidiaries.

(d) Donegal Mutual shall be solely responsible for, and shall hold harmless and indemnify DGI and the Insurance Subsidiaries, as the case may be, including their respective successors, officers, directors, employees, agents and affiliates, from and against all losses, claims, damages, liabilities and expenses, including any and all reasonable expenses and attorneys' fees and disbursements incurred in investigating, preparing or defending against any litigation or proceeding, whether commenced or threatened, or any other claim whatsoever, whether or not resulting in any liability, suffered, incurred, made, brought or asserted by any person not a party to this Agreement resulting from the negligence, willful misconduct or fraud of Donegal Mutual or its officers, directors, employees, agents or affiliates or any other person engaged by Donegal Mutual to provide services to DGI and the Insurance Subsidiaries.

4. Approval by the Pennsylvania Department of Insurance. Donegal Mutual has submitted this Agreement to the Pennsylvania Department of Insurance for its review and approval in accordance with Chapter 14 of the Insurance Company Law of Pennsylvania, and such approval has been obtained.

5. Termination. This Agreement shall have a term that initially expires on December 31, 2011, provided, however, that, on each December 31 after the Effective Date of this Agreement, the term of this agreement shall be extended by one year so that at all times this Agreement shall have a then current term of five years; provided, however, that this Agreement may be terminated at any time prior to its then termination date in any of the following events, subject, in all events, to the receipt of any necessary insurance regulatory filings or actions:

(a) By Donegal Mutual, upon 180 days prior written notice to DGI and the Insurance Subsidiaries, if a Change of Control (as defined in this Agreement) of DGI shall have occurred. As used herein, "Change of Control" shall mean (i) the acquisition of shares of DGI by any "person" or "group," as such terms are used in Rule 13d-3 under the Securities Exchange Act of 1934 as now or hereafter amended, in a transaction or series of transactions that result in such person or group directly or indirectly becoming the beneficial owner of 25% or more of the voting power of DGI's common stock after the date of this Agreement, (ii) the consummation of a merger or other business combination after which the holders of voting common stock of DGI do not collectively own 60% or more of such voting common stock of the entity surviving such merger or other business combination, (iii) the sale, lease, exchange or other transfer in a transaction or series of transactions of all or substantially all of the assets of DGI, but excluding therefrom the sale and reinvestment of the investment portfolio of DGI and the Insurance Subsidiaries or (iv) as the result of or in connection with any cash tender offer or exchange offer, merger or other business combination, sale of assets or contested election of directors or any combination of the foregoing transactions specified in clauses (i), (ii), (iii) and (iv), each, a "Transaction", the persons who constituted a majority of the members of the Board of Directors of DGI on the date of this Agreement and persons whose election as members of the Board of Directors of DGI was approved by such members then still in office or whose election was previously so approved after the date of this Agreement but before the event that constitutes a Change of Control, no longer constitute such a majority of the members of the Board of Directors of DGI then in office. A Transaction shall be deemed to constitute a Change in Control only upon the consummation of the Transaction.

(b) By DGI and the Insurance Subsidiaries, upon 30 days prior written notice to Donegal Mutual, if Donegal Mutual shall have become insolvent or shall have become subject to any voluntary or involuntary conservatorship, receivership, reorganization, liquidation or bankruptcy case or proceeding.

(c) By Donegal Mutual, DGI and the Insurance Subsidiaries at any time by mutual written agreement.

(d) The aforesaid respective rights of termination of DGI, the Insurance Subsidiaries and Donegal Mutual may be exercised without prejudice to any other remedy to

which DGI, the Insurance Subsidiaries or Donegal Mutual, as the case may be, is entitled in law or in equity.

6. Miscellaneous.

(a) All notices, communications and deliveries under this Agreement shall (i) be made in writing, signed by the party making the same to the address as specified below, (ii) specify the section of this Agreement pursuant to which such notice is given, (iii) be deemed to be given if delivered in person, on the date delivered, or if sent by facsimile, on the date sent (if the party giving the notice, or its employee or agent, has no reason to believe that the facsimiled notice was not made or received), or if sent by Federal Express or some other overnight express courier with costs paid, on the date delivered to such express courier and (iv) be deemed received if delivered in person, on the date of personal delivery, or if by facsimile, on the first business day after sent (if the party giving the notice, or its employee or agent, has no reason to believe that the facsimiled notice was not made or received), or if sent by Federal Express or some other overnight express courier, on the first business day after delivered to such overnight express courier:

if to DGI, to:

Donegal Group Inc.
1195 River Road
Marietta, Pennsylvania 17547
Attention: President
Facsimile: 717-426-7009

if to Donegal Mutual, to:

Donegal Mutual Insurance Company
1195 River Road
Marietta, Pennsylvania 17547
Attention: President
Facsimile: 717-426-7009

if to Atlantic States, to:

Atlantic States Insurance Company
1195 River Road
Marietta, Pennsylvania 17547
Attention: Chief Executive Officer
Facsimile: 717-426-7009

if to Southern, to:

Southern Insurance Company of Virginia
1195 River Road
Marietta, Pennsylvania 17547
Attention: Chief Executive Officer
Facsimile: 717-426-7009

if to Le Mars, to:

Le Mars Insurance Company
1195 River Road
Marietta, Pennsylvania 17547
Attention: Chief Executive Officer
Facsimile: 717-426-7009

if to Peninsula and/or PIC, to:

The Peninsula Insurance Company
1195 River Road
Marietta, Pennsylvania 17547
Attention: Chief Executive Officer
Facsimile: 717-426-7009

Such notice shall be given at such other address or to such other representative as a party to this Agreement may furnish pursuant to this Section 6(a) to the other party to this Agreement.

(b) No assignment, transfer or delegation, whether by merger or other operation of law or otherwise, of any rights or obligations under this Agreement shall be made by a party to this Agreement without the prior written consent of the other party to this Agreement and, if required by applicable law, the Pennsylvania Commissioner of Insurance and any other insurance regulatory authority having jurisdiction over this Agreement. This Agreement shall be binding upon the parties hereto and their respective permitted successors and assigns.

(c) This Agreement constitutes the entire agreement of the parties to this Agreement with respect to its subject matter, supersedes all prior agreements, including the Prior Agreement, of the parties to this Agreement with respect to its subject matter and may not be amended except in writing signed by the party to this Agreement against whom the change is asserted. The failure of any party to this Agreement at any time or times to require

the performance of any provision of this Agreement shall in no manner affect the right to enforce the same and no waiver by any party to this Agreement of any provision or breach of any provision of this Agreement in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision or breach of any other provision of this Agreement.

(d) In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause continued performance of this Agreement as contemplated herein to be unreasonable or materially and adversely frustrate the objectives of the parties in originally entering into this Agreement as expressed in the Recitals to this Agreement.

(e) This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

DONEGAL MUTUAL INSURANCE COMPANY

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

ATLANTIC STATES INSURANCE COMPANY

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

LE MARS INSURANCE COMPANY

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

DONEGAL GROUP INC.

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

SOUTHERN INSURANCE COMPANY OF VIRGINIA

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

THE PENINSULA INSURANCE COMPANY

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus, Chief
Executive Officer

PENINSULA INDEMNITY COMPANY

By: /s/ Donald H. Nikolaus
Donald H. Nikolaus, Chief
Executive Officer

Services Allocation Agreement
Allocation and Reimbursement Guidelines

The following information sets forth allocation and reimbursement guidelines to be followed for the calculation and settlement of amounts pursuant to the Agreement.

1. Personnel Costs.

Personnel Costs as used in this Exhibit A shall be defined to include salaries and payroll tax expense. Calculation and settlement of allocations and reimbursements of personnel costs shall be performed as follows:

(a) For DGI and the Insurance Subsidiaries other than Atlantic States receiving services from Donegal Mutual employees, DGI and the Insurance Subsidiaries shall reimburse Donegal Mutual for the direct costs of the employees performing such services. Donegal Mutual may also recover an administration fee to cover its costs of services rendered to maintain records and process payroll for DGI and the Insurance Subsidiaries.

(b) Atlantic States shall reimburse Donegal Mutual for its proportionate share of Donegal Mutual's personnel costs, after subtracting direct reimbursements from DGI and the Insurance Subsidiaries other than Atlantic States as described in Section 1(a), in accordance with the following allocation methods:

- (i) Underwriting and general personnel costs shall be allocated in proportion to Donegal Mutual's and Atlantic States' respective participation under the Proportional Reinsurance Agreement.
- (ii) Claim personnel costs shall be allocated in proportion to Donegal Mutual's and Atlantic States' respective average claim reserves and loss payments
- (iii) Investment personnel costs shall be allocated in proportion to Donegal Mutual's and Atlantic States' respective average invested assets. Such costs shall include the proportionate amount of personnel costs for individuals who perform duties related to Donegal Mutual's and Atlantic States' investment portfolios.
- (iv) Information technology and operational services personnel costs shall be allocated proportionately to the allocations calculated in (i) through (iii)

above to reflect the provision of information technology and operational services to each of the respective functions.

(c) Donegal Mutual shall provide to DGI and the Insurance Subsidiaries periodic calculations of amounts pursuant to Section 1(a) and (b), and DGI and the Insurance Subsidiaries shall reimburse Donegal Mutual in the normal course of business, generally within 30 days of receipt of such calculations.

2. Information Services.

To the extent that Donegal Mutual purchases and maintains the computer hardware and software systems required to service the business underwritten by Donegal Mutual and one or more of the Insurance Subsidiaries, calculation and settlement of allocations and reimbursements for such services shall be performed as follows:

(a) The estimated purchase price and development costs of computer hardware and software systems required to provide such services shall be divided by the number of years those systems are reasonably expected to serve the respective information services requirements of Donegal Mutual, DGI and one or more of the Insurance Subsidiaries. Such estimated annual cost shall then be allocated to the respective companies based upon their proportionate net written premiums in the year prior to the establishment of the allocation amounts.

(b) The Insurance Subsidiaries shall reimburse Donegal Mutual for the amounts so allocated on a monthly basis.

3. Miscellaneous Expenses.

(a) DGI and the Insurance Subsidiaries other than Atlantic States shall reimburse Donegal Mutual for miscellaneous direct and allocated expenses including, but not limited to, postage, in-house printing services and insurance purchased by Donegal Mutual on their behalf. DGI and the Insurance Subsidiaries shall reimburse Donegal Mutual such allocation amounts in the normal course of business, generally within 30 days of receipt of such allocations.

(b) Atlantic States shall reimburse Donegal Mutual on a monthly basis for its proportionate share of Donegal Mutual's expenses other than information systems depreciation expense, charitable contributions, real estate expenses and real estate taxes and any other expenses for services solely benefiting Donegal Mutual and after subtracting direct reimbursements from DGI and the Insurance Subsidiaries other than Atlantic States as described in Section 3(a) in accordance with the following allocation methods:

- (i) Underwriting and general expenses allocated to the underwriting function shall be allocated in proportion to the respective participation of Donegal Mutual and Atlantic States under the Proportional Reinsurance Agreement.
- (ii) Claim adjusting expenses and general expenses allocated to the claim function shall be allocated in proportion to the respective average claim reserves and loss payments of Donegal Mutual and Atlantic States.
- (iii) General expenses allocated to the investment function shall be allocated in proportion to the respective average invested assets of Donegal Mutual and Atlantic States.

FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is made as of July 20, 2006, by and between DONEGAL GROUP INC., a Delaware corporation (the "Borrower") and MANUFACTURERS AND TRADERS TRUST COMPANY, a New York banking corporation (the "Bank").

On November 25, 2003, the Borrower and the Bank executed and delivered that certain Credit Agreement (the "Credit Agreement"). The Borrower and the Bank have agreed to amend certain provisions of the Credit Agreement subject to and in accordance with this Amendment.

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the Bank and the Borrower agree as follows:

1. Recitals. The Bank and the Borrower acknowledge that the above recitals to this Amendment are true and correct, and agree that the same are incorporated by reference into the body of this Amendment. Unless otherwise specifically defined herein, all terms defined by the provisions of the Credit Agreement shall have the same meanings ascribed to such terms by the provisions of the Credit Agreement when used herein.

2. Amendment to Credit Agreement.

2.1. The Credit Agreement is hereby amended by deleting the definition of the term "Credit Expiration Date" appearing Section 1.14 of the Credit Agreement in its entirety and by substituting the following in lieu thereof:

"Credit Expiration Date" means July 20, 2010."

2.2. The Credit Agreement is hereby amended by deleting Section 6.12 of the Credit Agreement in its entirety and by and by substituting the following in lieu thereof:

"6.12. Minimum Consolidated GAAP Net Worth. As of the end of any fiscal quarter, permit the Consolidated GAAP Net Worth to be less than (a) from the date hereof to and including June 30, 2006, an amount equal to the sum of (i) One Hundred Ten Million Dollars (\$110,000,000), (ii) ninety percent (90%) of the net proceeds of any subsequent equity offering, plus (iii) fifty percent (50%) of any cumulative Positive GAAP Net Income for each fiscal quarter following the fiscal quarter ended June 30, 2003; and (b) from September 30, 2006, and thereafter until the Obligations are indefeasibly paid in full and no commitments therefor remain outstanding, an amount equal to the sum of (i) Two Hundred Million Dollars (\$200,000,000), plus (ii) fifty percent (50%) of any cumulative Positive GAAP Net Income for each fiscal quarter following the fiscal quarter ended December 31, 2005."

2.3. The Credit Agreement is hereby amended by deleting Section 6.13 of the Credit Agreement in its entirety and by and by substituting the following in lieu thereof:

“6.13. Minimum Statutory Surplus of Insurance Subsidiaries. As of the end of any fiscal quarter, permit the Combined Statutory Surplus to be less than (a) from the date hereof to and including June 30, 2006, an amount equal to the sum of (i) One Hundred Five Million Dollars (\$105,000,000) plus (ii) fifty percent (50%) of any cumulative Positive Combined Statutory Net Income for each fiscal quarter following the fiscal quarter ended June 30, 2003; and (b) from September 30, 2006, and thereafter until the Obligations are indefeasibly paid in full and no commitments therefor remain outstanding, an amount equal to the sum of (i) One Hundred Ninety Million Dollars (\$190,000,000) plus (ii) fifty percent (50%) of any cumulative Positive Combined Statutory Net Income for each fiscal quarter following the fiscal quarter ended December 31, 2005.”

3. Representations and Warranties. The Borrower represents and warrants to the Bank that each and all of the representations and warranties of the Borrower in the Credit Agreement and the other Financing Documents are true and correct on the date hereof as if the same were made on the date hereof except those that are made of a specific date.

4. Amendment Only. This Amendment is only an agreement amending a certain provisions of the Credit Agreement. All of the provisions of the Credit Agreement are incorporated herein by reference and shall continue in full force and effect as amended by this Amendment. The Borrower hereby ratifies and confirms all of its obligations, liabilities and indebtedness under the provisions of the Credit Agreement as amended by this Amendment. The Bank and the Borrower agree it is their intention that nothing herein shall be construed to extinguish, release or discharge or constitute, create or effect a novation of, or an agreement to extinguish, any of the obligations, indebtedness and liabilities of the Borrower or any other party under the provisions of the Credit Agreement or under any of the other Financing Documents, or any assignment or pledge to the Bank of, or any security interest or lien granted to the Bank in or on, any collateral and security for such obligations, indebtedness and liabilities.

5. Renewal Fee. In consideration for entering into this Amendment and thereby, among other things, extending the Credit Expiration Date, Borrower agrees to pay to the Bank on that date hereof, a renewal fee in the amount of Thirty-Five Thousand Dollars (\$35,000.00).

6. Applicable Law, Etc. This Amendment shall be governed by the laws of the Commonwealth of Pennsylvania and shall be binding upon and inure to the benefit of the Bank and the Borrower and their respective successors and assigns.

IN WITNESS WHEREOF, the Borrower and the Bank have executed this Amendment under their respective seals, the day and year first written above.

WITNESS/ATTEST:

DONEGAL GROUP INC.

/s/ Jeffrey D. Miller

By: /s/ Donald H. Nikolaus (Seal)

Jeffrey D. Miller
**Senior Vice President and
Chief Financial Officer**

Donald H. Nikolaus
President and Chief Executive Officer

MANUFACTURERS AND TRADERS TRUST COMPANY

/s/

By: /s/ Tracy E. Sawyer Calhoun (Seal)

Name

Name

Title

Commonwealth of Pennsylvania
County of _____

On this _____ day of _____, 200_, before me, the undersigned officer personally appeared _____, and he, as _____ of _____, being authorized so to do, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as _____.

In witness whereof I hereunto set my hand and official seal.

Seal _____, Notary Public
Name:

DONEGAL GROUP INC. ANNOUNCES SECOND QUARTER EARNINGS

Jeffrey D. Miller
Senior Vice President & Chief Financial Officer
Phone (717) 426-1931
Fax (717) 426-7009

For Immediate Release

MARIETTA, Pennsylvania, July 21, 2006 — Donegal Group Inc. (Nasdaq: DGICA and DGICB) today reported that its net income for the second quarter ended June 30, 2006 increased 14.8% to \$10,220,583, or \$.40 per share on a diluted basis, compared to \$8,903,275, or \$.36 per share on a diluted basis, for the second quarter of 2005. Net income for the second quarter of 2006 represented record earnings for any quarterly period in the Company's history.

The Company's second quarter net income reflected a continuation of excellent underwriting results in all lines of business. These results were achieved in spite of an increase in weather-related claims of approximately \$1.0 million in the second quarter of 2006 compared to the second quarter of 2005, primarily related to the impact of several significant weather events in the Midwest and Mid-Atlantic regions. Revenues for the second quarter of 2006 were \$81,860,487, an increase of 3.0% over the year-earlier period, with net premiums earned of \$75,061,105, a 2.2% increase over the second quarter of 2005.

The Company's combined ratio reached a record quarterly low of 88.0% for the second quarter of 2006, comparing favorably to the 89.6% reported for the second quarter of 2005. The Company's loss ratio for the second quarter of 2006 was 54.3%, relatively unchanged from the record low loss ratio of 54.2% posted for the second quarter of 2005. The Company's expense ratio decreased to 33.5% for the second quarter of 2006, compared to 35.0% for the second quarter of 2005, reflecting savings from expense controls initiated in 2005 and a decrease in estimated guaranty fund assessments.

Net investment income increased to \$5,054,284 for the second quarter of 2006, an increase of 16.0% over the \$4,356,628 reported for the second quarter of 2005. Continuing improvements in the short-term interest rate environment contributed to an increase in the Company's average pre-tax investment yield to 3.6% in the second quarter of 2006, compared to 3.4% in the second quarter of 2005. The Company's shift in asset mix to tax-exempt municipal bonds in 2005 allowed the Company to lower its effective tax rate in the second quarter of 2006 to 29.3%, compared to 29.9% in the second quarter

of 2005, notwithstanding an increase in income before income tax expense in the second quarter of 2006.

Net income for the six months ended June 30, 2006 was \$19,350,770, or \$.76 per share on a diluted basis, an increase of 11.7% over the \$17,320,363, or \$.71 per share on a diluted basis, reported for the six months ended June 30, 2005.

The Company's combined ratio for the first six months of 2006 was 89.2%, compared to the combined ratio of 90.1% for the comparable period in 2005. The Company's loss ratio was 56.2% for the first six months of 2006, virtually unchanged from the 56.0% reported for the first six months of 2005.

"We are pleased to report a record level of earnings in the second quarter, and attribute our favorable results in the first six months of 2006 to our ongoing focus on underwriting discipline in increasingly challenging market conditions. We remain committed to the pursuit of profitable premium growth, whether organic or through various acquisition methods available to us," stated Donald H. Nikolaus, President and Chief Executive Officer of Donegal Group Inc.

The operating results for the second quarter of 2006 contributed to an increase in the Company's book value to \$11.85 per common share at June 30, 2006, representing an increase of 9.9% over the Company's book value of \$10.78 per common share at June 30, 2005.

The Company's board of directors yesterday approved a quarterly cash dividend payable August 15, 2006 of \$.0825 per share of Class A common stock and \$.07 per share of Class B common stock to stockholders of record as of the close of business on August 1, 2006.

All 2005 share and per share information has been restated to reflect the effect of a 4-for-3 stock split effected in the form of a 33 1/3% stock dividend on April 26, 2006.

The Company will hold a conference call and webcast on Friday, July 21, 2006, beginning at 11:00 A.M. Eastern Time. You may participate in the conference call by calling 1-800-510-0178 (Passcode 21473844) or listen via Internet by accessing the "Earnings Release Webcast" link in the Investor Relations area of the Company's web site at www.donegalgroup.com. An instant replay of the conference call will be available until July 28, 2006 by calling 1-888-286-8010 (Passcode 84963058).

Donegal Group Inc. is an insurance holding company whose insurance subsidiaries offer personal and commercial property and casualty lines of insurance in five Mid-Atlantic states (Delaware, Maryland, New Hampshire, New York and Pennsylvania), eight Southeastern states (Alabama, Georgia, Louisiana, North Carolina, South Carolina, Tennessee, Virginia and West Virginia) and five Midwestern states (Iowa, Nebraska, Ohio, Oklahoma and South Dakota).

All statements contained in this press release that are not historic facts are based on 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. Actual results could vary materially. The factors that could cause actual results to vary materially include, but are not limited to, the ability of the Company to maintain profitable operations, the adequacy of the Company's reserves for losses and loss adjustment expenses, business and economic conditions in the areas in which the Company operates, severe weather events, competition from various insurance and non-insurance businesses, terrorism, the availability and cost of reinsurance, legal and judicial developments, changes in regulatory requirements and other risks that are described from time to time in the Company's filings with the Securities and Exchange Commission. The Company disclaims any obligation to update such statements or to announce publicly the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

(Tables Follow)

Donegal Group Inc.
Financial Highlights

	Three Months Ended June 30	
	2006	2005*
Net premiums earned	\$75,061,105	\$73,438,090
Investment income, net of investment expenses	5,054,284	4,356,628
Net realized investment gains	407,248	420,061
Total revenues	81,860,487	79,492,080
Net income	\$10,220,583	\$ 8,903,275
Net income per common share:		
Basic	\$ 0.41	\$ 0.37
Diluted	\$ 0.40	\$ 0.36
	Six Months Ended June 30	
	2006	2005*
Net premiums earned	\$149,574,954	\$145,200,613
Investment income, net of investment expenses	10,038,812	8,764,096
Net realized investment gains	882,047	1,110,352
Total revenues	163,143,382	157,571,138
Net income	\$ 19,350,770	\$ 17,320,363
Net income per common share:		
Basic	\$ 0.78	\$ 0.72
Diluted	\$ 0.76	\$ 0.71

*Per share information restated for 4-for-3 stock split

Donegal Group Inc.
Consolidated Statements of Income
(unaudited; in thousands, except share data)

	Quarter Ended June 30	
	2006	2005*
Net premiums earned	\$ 75,061	\$ 73,438
Investment income, net of investment expenses	5,054	4,357
Net realized investment gains	407	420
Lease income	242	236
Installment payment fees	1,096	1,041
Total revenues	<u>81,860</u>	<u>79,492</u>
Net losses and loss expenses	40,784	39,808
Amortization of deferred policy acquisition costs	11,982	11,736
Other underwriting expenses	13,115	13,991
Other expenses	671	460
Policyholder dividends	150	256
Interest	692	543
Total expenses	<u>67,394</u>	<u>66,794</u>
Income before income tax expense	14,466	12,698
Income tax expense	4,245	3,795
Net income	<u>\$ 10,221</u>	<u>\$ 8,903</u>
Net income per common share:		
Basic	<u>\$ 0.41</u>	<u>\$ 0.37</u>
Diluted	<u>\$ 0.40</u>	<u>\$ 0.36</u>
Supplementary Financial Analysts' Data		
Weighted average number of shares outstanding:		
Basic	24,902,458	23,966,427
Diluted	<u>25,550,751</u>	<u>24,715,696</u>
Net written premiums	<u>\$ 80,091</u>	<u>\$ 80,309</u>
Book value per common share at end of period	<u>\$ 11.85</u>	<u>\$ 10.78</u>

*Share and per share information restated for 4-for-3 stock split

Donegal Group Inc.
Consolidated Statements of Income
(unaudited; in thousands, except share data)

	Six Months Ended June 30	
	2006	2005*
Net premiums earned	\$ 149,575	\$ 145,201
Investment income, net of investment expenses	10,039	8,764
Net realized investment gains	882	1,110
Lease income	484	465
Installment payment fees	2,163	2,031
Total revenues	<u>163,143</u>	<u>157,571</u>
Net losses and loss expenses	84,072	81,346
Amortization of deferred policy acquisition costs	23,868	23,222
Other underwriting expenses	25,017	25,645
Other expenses	1,064	890
Policyholder dividends	522	608
Interest	1,336	1,041
Total expenses	<u>135,879</u>	<u>132,752</u>
Income before income tax expense	27,264	24,819
Income tax expense	7,913	7,499
Net income	<u>\$ 19,351</u>	<u>\$ 17,320</u>
Net income per common share:		
Basic	<u>\$ 0.78</u>	<u>\$ 0.72</u>
Diluted	<u>\$ 0.76</u>	<u>\$ 0.71</u>
Supplementary Financial Analysts' Data		
Weighted average number of shares outstanding:		
Basic	24,772,961	23,947,927
Diluted	<u>25,443,092</u>	<u>24,673,537</u>
Net written premiums	<u>\$ 156,269</u>	<u>\$ 154,807</u>
Book value per common share at end of period	<u>\$ 11.85</u>	<u>\$ 10.78</u>

*Share and per share information restated for 4-for-3 stock split

Donegal Group Inc.
Consolidated Balance Sheets
(unaudited; in thousands)

	June 30, 2006	December 31, 2005*
ASSETS:		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost	\$ 177,171	\$ 180,182
Available for sale, at fair value	300,273	295,097
Equity securities, at fair value	41,356	33,371
Investments in affiliates	7,998	8,442
Short-term investments, at cost, which approximates fair value	34,456	30,654
Total investments	561,254	547,746
Cash	3,152	3,811
Premiums receivable	49,337	47,124
Reinsurance receivable	104,269	94,137
Accrued investment income	5,353	5,521
Deferred policy acquisition costs	24,378	23,477
Prepaid reinsurance premiums	43,798	40,063
Property and equipment, net	5,184	5,234
Deferred tax asset, net	13,435	11,533
Due from affiliate	1,834	—
Other assets	6,692	2,776
Total assets	<u>\$ 818,686</u>	<u>\$ 781,422</u>

Donegal Group Inc.
Consolidated Balance Sheets (continued)
(unaudited; in thousands)

	June 30, 2006	December 31, 2005*
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Losses and loss expenses	\$ 272,823	\$ 265,730
Unearned premiums	197,089	186,660
Accrued expenses	10,268	12,706
Subordinated debentures	30,929	30,929
Due to affiliate	—	728
Other liabilities	10,209	6,773
Total liabilities	521,318	503,526
Stockholders' equity:		
Preferred stock	—	—
Class A common stock	197	192
Class B common stock	56	56
Additional paid-in capital	147,868	141,933
Accumulated other comprehensive income (loss)	(1,254)	2,532
Retained earnings	151,393	134,075
Treasury stock, at cost	(892)	(892)
Total stockholders' equity	297,368	277,896
Total liabilities and stockholders' equity	\$ 818,686	\$ 781,422

*Capital accounts restated for 4-for-3 stock split